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CURRENT PROJECTS

New Hampshire Electric Assistance Program

(EAP): The first priority of the New Hampshire Electric Assistance Program (EAP) is to increase the affordability of home energy. Affordability should be considered from a social perspective, FSC recently told the Governor's Office of Energy and Community Services (ECS), the administrator of the EAP initiative. Merely because a customer is making payments, FSC said, even timely payments, does not mean that the bill is "affordable."

FSC was hired by ECS to develop evaluation criteria by which to judge the performance of the EAP program. "Affordability" can be measured by reference to the sustainability of low-income home energy bills, FSC said. The EAP goal of increasing affordability can be translated into the following objectives:

1. *To minimize the "before-the-fact" manifestations of non-sustainability:* There are certain before-the-fact actions, taken to improve affordability, which demonstrate non-sustainability. A "before-the-fact" action is

one that a customer takes in anticipation of an unaffordable home energy bill. The action is designed to reduce consumption before it is incurred. Examples might include: (a) shutting off substantial parts of a consumer's home is an indicator that home energy bills are not sustainable; (b) reducing heating/cooling to unhealthy levels, is an indicator that bills are not sustainable; (c) frequently moving in search of more affordable home energy bills is an indicator that bills are not sustainable.

2. *To minimize the contemporaneous manifestations of non-sustainability:* There are actions taken contemporaneously with bill payments that demonstrate that bills are non-sustainable. A "contemporaneous action" is one that a customer takes as an immediate result of paying a home energy bill. Examples might include: (a) trading off expenditures for food or medicine in order to pay home energy bills is an indicator that bills are not sustainable; (b) making partial payments, and delaying payment of the remainder is an indicator that bills are not sustainable; (c) experiencing an absolute shortfall between income and expenses, after effective household budgeting, is an indicator that bills are not sustainable.

3. *To minimize the after-the-fact manifestations of non-sustainability:* Finally, there are after-the-fact actions that are indicators that bills are not-sustainable. An "after-the-fact action" is one that a customer takes subsequent to paying a home energy bill as a result of paying (or not paying) an unaffordable bill. Examples might include: (a) changing residences so as to avoid arrears payments ("running out on a bill") is an indicator that the bill is not sustainable; (b) changing residences in an effort to reduce total home energy payments (even if current on bills) is an indicator that the bill is not sustainable.

Colorado low-income rate affordability pilot:

Public Service Company of Colorado (PSCO) will embark on a three year affordable rate pilot project for 6,000 low-income customers beginning in the Fall of 1998. Designed by FSC for PSCO and the Colorado Energy Assistance Foundation (CEAF), the Residential Essential Services Rate (RESRate) is structured to reduce electric and gas prices to low-income customers while funding the reductions out of the savings generated by the program.

The program is further designed to determine whether any or all of eight identified "segments" of the low-income participant population perform better or worse than participants as a whole. The eight segments include: (1) older persons; (2) single parents with children; (3) high use customers; (4) welfare recipients; (5) working poor; (6) disabled; (7) homeowners; and (8) federal fuel assistance recipients.

Low-income baseload energy efficiency in

Iowa: Roughly 70 low-income Iowa customers will receive comprehensive electric baseload energy efficiency treatment through a program funded by IES Industries (now Alliant energy company) and delivered through the Iowa Community Action Association (ICAA).

Proposed by FSC on behalf of ICAA in the state regulatory proceeding to consider the proposed Alliant merger, the Iowa Baseload Energy Efficiency Program (BEEP) is modelled on the Duquesne Light Company Smart Comfort program (Pennsylvania) and the Public Service Electric and Gas (PSEG) E-Team Partners program (New Jersey).

The Iowa program, directed toward high use, payment-troubled customers is designed to allow customers to reduce total energy bills and to begin to retire their arrears.

RECENT PUBLICATIONS

Health care purchasing cooperatives: In the business of consumer aggregation for the purchase of health care, "bigness" isn't everything, according to a new report by FSC. The purpose of health care aggregation, FSC says in its publication *Consumer Aggregation and Sophisticated Purchasing*, is not only to attain and exercise market power through size, but to become big enough to socialize the cost of sophisticated searches for information on price, quality, and service offerings. Size contributes, also, to lowering per customer costs by spreading fixed administrative and marketing expenses, as well as by spreading the risks of service amongst a bigger group of customers.

If size isn't everything, however, public policy is needed to promote the acquisition and exercise of "sophisticated purchasing." Even "big" groups have been ineffective in controlling health care costs when they lacked the resources and expertise to engage in meaningful negotiations with prospective service providers.

In the health care field, the FSC report notes, purchasing cooperatives performing negotiations for small users did not arise as a market phenomenon. Specific public policy was needed to promote and support them. In recent years, state government initiatives supporting small user health insurance aggregation by providing legal, technical and administrative structures for public purchasing cooperatives have become popular.

The report concludes that similar initiatives should be pursued in a restructured electric industry.

Universal service performance measurement:

As more and more states adopt universal service programs as part of their natural gas, telecommunications, and electric competition orders, a need arises to develop a mechanism to measure the impact of these programs on universal service. Rather than looking simply at how many dollars are spent or at how many

customers are served, this need is to measure program performance.

The purpose of the proposed performance-based measurement system, FSC said, is not to create a benchmark through which a company's performance is measured *vis a vis* the industry generally. Instead, this indicator is to allow a performance review of whether universal service performance for a particular company is improving or degrading *vis a vis* previous performance. Such a review will allow policymakers to determine whether performance is being sustained in a variety of circumstances: *e.g.*, in a post-restructuring environment, in a post-merger environment, and the like. In addition, the performance review will allow policymakers (both inside and outside the company) to determine whether the implementation of a particular universal service program is having a positive impact on the attainment and maintenance of universal service.

The system examines factors including: termination of service; success rate of deferred payment agreements; money at risk to the utility; the number of customers in arrears; and the weighted arrears of customers. Data is collected only for residential customers.

This article, published in the June 15, 1998 issue of *Public Utilities Fortnightly*, traces the development of performance measurement through the federal Government Performance and Results and Act (GPRA), proposes a system of universal service performance measurements, and applies those measurements to Pennsylvania natural gas and electric utilities to illustrate its operation. The full report can be obtained by e-mailing a request to publications@fsconline.com.

An insurance industry role in energy efficiency: Insurance companies can promote energy efficiency in low-income housing while serving their legitimate business needs through implementation of a linked deposit program, according to a new FSC workbook.

Insurance companies have a discrete vested

business interest in promoting energy efficiency, FSC says in its new handbook *Linked Deposits: Financing for Energy Efficiency in Affordable Housing*. This business interest can be used as the basis for a linked deposit proposal in support of energy efficiency in affordable housing. The business interest of insurance companies ranges from the global to the highly specific.

According to FSC, Lawrence Berkeley National Laboratory has found that since energy consumption is the largest contributor to global climate change, "promoting energy efficiency is a particularly promising strategy for the insurance industry" to reduce risk. LBL reports that the insurance industry "is becoming increasingly concerned about financial risks from natural disasters precipitated by global climate change," including windstorms, hailstorms, mudslides, wildfires, and flooding amongst others.

In addition, FSC says, substantial (and increasing) research has found that many energy efficient technologies can also reduce ordinary insured losses involving property, health or liability. According to Berkeley Laboratory, "for the building sector, efficiency measures can reduce losses from fire, ice, wind and water damage; temperature extremes; business interruption; poor indoor air quality; and equipment performance problems."

In particular, (1) energy efficient windows help to retard the spread of fires in buildings; (2) efficient lighting fixtures have been found to eliminate an important fire hazard in the home; (3) duct sealing can help reduce health risks from carbon monoxide backdrafting from gas appliances, as well as health risks associated with molds and poor indoor air quality; (4) duct sealing can prevent the build-up of moisture and improve the long-term structural integrity of a building; (5) air sealing and insulation can help prevent water damage claims attributable to rooftop "ice dams."

According to FSC, insurance companies can help promote energy efficiency through linked deposits. A linked deposit program uses specific deposit arrangements to leverage specific types of

loans or to target lending to a special type of borrower by the institution receiving the deposit.

The policy underpinnings of linked deposit programs involve efforts to direct private sector lending into designated areas. Linked deposit programs use the power inherent in an institution's role as a major bank customer to bring about improved bank performance in advancing objectives such as locally-based economic development, affordable housing, and non-discriminatory lending practices.

The programmatic objectives of a linked deposit program are: (1) to generate additional private capital; (2) to target that capital to desired investments; (3) to make that capital more affordable to the targeted population; and (4) to serve as the catalyst for lending activity.

Both government associations who have examined linked deposit programs --these include the National Association of State Treasurers and the Government Finance Officers Association-- have noted the ease of administration as one of the primary advantages of such programs.

According to the State Treasurers' examination of state linked deposit programs directed toward small business and agriculture, "perhaps the primary attraction of linked deposits for the states is the relative ease with which such a program may be implemented."

According to the GFOA: "Linked deposits are just one of many innovative economic development financing programs, but they are among the easiest to administer. The paperwork is minimal and the program can be managed almost routinely within the treasury's investment function."

Installing energy efficiency in the home is an excellent mechanism to use in improving overall housing affordability. Reducing a \$1500 annual home energy bill by 15 percent saves the consumer \$225. If that consumer earns \$12,000 a year, he or she has just increased their disposable income by almost two percent per month. This increased affordability helps not

only the consumer, but the lender and developer of the affordable housing as well.

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FSC specializes in providing economic, financial and regulatory consulting. The areas in which *FSC* has worked include infrastructure financing, public enterprise planning and development, natural resource economics, community economic development, telecommunications, public sector labor economics, planning and zoning, regulatory economics, energy law and economics, fair housing, and public welfare policy.