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February 13, 2015

Via Electronic Filing

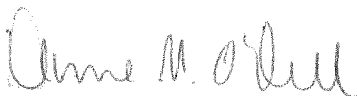
Rosemary Chiavetta, Secretary
PA Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Petition of Philadelphia Gas Works for Approval of Demand-Side Management Plan for
FY 2016-2020, and Philadelphia Gas Works Universal Service and Energy Conservation
Plan for 2014-2016, 52 Pa. Code § 62.4 – Request for Waivers,
Docket No. P-2014-2459362

Dear Secretary Chiavatta:

Enclosed for electronic filing please find a Prehearing Memorandum of Philadelphia Gas Works
with regard to the above-referenced matter. Copies to be served in accordance with the attached
Certificate of Service.

Sincerely,



Deanne M. O'Dell

DMO/lww
Enclosure

cc: Hon. Christopher P. Pell, w/enc.
Hon. Marta Guhl, w/enc.
Cert. of Service w/enc.

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of PGW's Prehearing Memorandum upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

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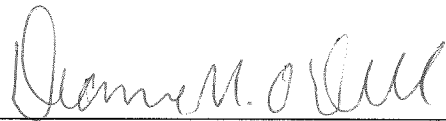
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Deanne M. O'Dell, Esq.

Date: February 13, 2015

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of Philadelphia Gas Works for :
Approval of Demand-Side Management : Docket No. P-2014-2459362
Plan for FY 2016-2020 :
:
And :
:
Philadelphia Gas Works Universal Service :
and Energy Conservation Plan for 2014- :
2016 52 Pa Code § 62.4 – Request for :
Waivers :

**PREHEARING MEMORANDUM OF
PHILADELPHIA GAS WORKS**

Pursuant to 52 Pa. Code §§ 5.72-5.75 Philadelphia Gas Works (“PGW”) submits this Prehearing Memorandum in accordance with the Pre-Hearing Order of the Presiding Officers dated February 5, 2015.

As explained more fully below, this proceeding has been initiated by PGW in order to permit it to continue to provide to its customers cost effective and energy saving demand side management services. PGW’s current Demand Side Management Plan (“DSM Phase I Plan”) – which includes six separate programs – was approved by the Commission in 2010 but is set to expire on August 31, 2015. As part of this proceeding, PGW seeks, among other things, approval to continue these programs, with some modifications and adjustments (“PGW DSM II”). However, without Commission direction prior to May 31, 2015 regarding whether the current programs should continue, albeit at modified levels of activity as proposed in DSM II, PGW would be required to start closing down the programs. This would disrupt contracts and the ability of consumers to continue to receive the benefits of these programs pending the outcome of this proceeding. In consideration of this, PGW and the parties have identified two possible approaches. The first approach would be that the procedural schedule in this matter

include a process for the parties to submit an interim settlement, via a Material Question, to the Commission which would enable the Commission to give direction as to whether the current programs should be continued on an interim basis pending the final resolution of this proceeding. A second approach would be for PGW to file a Petition to Extend the DSM I program pending the outcome of this proceeding. In either case, PGW would envision the litigation schedule for this proceeding to be dependent on the Commission's action regarding DSM I. PGW has also discussed this issue with the parties and generally, they have expressed interest in working toward an interim solution to allow the current plan to continue pending the outcome of this proceeding (although, for clarity, no agreement has been reached with any party). PGW is prepared to continue to engage in discussions with the parties and the ALJs to arrive at an interim settlement and appropriate process that would enable the issue to be presented to the Commission. Specific details of PGW's proposal as well as the other requested information are set forth below.

I. ISSUES

On July 29, 2010, the Commission approved the settlement of a base rate filing made by PGW in December 2009 (Docket Nos. P-2009-2097639 and R-2009-2139884). As part of that Settlement, the Parties agreed to the creation of a five-year DSM Phase I Plan.¹ DSM Phase I Plan provided high-level designs for six programs, including estimated costs, savings, and cost-effectiveness, as well as a framework for implementation and management of the programs. The DSM Phase I Plan has been successful and cost effective and has delivered significant benefits to customers. The approval included permitting PGW to rely on the Enhanced Low Income

¹ Philadelphia Gas Works' Revised Petition For Approval of Energy Conservation and Demand Side Management Plan, Opinion and Order entered July 29, 2010, Docket Nos. R-2009-2139884, P-2009-2097639.

Retrofit Program (“ELIRP,” now known as CRP Home Comfort) to satisfy the requirements of 52 Pa Code §§ 58.1-58.18, (which requires utilities to establish usage reduction programs for their low income customers).

Accordingly, in this proceeding, PGW is proposing to continue to provide DSM programming, referred to as DSM Plan Phase II, in order to continue supporting the deployment of high efficiency natural gas equipment as well as conservation and load management efforts. PGW believes that continuing these efforts will result in benefits to PGW’s customers, the Company, and society as a whole. Additionally, as the programs of DSM Phase I are now launched and operating at scale, the requisite infrastructure has been developed and initial start-up costs have already been incurred, allowing for the increasingly cost-effective continuation of programming. Through this filing, PGW seeks to realize the greatest returns for ratepayers’ investments to date by avoiding eliminating or, as detailed in the Proposed Schedule section below, even temporarily shuttering PGW’s DSM programming. Elimination or even temporary shuttering of PGW’s DSM programs could have a harmful effect on the market, and cause customer frustration and confusion. Additionally, and consistent with the Commission’s *USECP 2014-2016 Order*, PGW’s proposal also includes a request for waivers of Chapter 58 as may be necessary.²

Regarding the programs proposed in this DSM II Plan, PGW seeks approval to continue the following five programs:

² *Philadelphia Gas Works Universal Service and Energy Conservation Plan for 2014-2016 Submitted in Compliance with 52 Pa. Code § 62.4, Docket No. M-2013-2366301, Final Order August 22, 2014 at 74 (“USECP 2014-2016 Order”).*

1. *CRP Home Comfort* program (formerly referred to as ELIRP), providing weatherization treatments to the highest usage customers in PGW's Customer Assistance Program (CAP)³;
2. *Residential Equipment Rebates* program, providing prescriptive residential-sized heating equipment rebates targeting the replacement of equipment at the end of its operational life;
3. *Commercial Equipment Rebates* program providing prescriptive commercial-sized heating and cooking equipment rebates targeting replacement at the end of its operational life;
4. *Efficient Building Grants* program providing custom project grants for existing commercial and multifamily buildings; and
5. *Efficient Construction Grants* program providing custom project grants for new and gut rehabilitated commercial and multifamily buildings, and single family homes.

In addition to these programs, PGW is also proposing two additional programs.

1. A new Low-Income Multifamily Program as part of the CRP Home Comfort program consistent with the Commission's Final Order approving PGW's Universal Service and Energy Conservation Plan for 2014-2016.⁴
2. A new load management program, the DSM Efficient Fuel-Switching Program. This load management program will promote specific cost-effective energy efficiency and conservation projects, including micro-combined heat and power ("Micro-CHP") and other energy efficient natural gas appliances, for commercial and industrial end-uses currently utilizing other more expensive and less efficient fuel-types.

In addition to this portfolio of programs that PGW proposes to offer under the Phase II Plan, PGW proposes to add two new cost elements:

1. First, PGW is proposing a "conservation adjustment mechanism" ("CAM"). The CAM would calculate the lost margin associated with reduced usage resulting from the programs and include that amount in the costs of the program recovered through PGW's ECRS surcharge
2. Second, PGW proposes to include performance incentives that would accrue to PGW based on achieving and surpassing targeted program goals.

³ The Commission set forth specific requirements regarding information PGW is required to provide in support of its proposal to continue this program. *USECP 2014-2016 Order* at 74.

⁴ *Id.* at 57 ("We direct PGW, to the extent that the ELIRP program continues beyond August 2015, either as part of the DSM or as part of the USECP, to develop a program and designate a portion of the ELIRP budget to specifically serve low-income multifamily properties.")

PGW submits that approval of all of the proposed elements of the Phase II Plan, including (a) the continuation of the CRP Home Comfort program, recovered through the Universal Service Charge (“USC”); (b) the continuation of the Efficiency Cost Recovery Surcharge (“ECRS”); (c) the new ECRS cost recovery elements (i.e., the CAM and the Performance Incentives); and (d) the new Efficient Fuel Switching program, should be approved by the Commission as soon as possible as in the public interest.

II. SCHEDULE FOR SUBMISSION OF TESTIMONY, HEARINGS AND BRIEFS

(a) Need For Interim Action

PGW’s current DSM Phase I Plan is scheduled to expire on August 31, 2015. Without a Commission Order prior to the end of May 2015 permitting these programs to continue, PGW would need to start shuttering the various programs at that time. This would be unnecessarily disruptive and costly, particularly if some version of PGW’s proposal is ultimately approved and the Company has to then restart the shuttered programs. It would also deprive consumers of the ability to receive the benefits of the programs that have been in place for several years now. For these reasons, PGW would like to avoid this unnecessary disruption. An extremely aggressive litigation schedule would have to be established in order to obtain a final Commission decision by mid-May and avoid the shuttering of these valuable programs. Two possible approaches have been identified to enable an interim solution which would allow the current DSM I Plan to continue pending the outcome of this proceeding.

First, PGW could submit a Petition to Extend the current DSM I Plan on an interim basis pending the resolution of this proceeding. Under this approach, PGW would work with the parties to reach a mutually agreeable resolution regarding the terms under which the programs

would continue on an interim basis and then submit a Petition to the Commission seeking action no later than May 19, 2015.

An alternative approach would be to utilize the Material Question process to obtain an interim decision from the Commission by the May 19, 2015 public meeting (the last public meeting in May) which would enable the Company to continue programs pending a final decision from the Commission on the full proposal. Under this approach, PGW would also work with the parties to reach a mutually agreeable resolution regarding the terms under which the programs would continue on an interim basis and then submit that interim settlement to the OALJ for certification of a Material Question to the Commission. Under either approach, PGW would propose that the interim resolution agreed to by the parties be submitted to the Commission by March 20, 2015. Further, PGW would propose to hold the development of the litigation schedule in abeyance pending the submission of the interim proposal.

(b) Hearing Schedule

Alternatively, and to the extent the ALJs and the parties prefer to establish a tentative schedule now (while still pursuing the interim approach), the Company would propose the following schedule:

March 20, 2015 – Material Question certified to Commission or Petition to Extend filed
May 19, 2015 – Commission action on Material Question or Petition to Extend
June 2, 2015 – Company Direct
June 23, 2015 – Other Parties’ Direct
July 21, 2015 – Rebuttal
August 4, 2015 – Surrebuttal
August 10-14, 2015 – Hearings
September 4, 2015 – Main Briefs
September 14, 2015 – Reply Briefs
October 5, 2015 (ETA) – Recommended Decision
October 26, 2015 (ETA) – Exceptions
November 5, 2015 (ETA) – Reply Exceptions
December 17, 2015 (ETA – public meeting) – Commission Order

This schedule would be tentative and subject to revision by the presiding officers upon reasonable request of the parties.

III. A PROPOSED PLAN AND SCHEDULE OF DISCOVERY

The parties are in the process of engaging in informal discovery. PGW is working to respond as timely as possible to all requests and appreciates the parties' patience to date.

IV. AMOUNT OF HEARING TIME NEEDED

At this point, PGW would estimate three days for hearings should be sufficient.

V. WITNESSES

PGW anticipates submitting the testimony of the following three witnesses, though PGW reserves the right to add additional witnesses or change the identity of its witnesses at any time upon appropriate notice to the Presiding Officers and the parties.

Denise Adamucci Philadelphia Gas Works	Theo Love Green Energy Economics Group	Paul Chernick Resource Insight, Inc.
Topics: Company specific issues	Topics: any sections excluding the development of the avoided costs	Topics: avoided costs; conservation adjustment mechanism

VI. POSSIBILITY OF SETTLEMENT

PGW would support the settlement of any or all issues and is committed to working the parties to reach any such resolutions as may be possible.

VII. SERVICE OF DOCUMENTS

PGW requests that all documents be served on:

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PGW also agrees to receive service of documents electronically in this proceeding. To the extent that materials are available electronically, it is requested that copies be served upon:

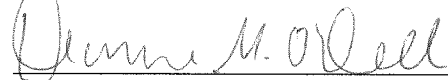
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Dated: February 13, 2015

Respectfully Submitted,



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