

**PECO ENERGY COMPANY
STATEMENT NO. 9**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION
v.
PECO ENERGY COMPANY – GAS DIVISION

DOCKET NO. R-2020-3018929

DIRECT TESTIMONY

WITNESS: DOREEN L. MASALTA

SUBJECT: PROPOSED CHANGES TO PECO'S
RESIDENTIAL NATURAL GAS ENERGY
EFFICIENCY AND CONSERVATION
PROGRAMS AND NEIGHBORHOOD GAS
PILOT; SMALL BUSINESS GRANT
PROGRAM

DATED: SEPTEMBER 30, 2020

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1 **DIRECT TESTIMONY**
2 **OF**
3 **DOREEN L. MASALTA**

4 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

5 **1. Q. Please state your name and business address.**

6 A. My name is Doreen L. Masalta. My business address is PECO Energy Company,
7 2301 Market Street, Philadelphia, PA 19103.

8 **2. Q. By whom are you employed and in what capacity?**

9 A. I am employed by PECO as Director of Energy and Marketing Services. In that
10 capacity, I have responsibility for the suite of energy efficiency programs offered by
11 PECO to the Company's residential, commercial and industrial customers. My team
12 provides the marketing and promotions for these programs to encourage all customers
13 to reduce their energy usage and save money on their bills. I am also responsible for
14 maintaining positive relationships with the largest existing customers across the
15 service territory and working to recruit and sustain new business through creative and
16 progressive economic development strategies.

17 **3. Q. Please describe your educational background.**

18 A. I have a Bachelor of Arts in Organizational Dynamics from Immaculata University.

19 **4. Q. Please describe your professional experience.**

20 A. I began my career owning and operating Arbor Tree Specialist, a private tree
21 contracting business out of Pittsburgh, Pennsylvania. I then moved into the utility

1 line clearance industry in 1994 with Asplundh Tree Expert Company where I held
2 various positions including climber, foreperson, estimator and emergent work
3 coordinator. I joined PECO in 1998 as a project lead in the Vegetation Management
4 Department and transitioned to program manager in 2000. Beginning in 2002, I had
5 responsibility for the Vegetation Management Programs at both PECO and one of the
6 Company's utility affiliates, Commonwealth Edison Company. In 2007, I was named
7 Director of PECO's Project, Contract & Vegetation Management Department. In late
8 2009, I became the Director of Operations in the Bucks & Montgomery County
9 Regions and then transitioned in 2013 to the City of Philadelphia and PECO
10 Underground. Finally, in 2019, I was promoted to my current position of Director of
11 Energy and Marketing Services.

12 **5. Q. What is the purpose of your testimony?**

13 A. The purpose of my testimony is to: (1) describe PECO's current natural gas energy
14 efficiency and conservation ("EE&C") programs and the Company's proposals to
15 expand the residential programs; (2) describe PECO's neighborhood gas pilot and the
16 Company's proposal to extend and enhance the pilot; and (3) describe the Company's
17 proposed Small Business Grant Program.

18 **6. Q. Please identify the exhibits you are sponsoring.**

19 A. I am sponsoring PECO Exhibits DLM-1 and DLM-2, both of which relate to the
20 proposed residential EE&C programs. In addition, I will refer to certain tariff
21 changes that are contained in PECO Exhibit JAB-2 (sponsored by Mr. Joseph A.
22 Bisti, PECO Statement No. 7).

1 **II. PECO’S NATURAL GAS EE&C PROGRAMS**

2 **A. Current Programs**

3 **7. Q. Please describe PECO’s current natural gas EE&C programs.**

4 A. PECO currently offers its residential and commercial customers a mix of rebate
5 programs to encourage them to upgrade to high-efficiency furnaces, boilers and water
6 heaters. The programs are implemented pursuant to the settlement approved by the
7 Pennsylvania Public Utility Commission (the “Commission”) in PECO’s last gas base
8 rate case at Docket No. R-2010-2161592 (the “2010 Gas Settlement”). PECO has
9 updated the rebate requirements from time to time to track the increased efficiency
10 standards associated with the ENERGY STAR® energy certification program
11 managed by the United States Department of Energy and the United States
12 Environmental Protection Agency.

13 **8. Q. What programs are currently offered to PECO’s residential customers?**

14 A. PECO has three residential programs targeting furnaces, boilers and water heaters:

15 **The Residential Gas High-Efficiency Furnace Program** offers rebates of \$300 per
16 unit to encourage residential customers to upgrade to furnaces that meet current
17 ENERGY STAR® requirements (95% or higher Annual Fuel Utilization Efficiency
18 (“AFUE”), 2% air leakage or less and an electronically commutated fan motor).

19 **The Residential Gas High-Efficiency Boiler Program** offers rebates of \$300 per
20 unit to encourage residential customers to upgrade to boilers that meet current
21 ENERGY STAR® requirements (90% or higher AFUE).

1 **The Residential Gas High-Efficiency Water Heater Program** offers rebates of \$50
2 per unit to encourage residential customers to upgrade to storage-tank water heaters
3 that meet current ENERGY STAR® requirements. Compliance with ENERGY
4 STAR® requirements can be achieved by meeting Energy Factor (“EF”), Standby
5 Loss, and/or Thermal Efficiency criteria or by meeting Uniform Energy Factor
6 (“UEF”) criteria.

7 **9. Q. What programs are currently offered to PECO’s commercial customers?**

8 A. PECO’s Commercial Gas High-Efficiency Furnace Program offers rebates of \$300
9 per unit to support upgrades by commercial customers to furnaces that meet current
10 ENERGY STAR® requirements. PECO also offers rebates of \$300 per unit to
11 upgrade to boilers that meet current ENERGY STAR® requirements.

12 **10. Q. How has PECO informed its customers about these programs?**

13 A. PECO has built and continues to build customer awareness through a variety of
14 channels. For residential consumers, PECO initially implemented customer outreach
15 through heating, ventilation, and air conditioning (“HVAC”) contractors, media
16 advertisements, bill inserts, and the PECO website. To inform commercial
17 customers, PECO has utilized HVAC contractors, bill inserts, the PECO website and
18 PECO account representatives. More recently, PECO has relied primarily upon the
19 Company’s website and word-of-mouth outreach.

20 **11. Q. Have the residential and commercial programs been successful?**

21 A. Yes, the programs have been successful both in terms of participation and energy

1 savings. Each year since 2009, PECO has issued, on average, 4,300 customer rebates
2 resulting in savings of approximately 45,000 MCF of natural gas. Customer
3 participation levels have declined in recent years relative to the first several years of
4 the residential and commercial programs. PECO attributes the decline to: (1)
5 escalating rebate efficiency requirements under ENERGY STAR® requirements; and
6 (2) a decrease in natural gas supply costs, which could affect the value proposition for
7 customer investment in energy efficient equipment.

8 **12. Q. What costs has the Company incurred to implement the programs?**

9 A. PECO's average annual cost to implement the programs has been approximately \$1.3
10 million since the programs' inception and approximately \$1.1 million over the past
11 three program years. These costs are separate and distinct from those incurred to
12 implement the Company's electric EE&C plan.

13 **13. Q. How are those costs currently recovered?**

14 Pursuant to the 2010 Gas Settlement, PECO recovers, on an ongoing annual basis,
15 \$2.008 million for residential EE&C program costs through gas distribution base
16 rates. If less than \$2.008 million is spent, the difference is credited to the following
17 year's Universal Service Fund Charge ("USFC"). Commercial EE&C program costs
18 are recovered through gas distribution base rates.

1 **B. Proposed Expansion of Residential Programs**

2 **14. Q. Is the Company proposing any changes to its existing natural gas EE&C**
3 **programs?**

4 A. Yes. The Company is proposing to expand program offerings for residential and low-
5 income customers to provide additional opportunities for bill savings. PECO is also
6 seeking funding for a pilot program to support the growth of emerging energy
7 efficient technologies. The Company is not proposing any changes to its commercial
8 programs.

9 **15. Q. What changes is the Company proposing to the residential programs?**

10 A. PECO is proposing to add several new rebate offerings to promote customer
11 installation of energy efficient equipment and smart thermostats as well as to increase
12 the existing rebate level for storage tank water heaters.

13 ***New \$500 ENERGY STAR®+ furnace rebate.*** Customers that install natural gas
14 furnaces that meet current ENERGY STAR® requirements with an AFUE rating of
15 97% or higher would be eligible for a \$500 rebate. This rebate could not be
16 combined with the existing \$300 ENERGY STAR® rebate.

17 ***New rebates for faucet aerators and showerheads.*** Customers that install energy
18 efficient measures for gas water heating, such as faucet aerators and showerheads,
19 would be eligible for discounted pricing.

1 *New \$50 smart thermostat rebate.* Customers that purchase an ENERGY STAR®
2 smart thermostat for a natural gas heated home would be eligible for up to a \$50
3 rebate.

4 *Increased storage tank water heater rebate.* Customers that install ENERGY
5 STAR® natural gas storage tank water heaters would be eligible for a \$100 rebate
6 instead of the current \$50 rebate. The increase is intended to drive higher levels of
7 customer adoption of these high-efficiency water heaters.

8 **16. Q. What EE&C offerings is the Company proposing for low-income customers?**

9 A. PECO is proposing to implement a Safe and Efficient Heating Program to improve
10 the efficiency and safety of natural gas heating in customer homes through inspection,
11 education, maintenance and installation activities. The Program is designed to serve
12 PECO natural gas heating customers who are not currently eligible for a Low Income
13 Usage Reduction Program (“LIURP”) heating audit and meet the following criteria:
14 (1) Customer has household income that is 0-100% of the Federal Poverty Level
15 (“FPL”); (2) Customer has average monthly wintertime usage of less than or equal to
16 149 CCF of natural gas; (3) Customer has not received a LIURP heating audit in the
17 past two years; and (4) Customer owns the premise, unless the customer is 0-50% of
18 FPL, in which case ownership is not required.

19 The Program would include a site visit with an inspection, combustion test,
20 maintenance education, installation of a 10-year carbon monoxide detector, and
21 heating system service with extra filters. System replacement would be available for
22 a limited number of furnaces over 25 years old and boilers over 30 years old.

1 Participation in the Safe and Efficient Heating Program would be limited such that no
2 more than \$1 million is expended annually.

3 **17. Q. Please describe the Company's proposed pilot program.**

4 A. The Company is proposing a pilot program to support demonstration projects and/or
5 provide customer incentives to pursue emerging technologies. Pilot projects would
6 be focused on technologies that provide natural gas savings or improved safety (e.g.,
7 smart carbon monoxide detectors) to residential natural gas customers. The Company
8 would assess customer interest, potential energy savings and potential cost savings to
9 determine pilot projects, which could include, but are not limited to, the deployment
10 of technologies such as gas heat pumps, ozone laundry system, micro-combined heat
11 and power, demand side management, and smart carbon monoxide detectors. PECO
12 is proposing to limit spending to approximately \$125,000 annually to support pilot
13 projects.

14 **18. Q. How will PECO inform customers about the expanded EE&C programs?**

15 A. PECO would implement new education campaigns to raise awareness of the
16 expanded offerings among customers and contractors. The Company may, for
17 example, utilize bill inserts, emails, social media, events, informational sheets, and
18 website updates. PECO may also implement other proactive outreach strategies for
19 targeted customers.

1 19. Q. Does the Company expect that the level of residential customer participation will
 2 increase under the expanded EE&C offerings?

3 A. Yes. PECO estimates that the expanded programs would provide rebates and
 4 appliance upgrade opportunities for up to three times more residential customers than
 5 the existing programs and provide up to ten times the existing level of natural gas
 6 savings. The greater level of participation will be driven by increased customer
 7 awareness of all rebate opportunities due to enhanced marketing, the significant
 8 number of new rebate opportunities, and the implementation of the Safe and Efficient
 9 Heating Program. PECO Exhibit DLM-1 provides a breakdown of the forecasted
 10 participation levels and natural gas savings.

11 20. Q. What is the projected annual cost of the expanded residential EE&C programs?

12 A. The expanded offerings would increase the annual spend to up to \$4.5 million. The
 13 projected annual breakdown of costs by program is provided below :

Expanded Residential Programs	Estimated Funding (Dollars)
Residential Gas High-Efficiency Furnace Rebate	1,507,500
Residential ENERGY STAR®+ Furnace Rebate*	250,000
Residential Gas High-Efficiency Boiler Rebate	150,000
Residential Gas High-Efficiency Water Heater Rebate**	25,000
Residential Gas Heating Smart Thermostat Rebate*	332,500
Residential Gas Water Heating Rebates (aerators and showerheads)*	65,000
Low-Income Safe and Efficient Heating Program (including CSP Admin)*	1,000,000
Residential Emerging Technologies Pilot*	125,000
Education, PECO Admin, CSP Admin	1,045,000
Total	4,500,000

14 * New program

15 ** Increased rebate for existing program

1 PECO Exhibit DLM-2 provides additional information about cost categories for the
2 residential EE&C programs (e.g., incentives, direct installation, and administration).
3 The actual cost of each program will depend upon the level of customer participation.

4 **21. Q. Is the expanded suite of residential EE&C programs cost effective?**

5 A. Yes. Guidehouse (formerly Navigant Consulting, Inc.) performed a total resource
6 cost (“TRC”) analysis of the expanded residential programs and found that program
7 benefits exceed costs with a TRC value of 2.9.

8 **22. Q. How is PECO proposing to recover the costs of the expanded residential EE&C**
9 **programs?**

10 A. PECO is proposing to recover \$4.5 million through residential gas distribution base
11 rates. If less than \$4.5 million is spent, the difference would be credited to the
12 following year’s USFC, as is currently PECO’s practice. PECO Exhibit JAB-2 shows
13 the proposed changes to the USFC to incorporate the \$4.5 million annual spending
14 amount.

15 III. PECO’S NEIGHBORHOOD GAS PILOT

16 **23. Q. Please describe PECO’s Neighborhood Gas Pilot Rider.**

17 A. The Commission approved PECO’s Neighborhood Gas Pilot Rider (“NGPR”) on
18 October 1, 2015 at Docket No. P-2014-2451772. The NGPR was designed to study
19 two coordinated strategies to increase access to natural gas service by: (1) allowing a
20 customer to pay a contribution in aid of construction (“CIAC”) for a main extension
21 through a fixed monthly surcharge, instead of requiring an upfront, lump-sum

1 payment; and (2) calculating the required CIAC by taking into account the revenue
2 (including the fixed monthly CIAC payment) expected from the applicant or
3 applicants requesting service and from prospective customers located along the
4 proposed main extension who are expected to connect to the main in the future. The
5 Company's CIAC calculations assume that, over a 20-year period, 66% of customers
6 along the pilot main extension would take natural gas service. If greater than 66% of
7 prospective customers along a pilot main extension apply for service before the gas
8 service contracts are finalized, PECO's CIAC calculations will include the actual
9 number of customer applicants starting the first year of the project.

10 The NGPR is available to residential customers who will receive natural gas service
11 under Rate GR, including the CAP Rider. Certain cost and customer interest
12 thresholds must be met to qualify for the pilot (e.g., the proposed extension must be
13 greater than \$15,000 and at least 20% of eligible customers must execute contracts for
14 gas service). Customers may pay for the main extension in either one upfront
15 payment or a fixed monthly fee with interest on their PECO bill.

16 The NGPR originally had a three-year term and the Company's investment was
17 limited to no more than: (1) \$10 million over three years; and (2) \$4 million for any
18 particular year. On January 17, 2019, the pilot was extended from three to five years
19 (now ending March 31, 2021) and the overall pilot investment limit was increased
20 from \$10 million to \$25 million. After the pilot has been in place for five years, the
21 Company will determine the actual percentage of potential customers along pilot
22 main extensions that took natural gas service (the "penetration rate"). Future
23 customer payments would be subject to downward adjustment if the actual

1 penetration rate exceeds the initial forecast. There would be no upward adjustment if
2 the actual penetration rate is less than the forecast.

3 **24. Q. How many main extension projects have been funded under the NGPR?**

4 A. Since inception through July 1, 2020, 129 projects encompassing over 1,600 homes
5 have been funded through the NGPR with a total design estimate cost of \$15.5
6 million. Many more potential gas main extension projects were analyzed by the
7 Company, but the project-specific cost for participating customers was often too high
8 to garner sufficient neighborhood interest. The monthly payment option did not ease
9 the cost burden for many customers because the interest component almost doubles
10 the customer's overall cost (relative to a lump sum payment).

11 **25. Q. Please describe the Company's proposal to change the NGPR.**

12 A. The Company is proposing to extend and enhance the NGPR to facilitate access to
13 natural gas service in more communities. The revised NGPR would be implemented
14 for a five-year term beginning July 1, 2021, and would utilize modified CIAC
15 calculations. Under the revised NGPR, the first 40 feet of main extension would be
16 provided at no cost to each prospective residential natural gas service customer within
17 the project, absent any abnormal underground conditions or unusual permitting
18 requirements. For example, a project area with 10 prospective customers would
19 receive 400 feet of main extension at no cost. For any remaining main or service line
20 costs (including incremental costs associated with abnormal conditions or unusual
21 permitting), the Company would determine whether a CIAC is required by assuming
22 that 66% of prospective customers will take service during the first year of the main

1 extension. This differs from the current NGPR assumption that 66% of prospective
2 customers will join over the course of 20 years. Finally, and consistent with the
3 current NGPR, if greater than 66% of prospective customers along a pilot main
4 extension apply for service before the gas service contracts are finalized, PECO's
5 CIAC calculations will include revenues from the actual number of customer
6 applications starting the first year of the project. Customers would continue to have
7 the option to make any required CIAC payment upfront as a lump sum or as a fixed
8 monthly charge on the customer's PECO bill with interest over a 20-year term.

9 The revised NGPR would be applicable to any existing premise that is not located
10 along an existing PECO gas main and where there is an application for natural gas
11 service within the Company's natural gas service territory under Rate Schedule GR,
12 including the CAP Rider. Consistent with the existing pilot, a main extension project
13 must meet the following criteria to qualify for the revised NGPR:

- 14 (1) The project area must contain at least two prospective premises;
- 15 (2) The cost of the project must equal or exceed \$15,000;
- 16 (3) A minimum of twenty percent (20%) of the existing residences located along
17 the proposed main extension must commit to receive natural gas service by
18 signing an agreement prior to the start of construction;
- 19 (4) The Company must have adequate system capacity to serve the customers that
20 are eligible to receive natural gas service from the proposed main extension; and
- 21 (5) The project must be consistent with the overall spending cap for the revised
22 pilot.

23 The limited tariff changes required to implement the revised NGPR are discussed by
24 Mr. Schlesinger (PECO Statement No. 8) and shown in PECO Exhibit JAB-2.

1 **26. Q. What is the projected cost of the five-year revised NGPR?**

2 A. The Company is proposing to invest a maximum of \$37.5 million in capital over the
3 five-year term of the revised NGPR. The projected annual breakdown of costs is
4 detailed below (with half-year amounts for 2021 and 2026):

	2021	2022	2023	2024	2025	2026
Projected Cost of the Revised NGPR	\$3.75M	\$7.5M	\$7.5M	\$7.5M	\$7.5M	\$3.75M

5
6

7 **27. Q. How would the Company transition from the current NGPR to the revised**
8 **NGPR?**

9 A. PECO intends to file for an extension of the current pilot from March 31, 2021 to
10 June 30, 2021 no later than January 31, 2021. Under this extension, for residential
11 neighborhoods participating in the currently-effective NGPR through June 30, 2021,
12 there would be no change to any customer payment requirements (subject to any
13 downward adjustment made after the Company's five-year penetration rate analysis).
14 For potential main extension projects where at least 20% of potential customers have
15 submitted an application for natural gas service, but contracts for the project have not
16 yet been issued, PECO will mail a notification to all potential customers. The
17 notification will explain that the Company has proposed changes to the NGPR that
18 could affect what a prospective customer will pay for a pilot main extension.
19 Prospective customers would be given the option to proceed under the current NGPR
20 terms or to wait and see what, if any, NGPR revisions are approved by the
21 Commission. The Company would provide similar information in response to future

1 customer inquiries about the NGPR while its proposal is pending before the
2 Commission.

3 **IV. SMALL BUSINESS GRANT PROGRAM**

4 **28. Q. Please describe the Company’s proposed Small Business Grant Program.**

5 A. PECO understands that small businesses in the Philadelphia area have been
6 particularly hard hit economically as the result of the COVID-19 pandemic.¹ In order
7 to provide temporary relief, PECO is proposing to implement a Small Business Grant
8 Program. Under the Program, small business customers that have been impacted by
9 the pandemic can receive a one-time grant of \$500 to be applied as a credit on the
10 customer’s existing gas account. The grant could be used to pay off current
11 arrearages that may have accumulated over the past few months or offset future gas
12 bills.

13 **29. Q. What are the eligibility requirements for the Program?**

14 A. To be eligible for a grant, the small business must be an existing PECO gas customer
15 (i.e. have a PECO account in the name of the business), take service under Rate GC,
16 have less than 25 employees, and demonstrate financial hardship due to the COVID-
17 19 pandemic.

¹ For example, according to results of a weekly U.S. Census Bureau Small Business Pulse Survey (8/23-8/29) for the Philadelphia Metropolitan Statistical Area, 49.1% of small businesses believe it will be more than 6 months before their business returns to a normal level of operation compared to a year ago, and 11.5% believe their business will never return to normal.

1 **30. Q. How will the Company educate customers about the Program?**

2 A. PECO will issue a proactive communication to small commercial & industrial
3 customers on Rate GC once the Program is approved and ready to be launched.
4 Program information will also be published on the Company's website. PECO
5 expects to have a 30-day window for accepting grant applications.

6 **31. Q. What is the Program budget?**

7 A. The total budget for the Program is \$500,000, which includes both grants and
8 administrative costs. Approximately 90% of the budget (\$450,000) is expected to be
9 used for grants and the remaining 10% (\$50,000) for administrative costs. The total
10 cost of the Program will be allocated to small commercial & industrial customers on
11 Rate GC.

12 **32. Q. How many small business customers would receive grants under the Program?**

13 A. With an approximate grant budget of \$450,000, PECO could provide \$500 grants to
14 up to 900 qualifying small business customers.

15 **V. CONCLUSION**

16 **33. Q. Does this complete your direct testimony at this time?**

17 A. Yes, it does.