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Co-op Patronage Capital Contributions can be Significant Addition to Private Fuel Aid

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Rural Electric Cooperatives (RECs) Can Contribute to Fuel Assistance through Customer Contributions of Patronage Capital Refunds

There can be little question today but that high energy bills are having an alarmingly adverse impact on low-income households in Iowa. According to work by the Iowa Department of Human Rights (DHR), which is the state agency that administers the federal fuel assistance program (LIHEAP) in Iowa, bill nonpayment is perhaps not even the most significant of the adverse impacts of unaffordable home energy bills. A DHR study of Iowa LIHEAP recipients found that:¹

- Over 12 percent of Iowa LIHEAP recipients went without food to pay their home heating bill. Projected to the total participating LIHEAP population, that meant that about 7,600 low-income households (representing 20,000 Iowa citizens) went without food at times as a result of unaffordable home heating bills.
- More than one-in-five went without medical care to pay for heating bills. This included not seeking medical assistance when it was needed, not filling prescriptions for medicine when a doctor had prescribed it, and/or not taking prescription

¹ Joyce Mercier, Cletus Mercier and Susan Collins (June 2000). *Iowa's Cold Winters: LIHEAP Recipient Perspective*, Iowa Department of Human Rights: Des Moines (IA).

medicines in the dosage ordered by the doctor.

Almost 30 percent reported that they did not pay other bills, but did not elaborate as to which bills were not paid. In addition to not paying other bills, many low-income households incurred debt in order to pay both their home heating bills and other basic necessities. They borrowed from friends and/or neighbors, used credit cards to pay for food and other necessities, or did not pay the heating bill.

“Customer Contribution Funds”

The Iowa Utilities Board (IUB) has mandated that all Iowa utilities create a “customer contribution fund” through which utility customers may donate money to support private financial assistance for low-income Iowans.

Unfortunately, these customer contribution funds have been less effective than perhaps they might be. In the most recent year for which the IUB has reported data, for example, Iowa’s Rural Electric Cooperatives (RECs) raised \$29,000 through their customer contribution funds and provided grants to 261 of their roughly 190,000 households statewide.

Rate Refunds and Customer Contributions

The Iowa Community Action Association (ICAA), proposed to work with Iowa’s Rural Electric Cooperatives to expand the RECs’ customer contribution fund financial base. One initiative that ICAA explored involved working with RECs in seeking customer donations from their annual patronage capital credits (or patronage

capital refunds as some would refer to them).

The benefits of tapping into refunded money that is flowing back to residential customers—there is no reason that such an initiative be limited exclusively to residential customers, but that limitation was made simply to ease the process of analysis—can be substantial.

ICAA retained Fisher, Sheehan & Colton, Public Finance and General Economics (FSC) to help estimate the impact of solicitations asking customers to donate some or all of their annual capital credits to their local customer contribution fund. FSC learned that the Colorado Energy Assistance Foundation (now known as Energy Outreach Colorado) generated substantial fuel fund contributions through a solicitation directed toward recapturing customer refunds provided through Public Service Company of Colorado (PSCO). In a notice to customers, PSCO told its customers:

We are very pleased to be returning this money (which includes taxes and interest) and would like to introduce you to an agency which would appreciate a donation of all or a portion of this refund to be used for a very worthy purpose.

The Colorado Energy Assistance Foundation (CEAF) is a non-profit agency helping the Low-Income Energy Assistance Program (LEAP) provide funds to people who need help paying their energy bills. CEAF’s operation costs are paid entirely through corporate donations, so all private donations go directly to the people who need help.

This is a great way to give! Just check the box on the tear-off form below, mail it in the enclosed return envelope so that it reaches us by February 26 and your tax deductible donation will be sent to CEAF. You have the option of donating all or a part of your refund amount.

In addition to the Company's support, CEAF sought to publicize the donation program through local print and broadcast media. Moreover, local churches were asked to solicit donations through their congregation's newsletters or weekly bulletins.

The CEAF program recovered \$1,126,638 of the \$29,657,910 refunds owed to "active" PSCO customers, or about 3.8% of the total refund. While the refund averaged about \$35 per customer, the refund donations received averaged about \$25 per refund. Nearly one-in-ten of the total number of customers eligible to receive refunds donated *something* through the program. According to CEAF, the refunds were considered to be "found money", thus making it easier for them to make the requested donation.

Applying the Lessons of "Found Money" to Patronage Capital Refunds

Implementing an initiative that would ask Co-op members to donate all or part of their annual patronage capital credits to the local customer contribution fund would generate a substantial increase in dollars that could be made available for low-income payment-troubled customers of RECs.

Assuming a customer response rate of three percent (3%), FSC found that, statewide, the

additional statewide resources generated through an outreach effort directed at patronage capital refunds would reach nearly \$200,000.

Through a patronage capital refund campaign, ICAA and the Iowa RECs could assist more than 1,900 low-income payment-troubled customers, an increase of more than 730% over historic levels.

What is "Patronage Capital"?

In its most basic form, "patronage capital" is the profit generated by a Rural Electric Cooperative through the sale of electric service. One Rural Electric Cooperative (REC) describes it as follows:

The return of patronage capital credits sets electric cooperatives apart from other utilities. One of the seven cooperative principles is to operate on a not-for-profit basis by returning any net savings to members on the basis of their patronage.

Revenue generated from members' electric bills and other sources is used to cover the Cooperative's cost of power, construction loans, building new services, maintaining existing lines and other costs associated with distributing power and maintaining services. Any money left over at the end of the year is considered margins. These margins are called patronage capital credits when they are allocated to each member based upon their purchases, or patronage, with the Cooperative.

Another REC describes it simply as the “money left over after [the Co-op’s] bills are paid each year.” These funds “are known as margins (it is the margin between income and expenses). This money is used for capital expenditures, such as building or replacing lines, and is not paid back immediately. This becomes your investment or equity in the company. . .To be a true nonprofit cooperative, we believe this money should be returned to you -- we call it patronage capital. . .” Patronage capital, or “capital credits” are returned periodically to REC member/customers.

The amount of patronage capital allocated to a customer’s account is in proportion to the dollar amount of electricity the customer uses. If, in other words, a customer paid for one percent (1%) of the power the co-op sells in a particular year, that customer would receive a one percent (1%) share of the margins left over at the end of the year.

Outreach Assistance

As part of the patronage capital campaign, ICAA offered RECs assistance with their fuel assistance outreach.

Outreach activities would occur not only through local broadcast media, but also through local, state and regional print media as well.

ICAA, for example, explained to one REC:

Iowa Lakes REC serves a variety of communities that have local daily or weekly newspapers, including Estherville (Daily News), Spencer (Daily Reporter) and Cherokee (Daily Times) all have daily newspapers, while Swea City (Herald Press), Emmetsburg (the

Democrat and the Reporter), Pocahontas (Record Democrat) and Storm Lake (Times).

Energy assistance outreach can not only generate substantive benefits to Iowa Lakes REC, but can represent effective “advertising” expenditures as well. It is possible to place a value on the positive print space that is generated through effective energy assistance outreach. Through a centralized effort, it is reasonable to expect that ICAA could place at least two articles (or “guest perspectives”) each year in local newspapers, one immediately preceding the winter heating season and another during the height of Iowa’s summer heat. A typical 20 inch “guest perspective” in a local newspaper twice a year is roughly equivalent to a \$560 advertisement on behalf of the local co-op.² Reaching ten (10) print media outlets in the Iowa Lakes REC service territory would generate \$5,600 in advertising for the customer contribution fund of the Iowa Lakes REC.

An aggressive energy assistance through print and broadcast outreach is made possible through a centralized staff developing a uniform template into which local individuals and households, as well as local information, can be inserted, ICAA said.

Moreover, efforts in other states that have statewide fuel funds have found that the “branding” that occurs through a centralized

² Advertising rates in the Iowa Lakes REC service territory are assumed to have an average cost of \$14 per column inch for this calculation.

campaign –much in the same way that all RECs benefit from the “Touchstone” brand—assists in the development of individual donor bases within the specific service territories of each participating utility. The statewide branding of the customer contribution fund will, as well, allow outreach work performed in Des Moines to generate positive fundraising effects throughout the state, whether in Sioux City or Burlington.

Reaching areas that are not served, or at the least, not well-served by media is one advantage of operating the local customer contribution fund through ICAA. According to the statewide fuel fund serving Oregon (Oregon HEAT), rural media often had a limited reach and impact during fundraising campaigns. The state-wide organization was not only better positioned to get placement in print and broadcast media, but the statewide name recognition benefited those rural areas that had insufficient local media penetration to create a unique presence and identify for the smaller local funds.

Work by the National Fuel Funds Network (NFFN), the national trade association of fuel funds, on behalf of Pennsylvania American Water Company reported that media work such as that proposed by ICAA could, unto itself, grow contributions by as much as 70%.

Availability of Materials

For more information on soliciting contributions of REC member “patronage capital” refunds (or “capital credits”), send an e-mail to:

roger@fsconline.com

Fisher, Sheehan and Colton, Public Finance and General Economics (FSC) is a research and consulting firm with offices in Belmont (MA), Scappoose (OR), and Iowa City (IA).

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.