

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF

FLORIAN TEME

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R-2017-2586783

Philadelphia Gas Works

General Rate Increase Request

Technology and Economic Development Rider
Micro-Combined Heat and Power Incentive Program

February 2017

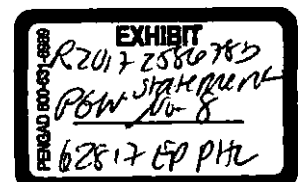


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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND CURRENT POSITION WITH PGW.**

3 A. My name is Florian Teme. My position with PGW is Vice President, Marketing and
4 Sales.

5 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES?**

6 A. In my present position, I am responsible for the direction of all the marketing sales efforts
7 and new business development, while continuing to strengthen business relations and
8 increase customer service initiatives.

9 **Q. PLEASE SUMMARIZE YOUR BACKGROUND AND EXPERIENCE.**

10 A. I have been employed with PGW since August 2003. I became PGW's Vice President,
11 Marketing and Sales in September 2016. Prior to that, I had various positions with PGW:
12 Director, Marketing and Sales (April 2013 – September 2016); Manager, Residential and
13 Commercial Sales, Marketing (March 2012 – April 2013); Manager, Controls and
14 Analytics, Supply Chain (January 2010 – March 2012); Project Manager, Information
15 Services (January 2007 – January 2010); Supply Analyst, Gas Planning (April 2005 –
16 January 2007); and Technical Project Administrator, Marketing (August 2003 – March
17 2005).

18 I received my Bachelor of Business Administration (Management Information
19 Systems) from Temple University - Fox School of Business and Management in 2003
20 and my Master of Business Administration (Business Intelligence, Six Sigma) from Saint
21 Joseph's University - Erivan K. Haub School of Business in 2011.

22 **Q. HAVE YOU EVER PROVIDED TESTIMONY BEFORE THIS COMMISSION?**

23 A. No.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

2 A. My testimony will explain and provide support for the Company's proposed: (1)
3 Technology and Economic Development ("TED") Rider; and, (2) pilot Micro-Combined
4 Heat and Power ("Micro-CHP") Incentive Program.

5 **II. PILOT TECHNOLOGY AND ECONOMIC DEVELOPMENT RIDER**

6 **Q. PLEASE DESCRIBE THE PROPOSED TECHNOLOGY AND ECONOMIC**
7 **DEVELOPMENT RIDER.**

8 A. PGW is proposing to implement, on a pilot basis, a TED Rider, which would increase
9 access and expand the use of natural gas by giving commercial customers more options to
10 obtain natural gas services, including combined heat and power ("CHP") projects, natural
11 gas vehicles ("NGVs") and fuel cells. As proposed, the TED Rider would permit PGW
12 to negotiate the delivery charges, as well as the customer contribution to the development
13 and service of the infrastructure, for firm service non-residential customers on Tariff Rate
14 Schedules for General Service ("Rate GS"), Municipal Service Rate ("Rate MS"),
15 Philadelphia Housing Authority Service ("Rate PHA") and Developmental Natural Gas
16 Vehicle Service ("Rate NGVS-Firm"). A copy of PGW's proposed tariff rider is
17 included in Exh. KSD-2.

18 **Q. ARE THERE ANY LIMITS ON THE TED RIDER?**

19 A. Yes. The TED Rider will be applicable by request of the applicant and, with approval by
20 PGW, would be subject to the following criteria:

- 21 1. The Rider will be applicable to usage associated with new gas load at
22 competitive risk only.
23 2. The Rider will be applicable for a defined period outlined in the
24 customer's TED Rider service agreement.

- 1 3. The Rider will be determined and applied using an economic test
2 consistent with PGW's commercial and industrial line extension tariff
3 provisions.

4
5 **Q. WHAT IS THE PRIMARY PURPOSE OF THE TED RIDER?**

- 6 A. The primary purpose of the TED Rider is to negotiate the amounts and time periods for
7 customers' contributions to mains and services costs and their overall distribution charges
8 to address project-specific or competitive issues in order to improve customers' access to
9 natural gas and expand the use of natural gas in PGW's service territory. Importantly, the
10 TED Rider will be determined and applied using an economic test that requires
11 anticipated revenues, at a minimum, to be sufficient to justify the anticipated investment.
12 This means that each project will have to stand on its own economic merits and should
13 not result in any cross-subsidization by existing customers.

14 **Q. WHAT IS THE PROPOSED TIME PERIOD FOR THE TED RIDER?**

- 15 A. PGW is proposing to implement the TED Rider as a five-year pilot program. During the
16 five-year pilot program, PGW would negotiate TED Rider service agreements with
17 customers and maintain records on the economics of the program.

18 **Q. DOES PGW PROPOSE TO SUBMIT REPORTS TO THE COMMISSION?**

- 19 A. Yes. Six months prior to the conclusion of the five-year pilot program, PGW proposes to
20 provide a report to the Commission on the economics of the program. In the event that
21 PGW files a base rate case before that time, PGW proposes to include information about
22 the economics of the program in the supporting information for that base rate case. In
23 either instance, PGW would propose whether to continue the pilot program in its current
24 form or with modification. If the pilot program would not continue, no additional
25 customers would be offered service agreements; however, the customers who negotiated

1 agreements during the five-year period would receive the negotiated rates for the
2 remaining periods under those agreements.

3 **Rationale For TED Rider Proposal**

4 **Q. WHAT IS THE RATIONALE FOR PGW'S PROPOSED TED RIDER?**

5 A. The rationale for the proposed TED Rider is that the expansion of natural gas services
6 and incremental load growth would benefit PGW's entire customer base, as well as the
7 City of Philadelphia and the region. Load has been declining for several years on PGW's
8 system. By encouraging new uses of natural gas PGW will add customers, and/or new
9 load, thereby spreading the essentially fixed non-gas costs of delivery over a larger
10 customer base. In addition, the conversion of another energy source used by the business
11 to natural gas – through the deployment of CHP, NGVs and fuel cells – will reduce
12 energy costs and promote economic development. The expansion of natural gas use also
13 benefits the environment since customer conversion to natural gas generally displaces the
14 use of less environmentally friendly energy sources.

15 **Q. WHY HAS LOAD BEEN DECLINING ON PGW'S SYSTEM?**

16 A. Firm sales have decreased over recent years, in large part, due to weather. Other
17 contributing factors include conservation and the increased efficiency of gas appliances.

18 **Q. WHAT ARE THE ADVANTAGES OF INCREASING RELIANCE ON NATURAL
19 GAS AS AN END-USE FUEL SOURCE?**

20 A. Natural gas has many important advantages as an end-use fuel source in terms of
21 efficiency and environmental benefits. The ability to generate energy on-site is more
22 efficient because it reduces the amount of line loss that occurs when energy is generated
23 off-site and must then be transported to a customer's location. In addition, assisting
24 customers to increase the use of natural gas while reducing reliance on other fuel sources

1 is a way that states can potentially achieve a net reduction in carbon emissions and
2 greenhouse gases, compared to those produced by the generation currently used to
3 produce electricity for the customer. While no study has been conducted to examine the
4 generation source for the specific electricity that could be replaced by projects included
5 in the Pilot Project, roughly 30-40% of electricity delivered in the PJM power pool, the
6 entity that coordinates the delivery of power throughout Pennsylvania and twelve other
7 states (and the District of Columbia), is generated by coal with roughly 20-30% generated
8 by natural gas.¹ By generally promoting the increased use of natural gas, these projects
9 also promote the use of natural gas produced or processed in Pennsylvania.

10 **Q. HAS THE COMMISSION EXPRESSED SUPPORT FOR SUCH INITIATIVES?**

11 A. Yes. On March 9, 2016, the Commission issued a tentative order seeking comments on a
12 proposed policy statement intended to incent electric distribution companies (“EDCs”)
13 and NGDCs – like PGW – to: (1) promote CHP investments; (2) make CHP an integral
14 part of utility energy efficiency and resiliency plans, as well as their marketing and
15 outreach effort; (3) encourage utilities to design interconnection and standby rates for
16 owners and operators of CHP facilities; and, (4) promote consideration of special natural
17 gas rates for owners and operators of CHP facilities.² In the Tentative Order, the
18 Commission specifically stated: “[w]e believe the Commission should facilitate efforts to
19 make Pennsylvania a leader in CHP deployment to more fully realize the benefits
20 provided by CHP and the enhanced utilization of our indigenous shale gas resources.”³

¹ According to PJM’s website, in 2016 approximately 26% was generated by natural gas and 34% was generated by coal. In 2015, approximately 23% was generated by natural gas and 36% was generated by coal. Data available at <https://gats.pjm-eis.com/gats2/PublicReports/PJMSystemMix>.

² *Proposed Policy Statement on Combined Heat and Power*, Docket No. M-2016-25304848, Proposed Policy Statement entered March 9, 2016.

³ *Id.* at 4.

1 The Commissioners also referenced a study of the American Council for an Energy
 2 Efficiency Economy (“ACEEE”) as confirmation that “Pennsylvania has only begun to
 3 realize the myriad of benefits that CHP can offer.”⁴

4 **Q. HOW WOULD THE TED RIDER PROMOTE LOAD GROWTH?**

5 A. By offering incentives to applicants and customers that have alternative options to natural
 6 gas, PGW would be able to acquire load caused by new businesses and the expansion of
 7 existing businesses. These businesses may otherwise have chosen to locate operations
 8 elsewhere due to the presence of more attractive energy costs at that other location.
 9 Customer characteristics and circumstances, such as tolerance for large up-front
 10 contributions to cover the costs for the extension of facilities, can also vary considerably.
 11 Particularly, start-up businesses with minimal capital can face insurmountable challenges
 12 associated with hefty up-front customer contributions, which results in the loss of
 13 potential incremental load. Absent flexibility to adjust contributions and distribution
 14 rates to reflect the applicant’s or customer’s competitive alternatives, PGW will lose not
 15 only the business but also the potential for long-term contributions towards system fixed
 16 costs, which ultimately benefit all customers through economies of scale and the recovery
 17 of fixed costs from a larger customer base.⁵

18 **Q. HOW DOES INCREASING NATURAL GAS USE BENEFIT THE COMPANY**
 19 **AND ITS RATEPAYERS?**

20 A. By facilitating the increased usage of natural gas delivered by PGW, the Company will
 21 realize additional, incremental margin from the delivery charges which will help to cover

⁴ *Id.* at 6, citing The 2015 State Energy Efficiency Scorecard, October 2015, October 2015, Report U1509 available at: <http://database.aceee.org/state/pennsylvania>

⁵ See National Regulatory Research Institute, *Line Extensions for Natural Gas: Regulatory Considerations*, Report No. 13-01, February 2013, pp. and 27-30.

1 PGW's fixed costs and offset reductions in sales volumes due to warmer weather. Thus,
2 any additional load that the Company is able to develop through the various programs
3 designed to encourage fuel-switching will serve to reduce the Company's future revenue
4 requirement needs. Further, by requiring that projects approved as part of this pilot
5 program meet a stringent economic test, all ratepayers benefit in several ways. First, they
6 receive the benefit of the incremental increase in revenue generated by the new or
7 expanded load. Second, because the net revenues from the project over the planning
8 period will be required to exceed the cost of adding the new load in order to qualify for
9 this rider, ratepayers will not be subsidizing uneconomic projects. Finally, all customers
10 benefit from the reduction in the use of less efficient fuel sources.

11 **Q. DO YOU SEE THE NEED FOR ADDITIONAL RATE FLEXIBILITY TO**
12 **ATTRACT NEW CUSTOMERS?**

13 A. Yes. For example, compressed natural gas ("CNG") vehicle refueling stations may start
14 out as low volume customers, but carry the prospect for steady incremental growth as
15 vehicles are replaced. Often, the applicant or customer will be making a significant
16 capital investment in vehicles and refueling equipment, and may have a low tolerance for
17 large up-front contributions for line extensions. PGW also expects to see the spread of
18 smaller scale fuel cell, cogeneration facilities or gas-fired heat pump technologies that
19 will require rate flexibility to meet competitive conditions.

20 **Application of TED Rider**

21 **Q. PLEASE PROVIDE AN EXAMPLE OF HOW THE TED RIDER MIGHT BE**
22 **APPLIED.**

23 A. A company may plan to convert its fleet of vehicles to NGV vehicles over time but
24 initially only plans to install compression facilities sufficient to serve a small number of

1 vehicles. This service location initially would be best served under the Developmental
2 Natural Gas Vehicle Service (“NGVS”) Rate which does not offer rate flexibility. If the
3 company wants a line extension constructed that will be capable of serving its future
4 needs but does not have the budget to make a large up-front payment for the line
5 extension, the project may not proceed. Under the proposed TED Rider, PGW and the
6 applicant could agree to a combination of contributions-in-aid-of-construction (“CIAC”)
7 to mains and services and delivery charges that accommodate the applicant’s planned
8 NGV project.

9 In another instance, a transit agency contemplating converting its fleet to natural
10 gas might receive a grant that can cover any required up-front CIAC and would qualify
11 for service under the NGVS Rate, but might need a discount from the NGVS rate to make
12 the project economically viable. Under the proposed TED Rider, PGW and the applicant
13 could agree to a higher CIAC and an incremental reduction of the NGVS rate to
14 accommodate the applicant’s planned NGV project. These are just some examples.

15 **Q. WOULD THE TED RIDER BE USED TO MAKE UNECONOMIC**
16 **INVESTMENTS?**

17 A. No. As explained above, the TED Rider will be determined and applied using an
18 economic test consistent with PGW’s line extension provisions applicable to commercial
19 and industrial gas service in Section 10.1.B. of the Gas Service Tariff. This test requires
20 anticipated revenues, at a minimum, to be sufficient to justify the anticipated investment.
21 This means that each project will have to stand on its own economic merits and should
22 not result in any cross-subsidization by existing customers.

1 **Q. IS THERE A RISK THAT A CUSTOMER COULD BECOME BANKRUPT OR**
 2 **INSOLVENT BEFORE ANTICIPATED REVENUES USED TO DETERMINE**
 3 **THE ECONOMIC VIABILITY OF THE PROJECT ARE RECEIVED?**

4 A. In theory, a small percentage of projects could involve a customer who becomes bankrupt
 5 or insolvent before anticipated revenues used to determine the economic viability of the
 6 project, and not guaranteed through the provision of financial security, are received.

7 However, the exact same risk applies where investments are made where no up-front
 8 CIAC payments are required pursuant to PGW policy⁶ due to the anticipated distribution
 9 revenues that alone justify the investment. In addition, commercial and industrial default
 10 rates are very low and once a capital investment in gas utilization equipment is made at a
 11 service location, it is likely that a new customer would assume control of the service
 12 location and gas equipment, and apply for and receive natural gas distribution service
 13 from PGW. Any remote and speculative possibilities of the risks posed by a potential
 14 bankrupt or insolvent customer are far outweighed by the promise of the TED Rider
 15 being able to attract incremental economic customer loads which would not otherwise be
 16 served.

17 A far more likely possibility is that incremental customer loads made possible by
 18 the flexibility of the TED Rider will provide some incremental contribution to shared
 19 system costs to the benefit of existing customers. The TED Rider will only apply to an
 20 initial specified term, and the customer would thereafter pay the applicable tariff rate
 21 without the TED Rider adjustment.

⁶ If payments owed are less than \$10,000, PGW does not require the provision of financial security.

1 **Q. WILL USE OF THE TED RIDER RESULT IN DISCRIMINATORY**
2 **TREATMENT OF EXISTING CUSTOMERS AS COMPARED TO NEW**
3 **CUSTOMERS?**

4 A. No. As new customer loads, which otherwise would not occur, are added on an
5 economic basis as PGW is proposing, the TED Rider will be beneficial to existing
6 customers. PGW has every incentive to maximize its revenue and will not apply the TED
7 Rider to reduce customer rates unless it believes it is necessary to do so to capture load
8 that would otherwise not occur.

9 I also note that the line extension provisions of PGW's tariff apply to existing as
10 well as new customers. Therefore, an existing customer requesting a required system
11 upgrade to accommodate new firm requirements at its service location would potentially
12 qualify for a TED Rider. As a result, the benefits of the proposed TED Rider are
13 available to existing and new customers on a non-discriminatory basis.

14 **Q. WHEN A TED RIDER DISCOUNT IS PROVIDED, IS THE CUSTOMER**
15 **RECEIVING A "SUBSIDIZED RATE"?**

16 A. No. Existing customers will not be funding an uneconomic investment. The TED Rider
17 would only be applied to obtain customer loads which are economic, meaning that the
18 combination of CIAC payments and anticipated revenues must justify any related
19 investment, thereby protecting existing customers from providing any kind of subsidy. In
20 this regard, if a customer is willing to pay the full required CIAC, make the incremental
21 capital investments downstream from our system to install new gas technologies such as
22 natural gas re-fueling stations or fuel cells, and pay the full tariff distribution rate, no
23 TED Rider will be required or applied.

24 However, in certain instances, a customer may be willing to pay a substantial
25 CIAC and make the substantial downstream capital investments required to install a gas

1 technology, but may need a small discount from distribution rates to make its gas
 2 technology investment economic. In such instances, as long as the combination of CIAC
 3 and distribution revenues inclusive of the TED Rider fully justifies or exceeds the
 4 economic thresholds applied to PGW's new business extension tariff provisions, new
 5 loads will be added to PGW's system, which will benefit or at least not harm existing
 6 customers.

7 **Q. WOULD THE TED RIDER PROVIDE UNFAIR ADVANTAGES TO NEW**
 8 **CUSTOMERS AT THE EXPENSE OF EXISTING CUSTOMERS?**

9 A. No. Whether used to provide incremental revenues to make a PGW investment
 10 economic, or used to provide a reduced distribution rate to add incremental customer
 11 loads to PGW's system that would otherwise be lost, the TED Rider will have to provide
 12 a combination of CIAC payments and anticipated distribution revenues necessary to
 13 make any required PGW investment economic, thereby protecting and more likely
 14 benefiting existing customers.

15 **Q. ARE TED RIDER CUSTOMERS INCLUDED IN THE FULLY PROJECTED**
 16 **FUTURE TEST YEAR REVENUE CALCULATIONS?**

17 A. No. Because PGW has no means of projecting whether and to what extent the TED
 18 Rider will be utilized, PGW has not assumed that it will receive any revenues or incur
 19 any expenses in the fully projected future test year associated with the TED Rider.

20 **III. PILOT MICRO-CHP INCENTIVE PROGRAM DETAILS**

21 **Q. PLEASE DESCRIBE PGW'S PROPOSED MICRO-CHP INCENTIVE**
 22 **PROGRAM.**

23 A. PGW requests approval of a pilot Micro-CHP Incentive Program for small and medium
 24 sized commercial properties to incent market development and market acceptance of
 25 small targeted fuel-switching projects to increase the ability of these customers to expand

1 natural gas usage. Proposed projects will be required to satisfy an economic test
2 (consistent with PGW's line extension provisions set forth in Section 10.1.B of its Gas
3 Service Tariff) that require the anticipated incremental revenue to justify the incentive to
4 be provided to the customer to undertake the project. For projects that qualify, PGW
5 would offer up to \$750 per kW for units between 20 kW and 50 kW and up to \$1,000 for
6 any units below 20 kW. PGW is not seeking to include the projected costs of these
7 incentives in the fully projected test year revenue calculations because PGW has no
8 means of projecting whether and to what extent the incentives will be offered. In
9 addition, since the projects have to satisfy an economic test to justify the incentive, it is
10 anticipated that the costs of the investment will be returned to PGW during the term of
11 the agreement.

12 **Q. PLEASE EXPLAIN THE DIFFERENCES BETWEEN PGW'S PROPOSED TED**
13 **RIDER AND THE PROPOSED MICRO-CHP INCENTIVE.**

14 A. Both proposals are intended to incent the development of innovative technologies and
15 projects that will increase the ability of customers to expand natural gas usage. The TED
16 Rider proposes to do so through project-specific negotiated delivery charges and/or
17 customer charges and would be available to commercial customers of all sizes. However,
18 the TED Rider alone is not likely to be attractive enough to incent smaller and medium
19 sized commercial properties to undertake fuel-switching projects. For these customers,
20 an additional incentive will be available through the Micro-CHP Incentive Program to
21 further encourage the customer to undertake a fuel-switching project. By only permitting
22 incentives to be available to customers installing Micro-CHP units (which are 50 kW and
23 smaller), the Micro-CHP Incentive Program is specifically designed to target smaller
24 customers. Customers qualifying to receive incentives through the Micro-CHP Incentive

1 Program would also be permitted to avail themselves of the TED Rider if they are able to
2 satisfy all eligibility requirements.

3 **Q. WHY HAS PGW FOCUSED ON MICRO-CHP PROJECTS TO DEVELOP ITS**
4 **PROPOSED INCENTIVE?**

5 A. In looking at market opportunities, PGW identified Micro-CHPs as one quantifiable way
6 to provide an opportunity to satisfy its objectives because CHP projects achieve greater
7 overall energy-efficiency by making use of the waste heat from electricity production that
8 is not utilized in typical electric generation. Additionally, smaller customers interested in
9 installing CHP units have less access to capital than larger customers interested in CHP.

10 **Micro-CHP Incentive Program Details**

11 **Q. PLEASE DESCRIBE HOW THE PILOT WOULD OPERATE.**

12 A. Similar to the TED Rider, PGW will evaluate proposed projects to ensure that they
13 satisfy its proposed economic test that requires the anticipated incremental revenue to be
14 generated to justify the incentive to be provided to the customer to undertake the project.
15 For those projects that do qualify, PGW will provide education, technical assistance, and
16 financial incentives for cost-effective energy-saving investments.

17 **Q. HOW WILL PROPOSED PROJECTS BE EVALUATED TO DETERMINE**
18 **WHETHER THEY SATISFY THESE REQUIREMENTS?**

19 A. Customers seeking to avail themselves of this pilot will be required to submit project
20 details including implementation costs, annual electricity production, gas usage before
21 the project and anticipated gas usage after the project is completed. PGW will evaluate
22 the proposal, verify the projections and determine whether or not the projected increased
23 natural gas usage (and related incremental increased revenue to PGW) justify payment of
24 the financial incentives to undertake the project.

1 **Q. PLEASE EXPLAIN HOW PGW DERIVED THE INCENTIVES IT PROPOSES**
 2 **TO OFFER QUALIFYING PROJECTS.**

3 A. PGW proposes to offer a Micro-CHP incentive of up to \$750 per kW for units 20 kW -
 4 50 kW and up to \$1,000 for any units below 20 kW after estimating a range of
 5 installation and equipment costs for Micro-CHP units.⁷ Existing CHP incentive
 6 programs, including those offered by the EDCs,⁸ are typically structured on a dollar per
 7 kW capacity basis. PGW used these existing program designs as a template to derive a
 8 per-kW amount that would cover the intended percentage of project upfront costs based
 9 on cost and savings data analyzed. PGW's Micro-CHP incentive is in the middle range
 10 of comparable programs identified.

11 **Q. IS PGW SEEKING RECOVERY OF THE COSTS OF THESE PROPOSED**
 12 **INCENTIVES?**

13 A. No. As stated previously, PGW is not seeking to include the projected costs of these
 14 incentives in the fully projected test year revenue calculations because PGW has no
 15 means of projecting whether and to what extent the incentives will be offered. In
 16 addition, since the projects have to satisfy an economic test to justify the incentive, it is

⁷ PGW proposes spending approximately \$616,000 over the five years of the Micro-CHP pilot. This budget includes the costs of the incentives based on the assumption that approximately 25 units are installed. In addition to the incentives, the proposed budget will also fund administrative, marketing and evaluation costs which are approximately 10% of the total incentives.

⁸ PECO and PPL have Act 129 programs that offer incentives for CHP. *See, PECO Energy Petition for Approval of its Act 129 Phase III Energy Efficiency and Conservation Plan*, Docket No. M-2013-251569, PECO Act 12 – Phase III Energy Efficiency and Conservation Plan (Program Years 2016-2020), avail at <http://www.puc.pa.gov/pdocs/1444592.pdf>; *PPL Electric Petition for Approval of its Act 129 Phase III Energy Efficiency and Conservation Plan*, Docket No. M-2015-2515641, PPL Electric Act 129 – Phase III Energy Efficiency and Conservation Plan (Program Years 2016-2021), avail at: <http://www.puc.pa.gov/pdocs/1491907.pdf>. In addition, UGI Utilities (Gas Division) and Central Penn Gas Offer a CHP incentive. *PUC v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2015-2518438, Opinion and Order entered October 14, 2016 (approving CHP program); *PUC v. UGI Central Penn Gas, Inc.*, Docket No. R-2010-2214414, Opinion and Order entered July 13, 2012 (approving settlement authorizing CPG to offer rebates of \$1,500 per kW of installed capacity for gas-powered CHP installations up to \$100,000 per customer).

1 anticipated that the costs of the investment will be returned to PGW during the term of
2 the agreement.

3 **Q. PLEASE EXPLAIN WHY PGW IS SEEKING APPROVAL FOR A FIVE-YEAR**
4 **PILOT.**

5 A. PGW proposes to operate the pilot on a five-year basis in order to give the pilot a
6 reasonable opportunity to develop and be meaningfully evaluated to determine whether
7 or not it should continue beyond the five-year pilot. Micro-CHP projects are still
8 uncommon in the market, so customers will likely require longer lead-times for project
9 review and planning activities. In addition, more efficiencies and positive benefits will
10 occur as a result of a longer pilot period. As the pilot matures and becomes more widely-
11 known, it is expected that more customers will elect to participate and PGW believes
12 program participation will increase. PGW believes that five years provides a reasonable
13 amount of time to develop, implement, administer and assess the proposed pilot in order
14 to provide meaningful and useful information about its effectiveness.

15 Logistically, as a new program, time will be needed to develop the pilot's market
16 presence and administrative functions. Initially, PGW will perform all tasks associated
17 with the pilot in-house, including program administration, project analysis, quality
18 assurance, quality control, grant calculation, processing, and all marketing and business
19 development activities.⁹ PGW anticipates a six-month ramp-up period before the
20 program is fully operational. While PGW employees will likely continue program
21 administration and marketing activities, over time PGW may shift other responsibilities
22 to technical assistance providers.

⁹ *Philadelphia Gas Works' Revised Petition For Approval of Energy Conservation and Demand Side Management Plan*, Docket Nos. R-2009-2139884, P-2009-2097639. Opinion and Order entered July 29, 2010.

1 In sum, establishing the appropriate operational and administrative protocols
2 necessary to implement and run the pilot efficiently will take some time. Then, once
3 established, more time is needed to allow the program to operate. The longer the period
4 of time the program is operational, the more meaningfully the program can be assessed
5 and evaluated.

6 **Reporting and Evaluation for Micro-CHP Incentive Program**

7 **Q. HOW WILL PGW EVALUATE THE EFFECTIVENESS OF ITS PROPOSED**
8 **PILOT?**

9 A. Similar to the TED Rider, PGW proposes to provide a report to the Commission on the
10 economics of the program six months prior to the end date of the pilot. In the event that
11 PGW files a base rate case before that time, PGW proposes to include information about
12 the economics of the Micro-CHP program in the supporting information for that base rate
13 case. In either instance, PGW would propose whether to continue the pilot program in its
14 current form or with modification. If the pilot program would not continue, no additional
15 customers would be permitted to participate.

16 **IV. CONCLUSION**

17 **Q. DOES THAT COMPLETE YOUR DIRECT TESTIMONY?**

18 A. Yes.

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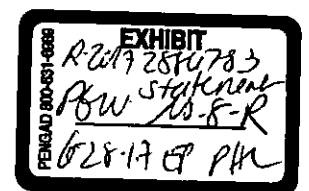


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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND CURRENT POSITION WITH PGW.**

3 A. My name is Florian Teme. My position with Philadelphia Gas Works (“PGW” or
4 “Company”) is Vice President, Marketing and Sales.

5 **Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS PROCEEDING ON**
6 **BEHALF OF PGW?**

7 A. Yes. I submitted my direct testimony, PGW St. No. 8 on February 27, 2017.

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. The purpose of my rebuttal testimony is to respond to the direct testimony of Mr. Jerome
10 Mierzwa that was submitted on behalf of the Office of Consumer Advocate (“OCA”).
11 (OCA St. No. 3).

12 **Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

13 A. By this rebuttal testimony, I am addressing Mr. Mierzwa’s recommended conditions and
14 reporting requirements in connection with PGW’s proposed Technology and Economic
15 Development (“TED”) Rider and PGW’s proposed Micro-CHP Incentive Program.

16 **II. TED RIDER**

17 **Q. MR. MIERZWA RECOMMENDS APPROVAL OF PGW’S RIDER SUBJECT TO**
18 **CERTAIN CONDITIONS AND REPORTING REQUIREMENTS. (OCA ST. NO.**
19 **3 AT 34-35). PLEASE DESCRIBE PGW’S ORIGINAL PROPOSAL.**

20 A. In my direct testimony, I explained PGW’s proposal to implement, as a five-year pilot
21 program, a TED Rider, which would increase access and expand the use of natural gas by
22 giving commercial customers more options to obtain natural gas services, including
23 combined heat and power (“CHP”) projects, natural gas vehicles and fuel cells. As
24 proposed, the TED Rider would permit PGW to negotiate the delivery charges, as well as
25 the customer contribution to the development and service of the infrastructure, for certain

1 *firm service non-residential customers. PGW further proposed to submit a report to the*
2 *Commission six months prior to the conclusion of the pilot program regarding the*
3 *economics of the program. In the event that PGW files a base rate case prior to that time,*
4 *PGW proposed to include information about the economics of the program in the*
5 *supporting information. In either instance, PGW would propose whether to continue the*
6 *pilot program in its current form or with modification. (PGW St. No. 8 at 2-11).*

7 **Q. WHAT ARE MR. MIERZWA'S PROPOSED CONDITIONS AND REPORTING**
8 **REQUIREMENTS?**

9 A. Mr. Mierzwa proposes that PGW's pilot program period be three years, rather than five
10 years. He also recommends that the Commission impose the reporting requirement on
11 PGW, and require PGW, if the Company files a base rate case during the three-year pilot,
12 to provide information as part of its initial filing showing the pro forma rate of return on
13 incremental investment for TED customers as a sub-class in its class cost of service
14 study. (OCA St. No. 3 at 34-35).

15 **Q. DOES PGW ACCEPT OCA'S PROPOSAL TO SHORTEN THE PILOT TO**
16 **THREE YEARS?**

17 A. Yes. A three-year pilot program is acceptable to PGW, provided that customers who
18 negotiate a rate under the TED Rider are permitted to stay on the negotiated rate for the
19 duration of the project per their agreement with PGW.

20 **Q. WHAT IS PGW'S POSITION ON OCA'S RECOMMENDATION FOR A**
21 **REPORTING REQUIREMENT?**

22 A. OCA's recommendation for a reporting requirement mirrors that proposed by PGW.
23 Therefore, it is acceptable to the Company.

24 **Q. PLEASE ADDRESS OCA'S RECOMMENDATION FOR PGW TO SUBMIT PRO**
25 **FORMA RATE OF RETURN INFORMATION IF IT FILES A BASE RATE**
26 **CASE DURING THE THREE-YEAR PILOT.**

1 A. PGW does not believe it should be required, as part of a base rate filing, to include
2 information showing the pro forma rate of return on incremental investment for TED
3 customers as a sub-class in its class cost of service study. Particularly if a small number
4 of customers participate in the pilot, it may not be cost-effective to perform a cost of
5 service study for this sub-class. PGW submits that its original proposal – to include
6 information about the economics of the program in the supporting information
7 accompanying a base rate filing – is sufficient for OCA and the other parties to evaluate
8 the program.

9 **III. MICRO-CHP INCENTIVE PROGRAM**

10 **Q. MR. MIERZWA RECOMMENDS APPROVAL OF PGW'S MICRO-CHP**
11 **INCENTIVE PROGRAM SUBJECT TO CERTAIN CONDITIONS AND**
12 **REPORTING REQUIREMENTS. (OCA ST. NO. 3 AT 35-36). PLEASE**
13 **DESCRIBE PGW'S ORIGINAL PROPOSAL.**

14 A. In my direct testimony, I described PGW's proposal to implement, on a five-year pilot
15 basis, a Micro-CHP Incentive Program for small and medium sized commercial
16 properties to incent market development and market acceptance of small targeted fuel-
17 switching projects to increase the ability of these customers to expand natural gas usage.
18 As proposed, projects would be required to satisfy an economic test that requires the
19 anticipated incremental revenue to justify the incentive to be provided to the customer to
20 undertake the project. Further, PGW proposed to provide a report to the Commission on
21 the economics of the program six months prior to the end date of the pilot. In the event
22 that PGW files a base rate case before that time, PGW proposes to include information
23 about the economics of the Micro-CHP program. In either instance, PGW would propose
24 whether to continue the pilot program in its current form or with modification. (PGW St.
25 No. 8 at 11-16).

1 **Q. WHAT ARE MR. MIERZWA'S PROPOSED CONDITIONS AND REPORTING**
2 **REQUIREMENTS?**

3 A. Mr. Mierzwa proposes that PGW's pilot program period be three years, rather than five
4 years. He also recommends that the Commission impose the reporting requirement on
5 PGW, and require PGW, if the Company files a base rate case during the three-year pilot,
6 to provide information showing the pro forma rate of return on incremental investment
7 for Micro-CHP incentive customers as a sub-class in its class cost of service study. He
8 also recommends that the economic test that determines eligibility for participation in the
9 program should include the costs of the incentives to ensure that other ratepayers are not
10 responsible for the costs of the incentives. (OCA St. No. 3 at 35-36).

11 **Q. DOES PGW ACCEPT OCA'S PROPOSAL TO SHORTEN THE PILOT TO**
12 **THREE YEARS?**

13 A. No. Because Micro-CHP projects are still uncommon in the market, customers will
14 likely need longer lead-times for project review and planning activities. PGW believes
15 that five years provides a reasonable amount of time to develop, implement, administer
16 and assess the proposed pilot in order to provide meaningful and useful information about
17 its effectiveness. I note that Mr. Mierzwa provides no justification for a shorter pilot
18 timeframe.

19 **Q. DOES PGW ACCEPT OCA'S PROPOSAL FOR A REPORTING**
20 **REQUIREMENT?**

21 A. OCA's recommendation for a reporting requirement mirrors that proposed by PGW.
22 Therefore, it is acceptable to the Company.

23 **Q. PLEASE ADDRESS OCA'S RECOMMENDATION FOR PGW TO SUBMIT PRO**
24 **FORMA RATE OF RETURN INFORMATION IF IT FILES A BASE RATE**
25 **CASE DURING THE PILOT.**

1 A. PGW does not believe it should be required, as part of a base rate filing, to include
2 information showing the pro forma rate of return on incremental investment for Micro-
3 CHP incentive customers as a sub-class in its class cost of service study. Particularly if a
4 small number of customers participate in the pilot, it may not be cost-effective to perform
5 a cost of service study for this sub-class. PGW submits that its original proposal – to
6 include information about the economics of the program in the supporting information
7 accompanying a base rate filing – is sufficient for OCA and the other parties to evaluate
8 the program.

9 **Q. WHAT IS PGW'S POSITION ON OCA'S PROPOSAL FOR THE ECONOMIC**
10 **TEST THAT DETERMINES ELIGIBILITY FOR PARTICIPATION IN THE**
11 **PROGRAM TO INCLUDE THE COSTS OF THE INCENTIVES?**

12 A. This proposal is acceptable to PGW.

13 **IV. CONCLUSION**

14 **Q. DOES THAT COMPLETE YOUR REBUTTAL TESTIMONY?**

15 A. Yes.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**


Pennsylvania Public Utility Commission	:	R-2017-2586783
Office of Consumer Advocate	:	C-2017-2592092
Office of Small Business Advocate	:	C-2017-2593497
Philadelphia Industrial & Commercial	:	
Gas Users Group	:	C-2017-2595147
William Dingfelder	:	C-2017-2593903
	:	
v.	:	
	:	
Philadelphia Gas Works	:	

VERIFIED STATEMENT

I, Florian Teme, hereby state that the facts set forth below are true and correct to the best of my knowledge, information and belief and I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

1. I have submitted testimony in this proceeding on behalf of Philadelphia Gas Works and am authorized to make this statement on its behalf.
2. I prepared PGW St. No. 8 which was served on the parties in this proceeding on February 27, 2017.
3. I prepared PGW St. No. 8-R which was served on the parties in this proceeding on June 9, 2017.
4. I do not have any corrections to any of this testimony.
5. If I were asked the same questions set forth in each of these statements today, my answers would be the same.

Date: June 26, 2017



Florian Teme