

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

1. Set forth and fully describe an initial comprehensive proposal and how an appropriate funding level should be determined to meet the natural gas distribution company's universal service and energy conservation obligations. Identify and explain any proposed changes to any and all current universal service and energy conservation programs. Section 2203(9).

Response:

Distribution presently operates a comprehensive array of programs designed to satisfy its universal service and energy conservation obligations. These programs, which provide assistance to low income, payment troubled customers, are described in detail in the following sections. Taken together, these programs comprise Distribution's Universal Services Plan.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

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 - a. Needs assessment of the market for and acceptance of universal service programming in the territory. The needs assessment should include the number of identified low-income customers and an estimate of low-income customers, the number of identified payment troubled, low-income customers, an estimate of payment troubled, low-income customers, the number of customers who still need LIURP services and the cost to serve that number, and the enrollment size of CAP to serve all eligible customers.

Response:

Distribution's Customer Information System (CIS) identifies at September 24, 1999, 15,770 customers as self-identified low income. Customers are classified as self-identified low income when they receive LIHEAP payments or when they contact the company to make a payment arrangement. In the latter case, customers whose incomes are within the Bureau of Consumer Service's (BCS) Level 1 and Level 2 guidelines are classified as low income.

Distribution does not routinely classify individual customer accounts as "payment troubled." However, a range can be developed by considering the number of residential payment agreements as one measure, and the number of residential service terminations as another measure. In 1998, the number of residential payment agreements averaged 7,748. The number of 10 day termination notices mailed ranged from a high of 14,979 in March, to a low of 6,520 in November. Finally, in 1998, a total of 5,768 residential service terminations due to non-payment occurred.

Distribution is unable to state for certain how many of its customers still need LIURP services. Referrals for the LIURP services are made through the Company's other Universal Service programs, by screening its CIS for accounts

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

that meet the eligibility criteria, and through local human services agencies. During the past year, over 21,000 accounts were screened for LIURP eligibility and approximately 600 accounts were initially suitable. Experience indicates that Distribution's LIURP budget is sufficient to meet the demand for LIURP services in its service territory.

Distribution's CAP, or LIRA, program presently has a target enrollment of 5,000 customers. In 1996, Distribution sought PUC approval to expand LIRA from the original 1,000 maximum enrollment to the 5,000 customer level. The PUC approved this expansion in 1997. Distribution's LIRA program is sufficiently sized to serve its customers within the franchise territory. This is supported by its independent evaluators, who state:

“ The program's administrators have shown considerable flexibility in their management of LIRA. Delivery procedures were modified and refinements were made whenever problems were encountered. The program staff has been receptive and responsive to the recommendations we made during the course of our evaluation and many have already been implemented. Our principal recommendations are as follows:

- The monthly recruitment target needs to be adjusted down to a more attainable level. It has been difficult to recruit the current 200 participants per month given the workload caused by re-verifications and account maintenance.
- It appears that it is becoming difficult to identify and recruit potential participants. It is therefore advisable to reduce the arrearage amount a customer is required to have before being considered eligible for the program. Currently, the customer must have at least \$300 in arrears before they can be considered a potential participant. If NFG has difficulty identifying additional participants and reaching the 5,000 participants, the staff might want to reassess this arrearage cutoff, and lower it. It could be beneficial to accept customers who meet all other requirements but don't quite have \$300 in arrears.”¹

¹ *Process Evaluation of the Low-Income Residential Assistance Program (LIRA)*
March 23, 1999, p. ix.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

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- b. Set forth the natural gas distribution company's current policies and programs on universal service and energy conservation. Section 2203(7).
 - (i) For each current component of universal service, state budgeted and actual expenditures associated with CAP, CARES, LIURP, and other universal service programs and administration of hardship funds during 1997 and 1998 by the company, along with funding or contribution by any third party source. To the extent the company included such costs in rates, please identify the amounts included in the most recent rate proceeding. State the total amount of LIHEAP revenue.

Response:

Distribution's last base rate proceeding, R-953299 was filed on March 15, 1995 with an effective date of September 27, 1995. This proceeding was concluded in a Settlement between Distribution and active parties. Accordingly, the majority of information requested was not specified in this proceeding. An exception to this was the discrete recognition within the Settlement reflecting funding of LIURP at 0.4% of revenues. In addition, the component referred to as LIRA Expanded was also established outside a base rate proceeding. The LIRA Expanded program is a result of the partial settlement of Distribution's petition Docket P-00961054 and P-961055, as ordered by the Commission at a public meeting held February 13, 1997.

Presented below is data extracted from Distribution's annual budgets, accounting records and CIS reports.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

		<u>1997</u>	<u>1998</u>
CARES (1)	Budget	\$113,379	\$8,842
	Expenditures	89,116	9,072
LIURP	Budget	\$958,000	\$1,150,000
	Expenditures	1,062,076	829,065
LIRA Initial (2)	Budget	\$485,329	\$137,056
	Expenditures	306,562	142,202
LIRA Expanded	Budget	\$0	\$260,848
	Expenditures	906	250,408
Neighbor For Neighbor	Budget	\$6,345	\$4,421
	Expenditures	10,672	16,205
	External Funding (3)	78,488	78,208
LIHEAP	External Funding (3)	\$2,520,973	\$2,491,285

Note (1) During 1997, it was determined that many CARES participants could be better served under the LIRA program. Subsequently, these customers were enrolled in LIRA during 1998.

Note (2) For internal reporting purposes, LIRA expanded Budget and Expenditures were reflected within the LIRA Initial category. Subsequently, once the LIRA Expanded program was approved by the Commission, tracking of costs were segregated.

Note (3) External funding includes various third party sources such as shareholder funds, customer donated funds, or federal grants.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

1. Set forth and fully describe an initial comprehensive proposal and how an appropriate funding level should be determined to meet the natural gas distribution company's universal service and energy conservation obligations. Identify and explain any proposed changes to any and all current universal service and energy conservation programs. Section 2203(9).
- b. Set forth the natural gas distribution company's current policies and programs on universal service and energy conservation. Section 2203(7).
 - ii) For each program, state the participation level

Response:

LIURP - 309 customers in 1997, 245 customers in 1998

LIRA - 3,084 customers enrolled as of September 7, 1999

CARES - 380 customers in 1997, 16 customers in 1998

LIHEAP - 11,614 payments in 1997, 9,048 payments in 1998

LIHEAP Crisis - 2,200 payments in 1997, 2,011 payments in 1998

Neighbor For Neighbor - 346 grants in 1997, 342 grants in 1998

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

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- b. Set forth the natural gas distribution company's current policies and programs on universal service and energy conservation. Section 2203(7).
- (iii) For 1998, state the total estimated or actual collection operational costs associated with handling low-income customer accounts that are not included in the response to sections 1(a) or (c), or elsewhere in this section (b). These costs include, in part, expenses associated with negotiating payment arrangements as well as physical termination and reconnection services.

Response:

Distribution cannot identify collection operational costs associated specifically with handling low income customers.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

1. Set forth and fully describe an initial comprehensive proposal and how an appropriate funding level should be determined to meet the natural gas distribution company's universal service and energy conservation obligations. Identify and explain any proposed changes to any and all current universal service and energy conservation programs. Section 2203(9).
- b. Set forth the natural gas distribution company's current policies and programs on universal service and energy conservation. Section 2203(7).
- (iv) Identify how the plan reflects savings of traditional collection costs as a source of funding universal service and energy conservation activities. If the company does not propose collection savings as a source of universal service funding, explain why not.

Response:

Distribution believes as the supplier of last resort, it will continue to provide those necessary services to all customers and does not expect to experience any decrease in collection activities or costs.

Distribution can not determine collection costs "savings" as a source of potential funding for universal service and energy conservation plans as described within this restructuring filing.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

1. Set forth and fully describe an initial comprehensive proposal and how an appropriate funding level should be determined to meet the natural gas distribution company's universal service and energy conservation obligations. Identify and explain any proposed changes to any and all current universal service and energy conservation programs. Section 2203(9).

- c. For 1998, state the dollar amount of the company's gross residential write-offs related to low-income customers or an estimate of the portion related to low-income customers. For 1998, state the company's definition of a residential account in arrears, the total number of residential accounts in arrears, the number of those accounts that are low-income, dollars in arrears owed by identified low-income customers and total number of dollars in arrears (identified and estimated). For 1998, state the estimated or actual dollar amount of cash working capital associated with low-income arrearages.

Response:

In 1998, Distribution wrote off \$6,928,584 associated with gross residential write-offs. This includes write-offs of \$4,594,964 of self-identified low income customers and \$283,865 pre-program arrearages associated with 873 LIRA accounts. Customers are classified as self-identified low income when they receive LIHEAP payments or when they contact the company to make a payment arrangement. In the latter case, customers whose incomes are within the BCS Level 1 and Level 2 guidelines are classified as low income.

Distribution defines a residential account in arrears as an account with an outstanding balance over 30 days regardless of dollar amount.

The CIS system and Accounts Receivable information is continuously updated for daily activity and is unable to reproduce, without significant programming, the requested information for 1998. THE CIS is capable of producing such data each day. The information which follows was produced on September 24, 1999 and reflects a date certain view of account receivable information.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

The number of residential accounts in arrears at September 24, 1999 was 30,353 of which 9,606 are self-identified as low income by the CIS system as defined in Exhibit 2 Schedule F 1a. The total residential arrearage at September 24, 1999 was \$5,165,690 of which \$3,036,835 is identified as self-identified low income.

Distribution does not calculate a cash working capital estimate outside a base rate case where it is calculated for the Pennsylvania Division only.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

1. Set forth and fully describe an initial comprehensive proposal and how an appropriate funding level should be determined to meet the natural gas distribution company's universal service and energy conservation obligations. Identify and explain any proposed changes to any and all current universal service and energy conservation programs. Section 2203(9).
- d. Set forth how the natural gas distribution company intends to administer its universal service and energy conservation programs. Include details of any plans to use community-based organizations in the administration of universal service and energy conservation programs. Identify the organizational structure which will provide these services, including in-house and contract staff.

Response:

Low Income Usage Reduction Program (LIURP)

LIURP is a comprehensive residential weatherization program for low income customers. Eligibility criteria include high annual gas consumption, difficulty paying the gas bill, income at or below 200% (changed with BCS approval) of the federal poverty level, and residency in the premises for at least one year. Eligible customers receive a heating system safety check, an energy audit, an energy education session, wall and/or attic insulation when appropriate, other energy conservation measures, and a post inspection by a Distribution representative. The program is intended to assist low income customers to reduce energy consumption and lower their energy bills. Consumption and payment behavior are monitored for the twelve months before and after the weatherization measures are installed. LIURP is administered by the Energy Management Department located at 1100 State Street, Erie, Pa.

During 1998, Distribution completed 245 partial and/or full LIURP weatherization jobs at a cost of \$747,711. During the years 1988-1998, Distribution completed 2,124 full weatherization jobs, including 383 furnace replacements. Total LIURP expenditures over that period of time were in excess of \$6,900,000.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

Referrals for LIURP are made through cross reference with both Distribution's LIRA program and its Customer Information System. In addition, referrals are accepted from area human services agencies. The actual weatherization work is handled by area heating contractors and Community Action Agencies², with post inspections performed by Company personnel.

The Company has also recently instituted a pilot program, as part of LIURP, for the repair or replacement of furnaces or water heaters for qualified applicants. This program allows for the repair or replacement of faulty, hazardous or non-operational primary heating/water heating equipment for Distribution customers who meet the following criteria:

1. active account using gas for heat;
2. income at or below 200% of the federal poverty guidelines;
3. owner-occupant living in the household at least one year and with the intent of living there for at least one year after the repair/replacement;
4. tenants are not eligible.

Clients are screened and referred to Distribution by the agencies that administer the Neighbor For Neighbor Heat Fund.

A Distribution conservation representative will visit the home of the client. If only a repair is necessary, a qualified heating contractor will be notified immediately to correct the situation. If the equipment has been "tagged", shut off, or cannot be repaired, the representative will verify the problem and perform an energy audit to properly size the equipment. In many of the cases where an installation is warranted, the customer may also be eligible for LIURP. If this is the case, the equipment is sized as though the home had already been weatherized. After the equipment is installed, the weatherization work is performed. This procedure assures that the new equipment will not be oversized, while addressing the hazardous or no-heat situation immediately.

Under normal circumstances, arrangements are made to repair or replace the equipment within 48 hours of referral notification. In many instances, additional work is required to improve efficiencies or to ensure a safe, proper installation. These may include piping changes, addition or revamping of duct work, a thermostat change, etc. Replacements will not be made where malfunctioning

² Greater Erie Community Action Committee, Erie Redevelopment Authority, Mercer County Community Action Agency, Northern Tier Community Action Corporation, Warren-Forest Counties Economic Opportunity Council.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

was caused by neglect or abuse of equipment, or structural problems (e.g. flooding basement) or when there are other health and safety issues.

Repairs over \$400 and all replacements are post inspected by a Distribution conservation representative.

Priority is determined by a first come, first served and need basis throughout Distribution's Pennsylvania service territory.

Low Income Residential Assistance (LIRA) Program

The LIRA program is a discounted rate for self-identified payment troubled, low income customers. The program was created to assist self-identified low income customers who have been unsuccessful at maintaining an extended payment arrangement and who are in danger of having their gas service terminated. The program is intended to increase the number of payments from self-identified low income customers. Self-identified low income customers are better able to manage their gas utility costs through: 1) lower rates; 2) intensive monitoring by Company representatives; 3) incentives to conserve; and 4) assistance to maximize household resources by linking customers to all available income support programs. LIRA customers who continue to make their monthly reduced-rate payments can avoid the threat of termination and thus meet their energy needs.

This program features three separate rate levels or billing tiers for customers with incomes less than 150% of the federal poverty level. In addition to having a lower rate, the LIRA customer can obtain arrearage forgiveness for unpaid balances owed the Company at the time of acceptance into the program. The LIRA program also provides for usage reduction incentives by which participants can earn conservation credits and thus further reduce their monthly bills.

An energy audit is conducted for each LIRA premise by an Energy Management Representative to provide energy conservation advice. LIRA customers are also screened for LIURP eligibility.

Distribution is under contract with PG&E Energy Services Corporation to provide a three-phase independent program evaluation.

The LIRA program is comprised of two elements for funding purposes, initial and expanded. Funding for each component part is discussed in response to

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

Exhibit 2 Schedule F 1f and in testimony presented by Mr. J. Gruchala. As of September 7, 1999, there were 3,084 customers participating in the LIRA programs.

CARES Program

The *Customer Assistance and Referral Evaluation Services Program* (CARES) was developed to identify and assist low income, fixed income, special needs, and payment troubled customers who are experiencing a short-term legitimate financial hardship in managing their gas accounts. In this program, special payment arrangements are negotiated based on an analysis of the customer's household income and expenses. The goal of CARES is to attempt to provide a temporary minimal arrangement to assist the customer while he or she is financially distressed. Generally, referral and subsequent enrollment are due to a reduction in income resulting from loss of employment, change in wages, or application for disability benefits. Emphasis is placed on improving the customer's ability to manage present bills through customer outreach and referrals.

The CARES Program helps address the health and safety concerns relating to the utility service by providing important benefits. The CARES customer is temporarily protected from termination of service until attempts can be made to secure financial assistance or payment arrangements. Company representatives work with selected payment troubled customers on a personal basis in order to maximize their ability to pay their utility bills. Next, the CARES Program uses a case management approach to help customers. Often, special needs customers specifically benefit from this additional assistance.

CARES participants are defined as those who have experienced a family crisis such as: a loss of income, divorce, or major illness. Often they include older adults or persons who have physical or mental disabilities and have a change in income. Many of these customers are identified through the Gatekeeper program. The CARES representatives can set up payment arrangements and make referrals after assessing the customer's specific needs or they can work directly with agencies to accommodate the situation. These referrals often result in cash assistance, social security benefits, food, shelter or other support services. CARES was established to provide improved access to the various forms of energy and non-energy related community-based social service agencies and programs.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

Enrollment in the CARES Program is limited to customers with special circumstances that are temporary. CARES representatives fully recognize that the temporary nature of these needs in no way diminishes the severity of the problems these households face. Low income payment troubled customers who have long-term financial needs are considered for the Company's Low Income Residential Assistance (LIRA) program.

Low Income Home Energy Assistance Program (LIHEAP)

The Low Income Home Energy Assistance Program (LIHEAP) is a federally funded energy assistance program available to those customers whose income is at or below 110% of the federal poverty level. Customers are notified of the start of the LIHEAP program by way of bill inserts, announcements in local newspapers, and local radio and television stations.

For the twelve months ended September 1998, Distribution received 9,048 LIHEAP payments on behalf of Pennsylvania customers. The 9,048 payments totaled \$2,053,526. Distribution also received an additional 2,011 LIHEAP crisis payments, totaling \$437,759.

Neighbor For Neighbor Heat Fund

Distribution's Neighbor For Neighbor Heat Fund is administered by the Greater Erie Community Action Committee (GECAC). Funds are distributed once a year to eligible applicants. Funds for this program are contributed by Distribution customers and are matched dollar for dollar by the Company up to \$100,000 annually throughout both the New York and Pennsylvania service area. In Fiscal Year 1998, contributions amounted to \$78,208, including Company matching funds. In addition to contributions from customers, various employee fund-raisers were sponsored by Distribution.

A total of 342 applicants received grants from this fund in FY 1998 and the average grant received was \$185. The maximum Neighbor For Neighbor grant was \$300 and could be used to pay overdue energy bills, avoid utility service shut off, buy heating fuel, or repair or replace heating equipment. To qualify, the applicant must live in Distribution's service area (but not necessarily be a Distribution customer), be at least 55 years old, or receive a disability income or be able to demonstrate a certified medical emergency.

Quality Assurance Program

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

Distribution's Quality Assurance (QA) Program consists of a variety of services related to consumer assistance, advocacy, and research. The *Complaint Response and Resolution* section handles consumer and mediation complaints referred to the Company by the Pennsylvania PUC, as well as any non-PUC complaints which may be made directly to the Company. Of the 1,245 PUC complaints handled by the QA department in 1998, 980 (or 79%) were classified as "mediation" complaints, i.e. having to do with payment arrangements on overdue bills.

The *Outreach and Education* section supports the various programs for low income and/or payment troubled customers by providing information to human services agencies, participating in energy related outreach events, and by performing energy related and program related casework. The Outreach section also coordinates the Company's annual *Christmas CARES* food drive and participates in an annual LIHEAP outreach effort. Finally, the Outreach section has conducted consumer focus groups on the topic of natural gas deregulation and competition, and has conducted customer surveys related specifically to the Company's *Energy Select* gas competition pilot program.

The Pennsylvania Division organizational structure supporting the Universal Services Plan is outlined in the *Process Evaluation of the Low Income Residential Assistance Program* - March 1999 Report, page 7.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

1. Set forth and fully describe an initial comprehensive proposal and how an appropriate funding level should be determined to meet the natural gas distribution company's universal service and energy conservation obligations. Identify and explain any proposed changes to any and all current universal service and energy conservation programs. Section 2203(9).
- e. Indicate whether the natural gas distribution company plans to establish a universal service program advisory panel to provide consultation and advice to the utility regarding the scope, design and administration of its universal service programs.

Response:

Distribution does not plan to establish a universal service program advisory panel. This does not imply that the company is uninterested in the opinion, views, or input of its customers. Rather, the company employs other means to obtain this valuable input. For instance, Distribution has conducted customer focus groups and customer surveys on the subject of retail competition and choice. With specific regard to its CAP (LIRA program), the Process Evaluation incorporated a comprehensive participant survey in an effort to "obtain information on the participants' awareness of the program, their reasons for participating, their perceptions of the program's effectiveness, and their overall satisfaction with the services delivered under the program."³

On the topic of scope, design and administration the evaluation found, in part: "It is clear from our findings that the current LIRA program, operated by the Customer Outreach and Education Department of NFG, is a well-designed and delivered program with, in our judgment, an efficient administrative process and dedicated staff. The staff involved in the program's day-to-day operation clearly understand the goals and objectives of the program, have devised an effective delivery mechanism, including a thorough tracking system, and have been on the whole successful in meeting the program's goals. In addition, the program managers have relied on an *adaptive* style that has been responsive to new

³ *Process Evaluation of the Low-Income Residential Assistance Program (LIRA)*
March 23, 1999, p. 34.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

requirements as they have arisen. Without compromising LIRA's overall goals and objectives, administrators have been creative and flexible in devising systems and procedures to cope with new requirements and challenges."⁴

On the topic of participant input and opinion regarding LIRA, the evaluation found, in part:

"As demonstrated by the results of the participant survey, LIRA customers also report a very high level of satisfaction with the program by an overwhelming majority. In fact, nearly every participant interviewed (approximately 98%) reported being *very satisfied* or *somewhat satisfied* with the overall program. The majority of the respondents were also either *somewhat satisfied* (24%) or *very satisfied* (65%) with NFG as a whole. It is clear from these results that participants perceive LIRA as being beneficial to them and delivered in a manner that is consistent with their expectations."⁵

⁴ Ibid. , p.48.

⁵ Ibid.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

1. Set forth and fully describe an initial comprehensive proposal and how an appropriate funding level should be determined to meet the natural gas distribution company's universal service and energy conservation obligations. Identify and explain any proposed changes to any and all current universal service and energy conservation programs. Section 2203(9).
- f. Indicate how the company will fund its universal service and energy conservation activities, how it intends to determine funding levels for each program, whether it commits to fully expend such funds by program or by priority of program, and how it will determine the effectiveness of any program.

Response:

The Company will fund its current universal service and energy conservation programs through the use of base rates, federal grants, voluntary third party contributions and recoveries presently available for such specific programs through January 1, 2001. At this date the proposed Universal Service Charge will take effect. This mechanism is further described in response to Exhibit 2 Schedule F 6 and in testimony presented by Mr. J. Gruchala.

Funding levels for each of the Company's programs are based upon the levels of customer participation and administration necessary to carry out program activities.

The Company will maintain its current universal service and energy conservation programs as described within the instant filing. As is presently the case, program effectiveness will be monitored through existing means as described under Exhibit 2 Schedule F 1e.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

1. Set forth and fully describe an initial comprehensive proposal and how an appropriate funding level should be determined to meet the natural gas distribution company's universal service and energy conservation obligations. Identify and explain any proposed changes to any and all current universal service and energy conservation programs. Section 2203(9).
- g. Indicate whether the natural gas distribution company will allow retail gas customers to contribute via their bill to hardship funds which benefit low-income residential retail gas customers.

Response:

Distribution presently allows retail gas customers to contribute via their bills to the Neighbor For Neighbor hardship fund as described in Exhibit 2 Schedule F 1d. Distribution will continue to allow for these contributions as long as Distribution continues to provide the billing function.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

2. Provide any prior evaluations of any existing universal service and energy conservation activities.

Response:

Attached:

- *Process Evaluation of the Low-Income Residential Assistance Program - March, 1999*
- *National Fuel - 1998 Conservation Report*
- *National Fuel - 1998 CARES Report*
- *Final Evaluation Report - Low-Income Residential Assistance Program - August, 1999*

The evaluations are not included in the electronic file. For copies of the evaluations please call R. M. Friedrich-Alf at (716) 857-7059.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

3. Identify all eligibility criteria for each program component and how the criteria comply with current Commission regulations and policy statements. The Commission has identified the following eligibility criteria for each component of universal service and energy conservation programs from past activities.
 - a. General
 - (i) Universal service and energy conservation programs should be available to a natural gas customer whose household income is at or below 150 percent of federal poverty guidelines and who meet other non-income criteria. The term natural gas customer includes residential customers who heat with natural gas.
 - (ii) Up to twenty percent of the universal service and energy conservation budget may be applied to customers with special needs who are between 150 percent and 200 percent of the federal poverty guidelines. Special needs for purposes of general eligibility is defined as a customer having an arrearage with the covered utility and whose household income is at or below 200 percent of the federal poverty guidelines. Special needs includes, but is not limited to, those customers who have experienced a family crisis such as loss of income, divorce, disability or major illness.
 - b. Additional eligibility criteria. Individual universal service and energy conservation components should include the following additional eligibility criteria
 - (i) *Low-Income Usage Reduction Program (LIURP)* regulations at 52 PA Code, §58.2 define a low income customer as a residential customer with household income at or below 150 percent of the Federal poverty guidelines. Section 58.10 defines priority of program services.
 - (ii) The *Customer Assistance Program (CAP)* Policy Statement at §69.265(4) defines eligibility
 - (iii) Each natural gas distribution company may define eligibility for a *Customer Assistance and Referral Evaluation Services Program*. Generally, a natural gas distribution company may target CARES eligibility to special needs customers. Special needs customers may include those who have experienced a family crisis such as loss of income, divorce, disability, or major illness.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

- (iv) Each natural gas distribution company may define eligibility for a *Hardship Fund*. Most hardship funds typically target hardship funds to customers whose household verified incomes are at or below 150 percent of the poverty level. Administrators of hardship funds, not the natural gas distribution company, shall continue to determine if a customer meets the eligibility criteria

Response:

As discussed in detail in Exhibit 2 Schedule F 1d., each of the components of Distribution's Universal Services Plan is consistent with current Commission policy and regulations with respect to eligibility criteria.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

4. Set forth the design details of how the natural gas distribution company will afford CAP participants access to competitive supply. These designs may include aggregation of low-income or CAP customers or other innovative approaches. Any program design that involves CAP participants acquiring supply in the competitive market should meet the following goals
- (i) effective case management;
 - (ii) avoidance of customer confusion;
 - (iii) effective use of universal service funding; and
 - (iv) maintaining customer affordability

Response:

National Fuel's LIRA program consists of a discounted *sales* rate combined with payment incentives, case management, and conservation education. LIRA participants have the same opportunity as any other residential sales customer to take advantage of the Company's system-wide supplier choice option. However, for most LIRA customers, switching to a third party supplier would not be in their best economic interest since the LIRA sales rates are deeply discounted. In addition, the LIRA program offers the opportunity to earn conservation credits and debt forgiveness. While the Company could, in theory, construct a program which provides a similar discounted *transportation* rate for the delivery of CAP customers' third party supply, such customers would lose the benefit of all the other case management aspects of LIRA. The case management component is designed to improve payment behavior and assist the customer in developing a long-term foundation for the payment of future energy bills.

National Fuel does not oppose the concept of affording low-income customers access to competitive supply. In fact, National Fuel has taken the lead on this issue through the development of its unique Public Assistance Cooperative for Energy (PACE) program which commenced in early 1998 in Erie and Chautauqua counties in New York State. Through the PACE program, National Fuel has worked with the local Departments of Social Service (DSS) to bring the benefits of natural gas aggregation to public assistance clients in its service territory. The program has produced measurable savings for this low-income

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

segment and has generated considerable interest among the New York State Public Service Commission and numerous other utilities in the state.

Public Assistance clients in New York State may have their utility bills “direct vouchered” by the local DSS. Under this billing/payment arrangement, the DSS withholds a portion of the public assistance client’s monthly grant and pays the utility bill directly to the utility company. Through the PACE program, the County purchasing agency arranges for *third-party* gas supply to meet the needs of county direct vouchered clients and pays the utility for transportation service and the third-party supplier for the commodity. The client thus benefits from access to competitive gas supply – access which likely would not otherwise be available.

A program such as the PACE program requires a cooperative effort among jurisdictional state agencies, the utility company, and others. Specifically, a natural gas aggregation program for public assistance recipients in National Fuel’s Pennsylvania service territory will require the support and participation of the Public Utility Commission, the Pennsylvania Department of Public Welfare, and National Fuel at a minimum. National Fuel is prepared to work with these agencies to explore public assistance aggregation if the agencies believe that the concept has merit.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

5. Set forth how the natural gas distribution company will ensure that CAP benefits are portable if a supplier of last resort is different from the natural gas distribution company.

Response:

The primary objective of Distribution's CAP (LIRA program) is to assist customers with improving their payment behavior. This is attempted through a comprehensive approach which includes a three-tiered discounted sales rate, a debt forgiveness incentive, and case management. The discounted sales rate is achieved by removing the cost of service component from the Company's total commodity rate, leaving the customer to pay for gas costs only (plus a small monthly basic service charge.) As such, the LIRA program is not readily portable to a third-party supplier of last resort.

Distribution Gas Distribution Corporation
Pennsylvania Division
Natural Gas Choice and Competition Filing Requirement
Docket R-00994785

F. Universal Service and Energy Conservation Programs

6. Set forth and explain any proposed non-bypassable cost recovery mechanism for recovery of universal service and energy conservation costs. Section 2203(6). State whether the natural gas distribution company intends to defer recovery of any incremental costs pursuant to Section 2211(c).

Response:

Distribution Corporation is proposing in the instant filing a non-bypassable cost recovery mechanism for the recovery of specific universal service and energy conservation costs pursuant to Sections 2203(6) and 2211(c).

This non-bypassable charge will include costs associated with the LIRA Expanded and LIURP programs, which are currently operational under existing, but separate, recovery mechanisms. The charge will be applicable to customers eligible for residential service.

A description of this charge is more fully explained in the testimony of Mr. J. Gruchala. Draft Tariff leaves, as provided, further explains the details with respect to the applicability, calculation and reconciliation of this charge.

Distribution also proposes that any and all other incremental costs resulting from this restructuring initiative including collaboratives, and task forces required by the Act incurred before the effective date of this charge January 1, 2001, be deferred for subsequent inclusion as a cost in the proposed non-bypassable charge.