



COMMONWEALTH OF PENNSYLVANIA

January 31, 2019

**E-FILED**

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

**Re: Petition of UGI Utilities, Inc. – Electric Division for Approval of Phase III of its Energy Efficiency and Conservation Plan / Docket No. M-2018-3004144**

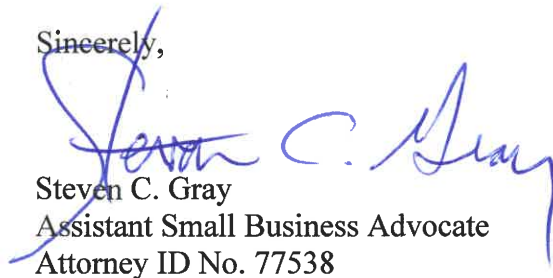
Dear Secretary Chiavetta:

Enclosed please find the Statement in Support of the Joint Petition for Approval of Settlement, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-captioned proceeding.

Copies will be served on all known parties in this proceeding, as indicated on the attached Certificate of Service.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Steven C. Gray".

Steven C. Gray  
Assistant Small Business Advocate  
Attorney ID No. 77538

*Enclosures*

cc: Robert D. Knecht  
Parties of Record

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Petition of UGI Utilities, Inc. – Electric** :  
**Division for Approval of Phase III of its** : **Docket No. M-2018-3004144**  
**Energy Efficiency and Conservation** :  
**Plan** :

**STATEMENT OF  
THE OFFICE OF SMALL BUSINESS ADVOCATE  
IN SUPPORT OF THE  
JOINT PETITION FOR APPROVAL OF SETTLEMENT**

**Introduction**

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. Pursuant to that statutory authority, the Office of Small Business Advocate (“OSBA”) filed an Answer and Notice of Intervention to the UGI Utilities, Inc. – Electric Division (“UGI Electric” or the “Company”) Petition for Approval of Phase III of its Energy Efficiency and Conversation (“EE&C”) Plan which was filed with the Pennsylvania Public Utility Commission (“Commission”) on August 21, 2018.

The OSBA actively participated in the negotiations that led to the proposed settlement and is a signatory to the Joint Petition for Approval of Settlement (“*Joint Petition*”). The OSBA submits this statement in support of the *Joint Petition*.

## **The Joint Petition**

The *Joint Petition* sets forth a comprehensive list of issues that were resolved through the negotiation process. The following issues were of particular significance to the OSBA when it concluded that the *Joint Petition* was in the best interests of UGI Electric's small business customers.

### **Monitoring Energy Savings**

Based on analysis prepared by OSBA Witness Mr. Robert D. Knecht in the Company's last EE&C proceeding, the OSBA was concerned that the engineering estimates of energy savings in the Company's EE&C Plan were inaccurate and potentially overstated, particularly since a formal evaluation, measurement, and verification ("EM&V") process was not incorporated into the plan. In that proceeding, the settlement included a provision that required the Company to monitor actual savings related to the Commercial Custom Incentive Program ("CCIP") as compared to forecast savings

In this proceeding, the Company presented its analysis of actual savings for Phase II of the CCIP in response to OSBA interrogatory I-5. However, as Mr. Knecht observed in this proceeding, it is too early to evaluate the actual savings from the Phase II projects with any confidence. Moreover, the Company has unaccountably discarded earlier data for customer consumption, making any analysis of Phase I impossible. *See* OSBA Statement No. 1, at 10-11.

The *Joint Petition* addresses this issue by (a) mandating a formal EM&V process after three years of Phase III if the Plan continues, and (b) specifying that the Company will continue to compile and evaluate CCIP actual cost savings using the methodology presented in OSBA-I-5. *Joint Petition*, at Paragraphs 23(c) and 25.

## **Avoided Costs**

The avoided cost of electricity determines the economic benefit associated with load and peak demand reductions in EE&C programs. For that reason, the Commission established very specific rules as to how such avoided costs should be calculated. Mr. Knecht demonstrated that the Company's avoided cost methodology with respect to energy costs, capacity cost inflation, and Transmission and Distribution ("T&D") costs were all inconsistent with the specific requirements set by the Commission. The Company's methodology generally overstated avoided costs. *See* OSBA Statement No. 1, at 17-22. Mr. Knecht acknowledged that other EDCs have also not followed the Commission's requirements, but UGI Electric's departure from the established rules was much larger than those of other EDCs. *See* OSBA Statement No. 1-S, at 4. In addition, Mr. Knecht explained that the Company substantially overstated its avoided T&D costs by including 100 percent of costs for a program in its LTIP that it had earlier asserted were primarily focused on replacing existing capacity. *See* OSBA Statement No. 1-S, at 8.

The *Joint Petition* addresses this issue by modifying the plan to rely on the PPL Electric (a neighboring utility with a common transmission interconnection) Phase III avoided cost, which will be updated to the PPL Electric Phase IV avoided costs if the UGI Electric plan extends beyond three years. *Joint Petition*, at Paragraph 28.

## **Assignment of Program Costs**

In the Company's last EE&C proceeding, OSBA identified a significant error in the Company's accounting which resulted in costs that were incurred primarily for *large industrial customers* in EE&C Class 3 (and a small amount for residential customers in Class 1) that were assigned to *commercial customers* in Class 2. The OSBA attempted to investigate whether these

costs were properly credited back to commercial customers, and whether UGI Electric had established procedures for avoiding similar problems in the future.

As Mr. Knecht explained, the Company's accounting treatment of the mis-categorized costs did not result in a proper credit to Class 2 commercial rates, because the credit was unreasonably shifted to a default service rate account that included both residential and commercial customers. *See* OSBA Statement No. 1-S, at 9-12.

The *Joint Petition* resolves this issue by reversing out the credit to the default service account and shifting the credit back to the Class 2 variance account. *Joint Petition*, at Paragraph 32. In addition, as discussed below, the tariff language will be changed to avoid any similar problems in the future.

Mr. Knecht also identified another error in UGI Electric's accounting for its EE&C program, namely a \$192,000 overstatement of Class 2 E-Factor revenue. This error was in the ratepayers' favor, and UGI Electric proposed to correct this error going forward, with the benefit to UGI Electric shareholders. *See* OSBA Statement No. 1-S, at footnote 12.

The OSBA agrees that the Company is permitted to recover its prudently incurred costs for the EE&C programs, and thus agrees with the *Joint Petition* proposal to permit UGI Electric to make this correction. *Joint Petition*, at Paragraph 32. However, the OSBA observes that it has identified two very large errors in UGI Electric's accounting for its EE&C programs in the last two proceedings. As a practical matter, it is impossible for OSBA to conduct a complete audit of the Company's accounting in these proceedings, and therefore retains its concerns about the accuracy of the Company's accounting. The OSBA therefore recommends that the Commission direct its Bureau of Audits to conduct a full audit of the Company's accounting for Phase I and Phase II EE&C programs.

### **Emerging Technology and Outreach (“ETO”)**

Mr. Knecht expressed the view that an ETO Program focused on emerging EE&C technologies was not particularly appropriate for a small utility such as UGI Electric; that the costs of developing new EE&C technologies should more appropriately be left with the equipment vendors; and that the Company’s checkered history with programs targeted at the Commercial sector did not bode well for an experimental program targeted at small business customers. Mr. Knecht recommended that no Commercial programs be included in the ETO. *See OSBA Statement No. 1, at 12-14.*

The *Joint Petition* addresses this concern by eliminating the ETO program entirely and using some of the ETO costs for programs targeted at low-income and other residential customers. *Joint Petition*, at Paragraphs 23(a), (b) and (d).

### **Combined Heat and Power (“CHP”)**

UGI Electric has included the potential for CHP projects in its EE&C plans over the years. *See OSBA Statement No. 1, at 9.* OSBA has maintained a concern that the Company’s efforts to include subsidized CHP projects in the EE&C plan (a) have been unsuccessful and costly, and (b) could potentially result in economic gains for UGI Electric affiliates. *See OSBA Statement No. 1, at 9-10.* However, in this proceeding, UGI Electric indicated that it has not pursued any CHP projects in the CCIP, and it is not incurring any related marketing costs. While CHP will remain as an option within the flexible CCIP, the Company does not forecast any savings related to CHP in Phase III. *See OSBA Statement No. 1, at 10.* OSBA concludes that this approach is not unreasonable.

## **Fuel Switching**

In this proceeding, the Company proposed to shut down its separate fuel switching program and move the commercial portion of that program to the CCIP. *See* OSBA Statement No. 1, at 12. Like the CHP program, the OSBA is concerned that this program has historically been unsuccessful, and could potentially benefit UGI Electric affiliates at the expense of ratepayers. However, in this proceeding, UGI Electric indicated that it has not aggressively pursued fuel switching projects in the CCIP, although it incurs some small marketing costs related to e-mail and bill inserts. While fuel switching will remain as an option within the flexible CCIP, the Company does not specifically forecast any savings related to CHP in Phase III. *See* OSBA Statement No. 1, at 10. The OSBA respectfully submits that this limited level of activity to be reasonable.

## **EE&C Tariff Design**

The Company's proposed EE&C tariff design in this proceeding was essentially unchanged from that approved by the Commission in the last EE&C proceeding. *See* the Company's response to OSBA interrogatory I-14.

However, upon detailed review, Mr. Knecht identified a significant flaw in the approved tariff design, namely that any lagging variances in the EE&C charge are shifted to the *default service* variance account one year after the end of the EE&C phase. This approach is clearly unreasonable, because (a) all ratepayers are subject to the EE&C charge, but only non-shopping customers pay the default service charge, and (b) the rate class definitions for EE&C classes are very different from those that apply to default service charges. *See* OSBA Statement No. 1-S, at 9-11. In addition, Mr. Knecht identified certain minor "housekeeping" corrections for the

proposed tariff language relating to the specific tariff rate classes that make up the EE&C classes. *See* OSBA Statement No. 1-S, at 14.

The *Joint Petition* proposes to address these issues by modifying both the existing Phase II tariff language and the Phase III tariff language such that lagging variances are either transferred to the next EE&C Phase or would be recovered in a one-time bill charge/credit. This would eliminate the use of the default service charge as a catch-all for lagging variances. *Joint Petition*, at Paragraphs 29 and 30. In addition, Mr. Knecht 's housekeeping recommendations are adopted. *Id.*, at Paragraph 31.

### **Increase in Forecast Savings**

The OSBA was concerned about the potential for undue optimism in its forecast for Phase III energy savings levels in the CCIP, as they are well above historical achieved performance. *See* OSBA Statement No. 1, at 15. Overstating energy savings could threaten the economic viability of the EE&C program if fixed costs are spread over fewer MWh saved.

The *Joint Petition* addresses this issue by specifying that the Phase III plan must achieve at least 75 percent (75%) of the forecast savings and keep the TRC Benefit-Cost ratio above unity. If those requirements are not met, the Company will either shut down the EE&C Program or submit a petition to amend the Plan. *Joint Petition*, at Paragraph 22.

### **Cost Sharing between Participants and Other Ratepayers**

In direct testimony, Mr. Knecht demonstrated that the Company's proposed CCIP utility costs (consisting of incentives for participants plus administration costs) were substantially higher than both the Company's own history and the costs for similar programs at other Pennsylvania EDCs, when measured on a cost per MWh saved basis. *See* OSBA Statement No. 1, at 16-17 and Exhibit IEC-3. These higher utility costs can result either from inefficiencies in



the proposed program or from excessive incentives for participants. Mr. Knecht also explained why UGI Electric does not have the incentives for cost control (in the form of minimum savings levels and financial penalties) that are an integral part of the mandatory EE&C plans for larger EDCs as set forth in Act 129. Mr. Knecht proposed to address these concerns by establishing per-MWh-saved caps for both incentives and for program administration costs, at \$90 and \$100 per MWh respectively. *See* OSBA Statement No. 1, at 17.

The *Joint Petition* addresses this concern by establishing the caps as proposed by Mr. Knecht at slightly higher levels – namely \$100 per MWh saved for incentives and \$110 per MWh for administration costs. *Joint Petition*, at Paragraph 26.

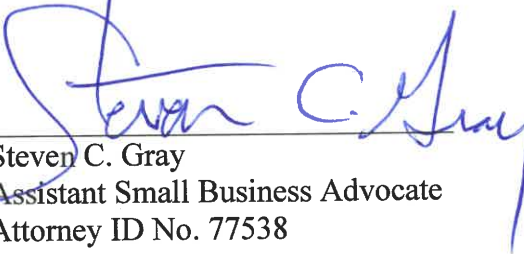
OSBA also expressed a concern that the Company appeared to be willing to offer incentive payments to customers long after the customer had already decided to install the energy efficient equipment. *See* OSBA Statement No. 1, at 11-12.

This issue is addressed in the *Joint Petition* by requiring UGI Electric to comply with standard Commission practice to provide incentives within 180 days of the installation date. *Joint Petition*, at Paragraph 27.

**Conclusion**

Therefore, for the reasons set forth in the *Joint Petition*, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed *Joint Petition* and respectfully requests that the Administrative Law Judge and the Commission approve the *Joint Petition* in its entirety.

Respectfully submitted,



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Dated: January 31, 2019

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PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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**Plan** :

**CERTIFICATE OF SERVICE**

I hereby certify that true and correct copies of the foregoing have been served via email and/or First-Class mail (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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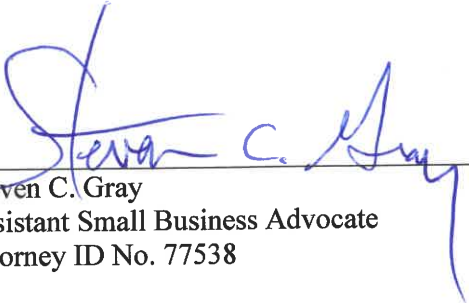
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DATE: January 31, 2019



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