

Philadelphia Gas Works

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VIA OVERNIGHT MAIL

June 1, 2007

James J. McNulty
Secretary
PA Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

Re: Philadelphia Gas Works Universal Service and Energy Conservation Plan – 2008 to 2010

Dear Secretary McNulty:

Enclosed for filing pursuant to 52 Pa.Code § 62.4 are an original and three (3) copies of Philadelphia Gas Works Universal Service and Energy Conservation Plan – 2008 to 2010.

If you have any questions regarding this matter, please contact me. Thank you for your assistance with this matter.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gregory J. Stunder", is written over the typed name. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Gregory J. Stunder

cc: Mitch Miller, Bureau of Consumer Services
Michael Smith, Bureau of Consumer Services
John Simms, Office of the Trial Staff
Sonny Popowsky, Office of the Consumer Advocate
William Lloyd, Office of the Small Business Advocate

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Universal Service and Energy Conservation Plan – 2008 to 2010

I. Plan Submission:

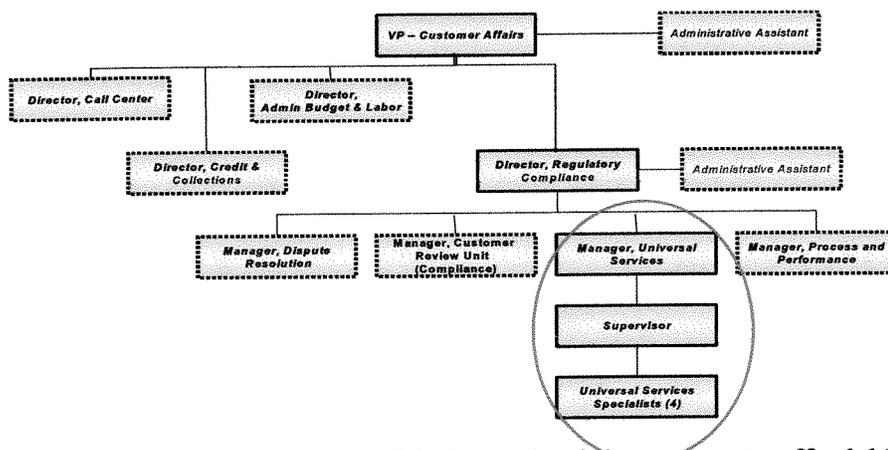
Pursuant to “Regulation 52 PA Code 62.4 Universal Service and Energy Conservation Plans”, PGW hereby submits for approval of the Pennsylvania Public Utility Commission (“Commission”) its proposed plan for years 2008 through 2010. PGW’s Universal Service Programs include Customer Responsibility Program (CRP), Conservation Works Program (CWP), Hardship Fund, Customer Assistance Referral and Evaluation Services (CARES).

II. Historical Overview:

PGW submitted its first Universal Service Plan in September 2003 as part of its Restructuring Filing as required by the Natural Gas CHOICE and Competition Act in Docket No. M-00021612. The Commission approved the plan on DATE. PGW has complied with the provisions of the Plan since its approval. Subsequent to that, PGW performed an impact evaluation of its Customer Responsibility Program. PGW commissioned this evaluation to determine CRP payment impacts, coverage rates of variable and fixed costs by CRP customers, and to obtain informed recommendations on how the CRP can be modified to better serve PGW, its low-income customers, and the ratepayers as a whole. The evaluation also provided required information to the Pennsylvania Public Utility Commission (PUC), Bureau of Consumer Services (BCS). The evaluation was conducted by APPRISE Inc. and finalized in February 2006. The evaluation was filed with the PUC on March 22, 2006. A copy of the evaluation, including recommendations suggested by APPRISE, is in Appendix A.

III. Organization

PGW’s Universal Services unit is part of the Customer Affairs department. There is one manager reporting to the Director, Regulatory Compliance, one supervisor, and four specialists.



The Universal Services Department is responsible for maintaining access to affordable gas service for customers in need, in a manner that is fair, efficient, and financially sustainable. This office manages and assesses PGW’s main Universal Service Programs: Customer Responsibility Program (CRP), LIHEAP

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Program, Conservation works Program (CWP), the CARES program, as well as the Senior Citizens Program. The Department works closely with customer services departments such as the Call Center, Customer Service Centers, Credit & Collections, and Process and Performance.

IV. Program Descriptions:

Pursuant to 52 Pa Code 62.4(b), the components of PGW's universal service and energy conservation plan is described in detail. Following are program descriptions, proposed changes, budget, and projected participation levels.

1) Customer Responsibility Program:

Background

The Customer Responsibility Program (CRP) was implemented in 1994 as a revision of a percentage of income plan created in 1989. CRP is a low-income payment assistance program available to any residential customer with gross household income at or below 150% of the federal poverty level (FPL). Participants do not need to demonstrate that they are "payment troubled", either by the existence of a minimum level of arrearage or because housing and utility expenses exceed a certain percentage of income. There is no restriction on the number of customers on CRP. Currently, there are 76,200 participants in the program.

CRP customers are asked to pay a CRP budget amount that is based on household income and occupancy plus \$3 co-pay towards pre-program arrears. They can have only one account in the customer's name. Participants receive a discount that is defined as the difference between the actual gas bill minus the CRP budget amount. They also receive 1/36th arrearage forgiveness of their pre-program arrears provided they are current and pay their CRP bills each month on time and in full. CRP customers are eligible to receive free conservation services through PGW's Conservation Works Program (CWP).

The CRP program is funded through a Universal Services Surcharge that is passed to all firm customers, including commercial and industrial. The goals of CRP are to establish an affordable payment plan that avoids loss of service for vulnerable customers, improves payment behavior and reduces collections costs while minimizing the burden transferred to other customers. The cost of the discount provided is offset by the LIHEAP cash grants received from program participants.

Customers may apply for CRP by mail or in person at the six (6) PGW's Customer Service Centers. There are three (3) types of CRP agreements:

- 0-50% of FPL pays 8% of gross income; minimum payment of \$18/month.
- 51-100% of FPL pays 9% of gross income
- 101-150% of FPL pays 10% of gross income

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CRP Responsibilities include:

- Making timely payments
- Apply for and assign a LIHEAP grant to PGW each year, if eligible
- Report any change of income and/or occupancy
- Recertify yearly. Customers who received a LIHEAP grant during the current program year are excluded from recertification.
- Accept free conservation measures offered by PGW

Control Features:

PGW monitors CRP accounts daily to ensure compliance with the terms of the program. CRP costs are managed through conservation and weatherization services and customer education regarding energy assistance grants.

A) Recertification:

CRP participants are required to recertify yearly. Customers who received a LIHEAP grant during the current program year are excluded from the recertification requirement for that year.

B) Default Provision:

CRP customers who fail to comply with one or more of the following may be removed from the program:

- Failure to make monthly CRP payments resulting in termination. Shut-off notices are issued to CRP customers who are delinquent by one payment or more.
- Failure to recertify yearly unless the customer received a LIHEAP grant, as set forth above
- Refusal to accept free conservation measures offered by PGW

a) Non-Pay default:

When a CRP customer becomes delinquent by one payment or more, they are required to pay the catch-up/cure amount to continue participation in the program. Termination proceedings are initiated prior to removal from CRP. If the customer does not pay the overdue CRP amount, the customer will have service terminated and be removed from CRP. In order to reinstate in CRP after termination the customer must do the following:

First Removal:

- Pay the catch-up/cure amount plus the reconnection fee

Two or more removals:

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- Pay the full balance in addition to the reconnection fee

Enrolling CRP customer are exempt from payment of a security deposit.

b) Other than non-payment default

Lack of Recertification:

PGW mails a reminder notice to CRP customers required to recertify 30 days prior to their agreement anniversary date. If the customer does not recertify by the anniversary date, PGW mails the “recertification default notice” providing 45 days to complete recertification. PGW mails a final recertification notice 35 days from the recertification default notice. The customer will be suspended from CRP if recertification is not completed by the 45th day. Once the customer is suspended from the program, their CRP pre-program arrears that remain unpaid and not forgiven will be deemed payable and the customer will be billed and treated as a regular residential customer. In order to reinstate on CRP the customer must pay the CRP catch-up/cure amount of unpaid CRP bills prior and subsequent to suspension. Bills sent after suspension will be calculated as CRP bills for the purpose of reinstatement.

Refusal to accept free conservation measures offered by PGW:

CRP customers who refuse PGW’s Conservation Works Program Services may be removed from the program. In order to reinstate, the customer must accept the treatments offered in addition to remaining current with other CRP provisions.

Other reasons for being removed from CRP are:

- Over Income: If income exceeds program limits of 150% of the federal poverty level, the customer will be removed from CRP and offered regular payment arrangements.
- CRP budget amount exceeds regular budget amounts
- Customer request

C) Application of Grants:

LIHEAP Grants are applied to CRP accounts as follows:

LIHEAP Cash Grant: when the grant payment is received, it is posted to the account but immediately backed out. The grant is used to offset the discount/subsidy passed through to other firm rate payers via the Universal Service Surcharge (USS). The transaction is noted on the account and it appears as part of the CRP bill.

CRISIS and other grants (UESF, City Grant, etc.): when the payment is received, it is applied to the account similarly to regular payments. It reduces the CRP balance and arrears.

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D) Needs Assessment:

Consistent with the data provided by the Bureau of Consumer Services' document to the Energy Association of Pennsylvania, dated May 24, 2001, PGW based the needs assessment on the following criteria:

- a) The number of identified low income customers: includes customers who have been on a payment arrangement and whose household income was reported at or below 150% of the FPL; all CRP customers; all accounts that have received LIHEAP or other energy assistance grants. The monthly figures and average for 2006 are:

January	138,308
February	138,734
March	139,621
April	140,438
May	140,984
June	141,150
July	140,966
August	140,569
September	139,299
October	138,092
November	137,243
December	136,240
Average	139,304

- b) Estimated low-income customers based on most recent census data for the Philadelphia County:

	Column 1	Column 2	Column 3	Column 4
	Item	Source	Calculation	Result
Row 1	Households in City	Census		580,784
Row 2	Households at or below 150% Poverty in City	Census		185,091
Row 3	Percent of household at or below 150% in City			32%
Row 4	PGW Customer Households	PGW		478,646
Row 5	150% Poverty in PGW		(Row4) * (Row3)	152,540

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PGW reports this calculation of estimated low income customers in its Universal Services Reporting Requirement (question #12).

- c) Number of identified payment troubled, low income customers (subset of a), as per question # 9 of the 2006 Universal Services Reporting Requirement.

January	29,045
February	28,087
March	27,366
April	26,406
May	24,853
June	23,760
July	22,983
August	22,513
September	22,372
October	21,900
November	21,470
December	20,832
Average	24,299

E) Proposed Changes to the CRP Program:

PGW proposes two changes to the current CRP program design. These changes are intended to improve the coverage of the variable cost of gas by CRP customers, reduce the subsidy that firm customers have to bear, and still be able to maintain an open and limitless program participation. Most of the changes are based and outlined in the recent CRP evaluation conducted by Apprise that was filed with the PUC under Docket P-00042090 (Attachment A).

- a) Increase the minimum CRP payment:

PGW proposes an increase in the minimum CRP payment from \$18 to \$25. The \$25 minimum is consistent with 52 Pa. Code 69.261, adopted July 1992. The consumer price index has increased significantly since 1992. The Federal Reserve Bank of Minneapolis' consumer price index calculator (<http://www.minneapolisfed.org/research/data/us/calc/>) shows that purchases of goods or services for \$25 in 1992 would now cost \$36.62. Even when including the \$5 co-pay towards arrears, the monthly payment is well below the original guideline. Currently, there are 3.5% CRP participants in the \$18 minimum agreement category. These customers would be impacted by the minimum payment changes.

- b) Increase Charges for Arrearage Reduction:

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PGW proposes an increase in customer contribution from \$3 to \$5 per month. Apprise's CRP evaluation recommended an increase in customer contributions of pre-program arrears in a tiered approach: \$18 minimum and 8% of income contributes \$5; 9% of income contributes \$7, and 10% of income contributes \$9. The PUC Bureau of Consumer Services (BCS)'s staff reviewed the recommendation and supports an increase of no more than \$5 per month. PGW supports BCS's recommendation.

The financial impact of both changes is outlined on the table below. Using PGW's figures for the test year submitted in its rate case, Docket No. R-00061931, PGW calculated the impact of each of the proposed change as well as combined. The combined changes yield a reduction of approximately \$2.09 million in net discount passed on to rate payers through the Universal Service Charges.

Impact of CRP Changes on Universal Services Surcharge				
		Proposed Change #1	Proposed Change #2	Combined Changes
CRP Increased Participation Level - FY07 Proposed Changes (Apprise)	76,500	76,500 ? Increase Minimum Payment to \$25	76,500 ? Increase Co-pay from \$3 to \$5	76,500 ? Increased Minimum Payment to \$25 ? Increase Co-pay to \$5
Number of Customers	\$ 76,500	\$ 76,500	\$ 76,500	\$ 76,500
Revenue @ CRP Rates	\$ 68,967,610	\$ 69,221,885	\$ 70,802,614	\$ 71,056,889
Revenue @ GS Rates	\$ 168,407,822	\$ 168,407,822	\$ 168,407,822	\$ 168,407,822
Gross Discounts	\$ 99,440,212	\$ 99,185,937	\$ 97,605,208	\$ 97,350,933
LIHEAP Grants	\$ 9,400,100	\$ 9,400,100	\$ 9,400,100	\$ 9,400,100
Net Discount	\$ 90,040,112	\$ 89,785,837	\$ 88,205,108	\$ 87,950,833
CRP Forgiveness	\$ 11,450,400	\$ 11,450,400	\$ 11,450,400	\$ 11,450,400

F) Program Budget:

PGW does not estimate a fixed budget for the CRP program; the program is open enrollment. The CRP program is funded through a Universal Services Charges that is passed to all firm customers, including commercial and industrial. Both the CRP credit/discount, net of LIHEAP cash grants, as well as the arrearage forgiveness is included in the universal services surcharge. The Universal Service Surcharge is reviewed monthly and adjusted quarterly for actual and forecasted data.

Customer Responsibility Program		
	FY07	FY08 to FY10
Administrative Costs	\$2.4 Million	\$2.4 Million
Shortfall	\$90 Million	\$90 Million
Arrearage Forgiveness	\$11.4 Million	\$11.4 Million
Total Expense	\$103.8 Million	\$103.8 Million
Participation Level	76,500	76,500

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The table above provides an estimate for CRP administrative cost, shortfall (CRP discount), arrearage forgiveness, and participation level. The estimated administrative cost includes labor and non-labor costs incurred by different departments that are directly linked to CRP. For the most part, these costs are embedded in each of the department's operating budgets. These costs are recovered in base rates. The CRP shortfall/discount and arrearage forgiveness are an identified amount recovered through the Universal Services Charge, a non-by-passable charge established and approved by the Commission, and adjusted on a quarterly basis. The participation level is an average as of the end of each fiscal year (September 1 – August 31).

2) Conservation Works Program (CWP)

Current Program:

Philadelphia Gas Works' Conservation Works Program (CWP) was created in 1990. It is designed to provide cost-effective energy savings to PGW's low-income customers who participate in the Customer Responsibility Program (CRP). CWP is a Low-Income Usage Reduction program intended to reduce the overall long-term costs of CRP. A Customer must meet the following criteria:

- A residential heating customer and a participant in the CRP/CAP program
- High user

These criteria are in compliance with 52 PA Code, §58.2 with the exception of assigning LIURP funds for "special needs customers", as defined in 58.2. Due to the large participation level and need within CRP/CAP, PGW intends to continue its current practice of operating CWP/LIURP as a tool to reduce consumption for high users within CRP. CWP is the main tool that CRP/CAP customers have to reduce consumption and receive program and energy education. Energy savings from CWP translate into a reduced CRP/CAP discount that other ratepayers have to bear. Evaluation of the CWP program shows an average of 146 ccf/year in energy savings per participant. At PGW's current rates, these savings translate in a reduction of approximately \$254 in CRP discount per year. Therefore, PGW is requesting a waiver of §58.2.

The objective of the CWP is to focus on this population of low-income customers, by addressing the main factors that influence their gas usage such as mechanical and structural systems as well as behavior issues. The goals of CWP are:

- reduce gas usage in a cost-effective manner
- reduce CRP subsidy
- improve payment practice

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The primary measures that may be provided by the CWP include:

- Diagnostic audits;
- Energy education;
- Energy-related home repair;
- Thermostats with automatic clocks;
- Blower door guided shell tightening;
- Water heater wrap and pipe insulation;
- Furnace filters or radiator reflectors;
- Hot water conservation devices – e.g., aerators and showerheads; and
- Roof insulation.

The program is currently administered by two outside contractors. The budget for the program is \$2.3 million per year. Unlike many other utilities in the Commonwealth, the CWP offers services to a large number of participants. On average, 2,800 houses are treated each year for approximately \$780 each. The program offers low-cost but highly effective measures to conserve gas usage. It is based on a strong educational component that stresses self help measures and behavior changes.

Impact, process, and payment evaluations are frequently conducted by outside experts. Through these analyses, administrators are evaluated for the energy savings and cost-effectiveness produced.

PGW is also currently undertaking a pilot program to assess the efficacy and cost-effectiveness of expanding the treatments in each home. The pilot treatments began in 2006 with a goal of servicing approximately 100 homes. There was not sufficient post-treatment data to enable including the pilot participants in the most recent impact evaluation study. Results from the pilot will be assessed during the next year.

PGW does not propose changes to the program.¹ PGW will continue its pilot program and utilize approximately 25% of its approved budget for CWP towards it. PGW will continue performing impact evaluations to determine the cost-effectiveness of the treatments and determine how the program can better service participants. PGW intends to continue offering CWP to CRP participants only and is requesting a waiver of applicable Commission regulations to recognize this element of the program.

PGW will continue maximizing coordination with other available programs such as the Weatherization Assistance Program (WAP), Heater Hotline, Basic System Repair Program (BSRP), and others. Furthermore, we will explore opportunities with PECO Energy to coordinate conservation and weatherization services.

¹ If the Commission were to remove certain disincentives or barriers to a broader conservation program and if PGW had the resources, PGW would examine how it might increase substantially its investment in conservation.

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Conservation Works Program (CWP)		
	FY07	FY08 to FY10
Expenditure (Admin & Production)	\$2.2 Million	\$2.3 Million
Participation Level	2,700	2,500

The above table shows the estimated annual expenditure and the participation level (number of treated units for the CWP program. The expenditure includes cost of production, administration, and evaluation.

3) LIHEAP Outreach

Current Program:

PGW conducts an intensive LIHEAP Outreach program each year during the LIHEAP season. Our goal is to encourage each customer to apply for and assign a LIHEAP grant to PGW in order to, among other things, provide PGW customers with financial assistance in meeting their gas bill needs this coming winter. PGW's outreach program includes:

- Mailing of post cards to all potentially eligible customers;
- Distribution of flyers (English and Spanish) to many organizations throughout the City;
- Outbound and Inbound phone campaigns;
- LIHEAP Cash intake at PGW's Customer Service Centers;
- Field Visits;
- Information on PGW's Website;
- Radio and newspaper ads;
- Participation in Community Events; and
- Public Announcements & Press Releases.

4) Hardship Fund:

Current Program:

PGW provides hardship funds through the Utility Emergency Service Fund (UESF). PGW directs company and customer contributions to UESF in order to match grants of up to \$500 to eligible customers whose household income is at or below 175% of the FPL. Other requirements for receiving a grant are:

- Has not received assistance from UESF in the past 24 months;
- Has applied for LIHEAP Cash and Crisis grants if the programs were open;
- Has had his/her service terminated or has received a service termination notice from their utility;
- The \$500 grant will completely eliminate the customer's arrearage.

Through the PGW Dollar Plus program, PGW also solicits contributions of \$1 from its customers. PGW solicits contributions to UESF and to the Dollar Plus program at least two times per year via bill inserts; yearly events such as Book Sale and Bowling Tournament; and through customer contact. These contributions are forwarded to UESF to provide additional grants.

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Hardship Fund – UESF		
	FY07	FY08 to FY10
Utility Grant Contribution	\$ 265,000	\$265,500
UESF Grant Contribution	\$ 265,000	\$265,500
Customers Contribution	\$2,000	\$2,000
Utility Administrative Contribution	169,398	170,000
Participation Level	1,300	1,300

The table above provides an estimate of the contributions towards the Utility Emergency Services Fund (UESF). The Customers Contribution component refers to customers' contribution to PGW's Dollar Plus program.

5) CARES

PGW began offering the Customer Assistance Referral and Evaluation Program ("CARES") in September 2003. CARES is designed to help customers with special needs, such as those who have recently experienced a family emergency, unemployment, or age related issues. This program provides the customer with a variety of referrals to internal or external existing assistance programs. Information on CARES is provided through various outreach programs.

There are two types of assistance:

- Quick-Fix: assistance offered by customer service representatives in the call center or Customer Service Centers. When customers are identified as special need or need referral for a particular program, the representatives refer customers to both internal and external assistance programs.
- Case Management: case is escalated to PGW's Universal Services department when the customer needs assistance above and beyond referrals provided by Customer Service. When necessary, the Universal Service representatives will work directly with the customer to attain assistance from outside agencies.

6) Senior Citizen Discount Program

Current Program:

The Senior Citizen Discount program offers up to 20% bill discount to eligible senior citizen participants. To receive the discount under this program, the customer of record must have been enrolled before September 1, 2003 or have been 65 year old and a member of a household that received the discount as of that same date. No income eligibility is required. There are currently 46,000 participants in this program. The program has been grandfathered as of August 31, 2003 and no new members have been added since that date.

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Senior Citizen Discount Program		
	FY07	FY08 to FY10
Discount	\$14.1 Million	\$13 Million
Participation Level	46,000	39,000

The table above shows the Senior Citizen discounts and participation level for fiscal years Fiscal years 2007 to 2010.

V. Conclusion:

PGW's Universal Services is designed to address the needs of its low-income customer base. It provides a variety of services that meet the requirements of 66 Pa. C.S.A 2203(8) and 52 Pa Code Chapter 62. PGW respectfully requests that the Commission approves this Universal Service and Energy Conservation Plan.