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NOTE TO READERS

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WHILE NO ONE "RIGHT" WAY EXISTS TO DELIVER LOW-INCOME AFFORDABILITY ASSISTANCE, SOME RATE AFFORDABILITY PROGRAMS ARE BETTER THAN OTHERS

The analysis presented below summarizes an examination of selected low-income affordability programs currently in operation around the United States as determined by the author to be best-in-class.[1] The purpose of the assessment was three-fold:

- To articulate a set of standards by which to measure the design and operation of a low-income rate affordability program;
- To identify a set of design decisions and implementation practices that favorably distinguish particular programs from their low-income counterparts in other states or service territories; and
- To apply those standards, design decisions, and implementation practices to a set of programs to determine their prevalence among best-in-class programs.

The analysis focused exclusively on rate affordability programs. Initiatives involving usage

[1] The programs included: New Jersey's Universal Service Fund (USF); the Columbia Gas Customer Assistance Program (CAP) (Pennsylvania); the Equitable Gas Company Customer Assistance Program (CAP) (Pennsylvania); the Ohio Percentage of Income Payment Plan (PIPP); the Citizens Gas & Coke Utility/Vectren Energy Delivery Universal Service Program (USP) (Indiana); the National Fuel Gas Distribution Corporation Low-Income Rate Assistance (LIRA) program (Pennsylvania); the Electric Assistance Program (EAP) (New Hampshire); the Electric Universal Service Program (EUSP) (Maryland); and the "social tariff" of Electricité de France (France).

reduction programs, as well as credit and collection practices directed primarily at low-income households,[2] were set aside not because they are unimportant, but rather simply because they were beyond the scope of this review.

BEST-IN-CLASS CRITERIA

Five criteria were applied in the review of whether the selected programs below constituted a set of "best in class" low-income rate affordability programs. Each individual criterion, in turn, has different components to it. The criteria include:

Criterion #1: Is the program reasonably open to all households in need?

A best-in-class program should be reasonably open to all households in need. This criterion is comprised of multiple components. To be reasonably open to all households in need, the program administrator must be able to empirically define those customers in need. While it is possible to do that in the abstract, programs that have an empirical needs assessment examining the specific territory to be served are more favorably viewed.

A program must be open to all households in need based on both the scope of eligibility and on the ease of entry into the program. The scope of eligibility should recognize the breadth of an inability-to-pay problem without imposing artificial eligibility criteria unrelated to the lack of affordability. Ease of entry refers to the actual process of enrolling in the program. Being "eligible" for an affordability program does not deliver benefits to a household if that household cannot actually participate in the program. Enrollment generally consists of applying for, and being found eligible for, the program. Ease of entry finally involves not only *becoming* a program participant, but also *remaining* a program participant over time.

Criterion #2: Does the program recognize the multiple facets of energy affordability "need"?

Low-income home energy affordability consists of more than helping customers to be able to pay their bill for current usage. The unaffordability of home energy does not always manifest itself through an unpaid bill. When home energy burdens –energy burdens are the home energy bill as a percentage of household income--[3] reach a certain point, the household will *either* not be able to pay the bill on a full and timely basis *or* not be able to pay the bill without substantial household hardship. For a low-income program to represent best-in-class, the program should recognize the essential role played by home energy burdens in defining home energy affordability.

Paying the bill for current usage, however, can not be the exclusive focus of home energy affordability. Addressing the affordability of bills for current usage does not provide comprehensive assistance to a household if that household has incurred substantial pre-existing arrears because of a past inability-to-pay. The affordability of home energy consists of the *total* asked-to-pay amount, not simply the bill for current usage. If a customer cannot afford to pay a total home energy bill, it makes no difference whether the bill's unaffordability is caused by the charges for current usage or by the charges for pre-existing arrears. Not only should a program address the affordability of future consumption, but the program must address pre-existing arrears as well.

The affordability of home energy bills generally involves the size of the *annual* home energy bill. Best-in-class programs address the affordability

[2] Such practices might include deferred payment plans, the waiver of late fees or other designated charges, or the use of alternatives to the disconnection of service (e.g., service limiter adapters).

[3] A household with an annual income of $8,000 and a home energy bill of $1,600 will, in other words have a home energy burden of 20% ($1,600 / $8,000 = 0.20).

of annual home energy bills relative to annual household income. The volatility of bills, however, in addition to the magnitude of bills, also contributes to home energy unaffordability. Volatility can occur through seasonal variations in bills. Volatility can also occur through atypical changes in weather and prices. Best-in-class low-income programs help protect customers against unexpected bill volatility associated with changes in price and/or weather.

Finally, while the unaffordability of home energy is generally caused more by the lack of income than by excess energy consumption, investments in the efficient use of energy can be an important tool to use in reducing energy consumption (and thus reducing home energy burdens).

Efficiency investments cannot be the exclusive tool for several reasons. At certain levels of income, nearly *any* energy consumption will impose an unaffordable home energy burden. Even reasonably low consumption can be unaffordable when such bills are combined with extremely limited household incomes to yield high home energy burdens.

Moreover, low-income energy efficiency programs can reach perhaps thousands of households each year in a typical jurisdiction. In contrast, the need for home energy affordability programs typically requires addressing the home energy needs of tens (or even hundreds) of thousands of customers. Investments in energy efficiency address an important affordability need, but cannot be the exclusive affordability tool.

Criterion #3: Does the program efficiently use program funding?

Having created a low-income home energy affordability program, a best-in-class program will adopt specific program elements that promote the efficient use of program funding. An affordability program is not simply a mechanism through which to supplement the resources of a low-income household. It is instead designed to redress an excessive home energy burden.[4]

As a result, a best-in-class program seeks to avoid underpaying or overpaying assistance to program participants. A program underpays if the assistance to the household is insufficient to reduce the home energy burden to an affordable level. A program overpays if the assistance to the household is more than is necessary to reduce the home energy burden to an affordable level. In the first case, the program is not likely to be able to achieve its affordability objectives (e.g., reducing bill nonpayment, reducing the non-energy consequences of paying unaffordable bills). In the second case, the program is devoting more resources than needed to achieving its affordability objectives.

Quite aside from matching program payments to household home energy affordability needs, an efficient use of program funding recognizes that minimum customer payments and maximum benefit payments are appropriate tools. It is not unreasonable for a program to require a program participant to make a minimum payment, so long as such payments do not substantially violate affordability provisions. While minimum monthly customer payments of $30 to $50 may be unreasonable, payments that equal fixed monthly customer charges are not. Conversely, affordability programs need not be open-ended in their payments either. Placing reasonable limits on either consumption (or bills) to be covered by an affordability payment helps prevent a program from paying for wasteful participant consumption.[5]

[4] The excess bill over an affordable home energy burden is generally called the Home Energy Affordability Gap. For a comprehensive review of the Home Energy Affordability Gap in the United States, see generally, the materials at http:\\www.HomeEnergyAffordabilityGap.com.

[5] Such benefit ceilings should have an exception for consumption or bills that are outside of the ability of the participant to control.

Finally, a home energy affordability program should not operate independently of other public and private initiatives that are designed to provide assistance to customers in need. Private utility initiatives, for example, might include levelized budget billing to help address the unaffordability issues associated with seasonal bill volatility. Public initiatives might involve partnerships with government energy assistance programs; they may also involve programs designed to supplement household resources for non-energy expenses. Integrating a home energy affordability program with other public and private initiatives is a best-in-class efficient use of program funds.

Criterion #4: Does the program provide for continuous improvement?

Best-in-class home energy affordability programs engage in a process of continuous self-assessment and improvement. The first step in such an assessment and improvement is the generation of standardized periodic data reporting on program operations and outcomes. Developing standardized data reporting requires the program to identify those data elements that are needed to evaluate the efficacy of program operation. Only then, can the program put into place the processes and technology needed to ensure that this data is generated and retained in accessible form when called upon.

Ad hoc data collection too frequently results in data that has either not been retained, or that has been retained in a format that cannot be reasonably accessed. In such circumstances, evaluations are based on data that is available rather than data that is appropriate to answering the evaluation questions.

Developing and implementing standardized data reporting has implicit within it not only the data generation and capture, but also the planning processes needed to determine what data is necessary and appropriate to use in program evaluation. Standardized data collection, in other words, involves formulating appropriate questions in addition to capturing appropriate pieces of data.

The data must not only be generated, but should be periodically used to evaluate the affordability program in order to determine what, if any, improvements should be implemented. Program evaluations should be scheduled frequently enough to be meaningful, but not so frequently as to be repetitive or to fail to allow the program's outcomes and operations to manifest themselves over time.

Criterion #5: Does the program provide for reasonable cost recovery?

Best-in-class home energy affordability programs should provide for reasonable certainty in the level and timing of program funding. Given the nature of the home energy affordability problem, all customer classes should contribute to the funding of these programs. As one regulatory staff found, "the problem of the inability of some low income customers to pay their entire home energy bills is caused primarily by societal economic conditions that *are unrelated to any one rate class*. The costs for [low-income rate affordability] programs should be viewed as a cost of operating as a public utility for which all ratepayers must share the costs."

Given this cost recovery, a program should be allowed prompt program cost recovery and a reasonably certain year-to-year stream of revenue. Program expenditures that are subject to year-to-year uncertainty, in either their existence or their magnitude, impede efficient program operations. Program planning processes are interrupted, staff retention and training is impeded, and even medium-term capital expenditures (often in information technology hardware, software, or programming time) are avoided. Cost-recovery should be complete and reasonably timely as part of a best-in-class program.

Cost-recovery also should not be limited to specific utility service territories. It is unreasonable to expect that needs and resources will be equal between service territories. Statewide funding

of programs, allowing for a distribution of funds based on need, allow for a greater certainty that funding will be adequate. Indeed, utility service territories with the greatest number of low-income customers, and thus the highest level of need, may be least able to be self-supporting in their offer of rate affordability funding. Funding not tied to specific utility service territories further ensures that program benefits to individual households will be similar, rather than being dependent on the fortuity of where a customer lives.

Finally, cost-recovery should recognize that program expenditures generate cost offsets as well as cost expenditures. To the extent that a home energy affordability program helps reduce payment troubles, a participating utility should realize savings in credit and collection costs and reduced write-offs. To the extent that a home energy affordability program reduces participant arrears, a participating utility will realize reductions in the working capital associated with carrying those arrears. Not all cost-offsets involve cost reductions. Some offsets simply account for program costs that are already incorporated into a utility's cost-of-service and which, accordingly, can not be separately attributed to the low-income rate affordability program.[6] A best-in-class affordability program should account for the cost offsets generated by the program as well as the expenditures made to support the program.

Summary of Best-in-Class Criteria

Best-in-class criteria include:

1. Whether the program is reasonably open to all in need.
    a. Considers empirical needs assessment.
    b. Provides appropriate scope of eligibility.
    c. Allows ease of program entry.
    d. Allows open enrollment.
    e. Provides ease of recertification.
2. Whether the program recognizes and incorporates the multi-faceted nature of "need."
    a. Addresses affordability of bills for current usage.
    b. Addresses resolution of pre-program arrears.
    c. Targets assistance to high usage/high benefit participants.
    d. Allocates risk of bill volatility based on weather and/or prices.
3. Whether the program efficiently uses program funds.
    a. Matches payments to needs.
    b. Imposes maximum benefit/minimum payment.
    c. Integrates with other utility payment processes (e.g., budget billing).
    d. Integrates financially with other energy assistance programs.
    e. Incorporates conservation incentives.
4. Whether the program provides for continuous improvement.
    a. Provides for periodic outcome evaluation relative to objectives.
    b. Provides for standardized data reporting.
5. Whether the program provides for reasonable funding.
    a. Spreads costs over appropriate customer base.
    b. Ensures timely and reasonably certain recovery of program costs.
    c. Accounts for cost offsets generated by program.
    d. Recovers program costs independently of utility service territory limits.

LESSONS LEARNED

[6] Perhaps the best example of this involves labor costs devoted to the rate affordability program which, in the absence of the program, would otherwise be associated with other utility customer service activities.

The application of the best-in-class criteria identified above leads to a series of lessons learned from the best-in-class programs. These lessons include:

- **Lesson #1:** A best-in-class rate affordability program should recognize the essential role played by home energy burdens in defining home energy affordability.

- **Lesson #2:** A best-in-class rate affordability program addresses not simply the affordability of charges for future consumption, but the charges for pre-existing arrears as well.

- **Lesson #3:** A best-in-class rate affordability program must be reasonably open to all households in need, both in terms of the scope of eligibility and in terms of the ease of entry into (and retention in) the program.

- **Lesson #4:** A best-in-class rate affordability program targets its rate affordability assistance to eliminate or minimize the underpayment or overpayment of benefits.

- **Lesson #5:** A best-in-class rate affordability program allows a full and timely recovery of program expenditures, responsive to changes in factors affecting program expenditures in ways outside the ability of a utility to control.

- **Lesson #6:** A best-in-class rate affordability program integrates its low-income initiative into its existing rate structure within the constraints of efficient program spending.

- **Lesson #7:** A best-in-class rate affordability program represents a more cost-effective approach for dealing with issues of customer inability to pay than are traditional collection methods.

- **Lesson #8:** A best-in-class rate affordability program recognizes that low-income home energy affordability consists of more than helping a customer to pay their bill for current usage.

- **Lesson #9:** A best-in-class rate affordability program need not be explicitly authorized by the government's legislative body, so long as the local distribution utility offers the program as a mechanism to improve the effectiveness and/or efficiency of utility operations, rather than exclusively as a social benefit.

- **Lesson #10:** A best-in-class rate affordability program provides for reasonable certainty in both the level and timing of program funding through utility-based funding.

- **Lesson #11:** A best-in-class rate affordability program provides for timely cost recovery through periodic reconcilable rate riders.

- **Lesson #12:** A best-in-class rate affordability program views the program expenditures as a cost of operating as a public utility, the payment of which all ratepayers must share some responsibility.

- **Lesson #13:** A best-in-class rate affordability program, in its program cost recovery, accounts for the benefits generated by the program as well as the expenditures made to support the program.

Summary

For a copy of FSC's complete assessment of best-in-class low-income rate affordability programs, readers may contact FSC directly at:

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Fisher, Sheehan and Colton, Public Finance and General Economics (FSC) provides economic, financial and regulatory consulting. The areas in which *FSC* has worked include energy law and economics, fair housing, affordable housing development, local planning and zoning, energy efficiency planning, community economic development, poverty and telecommunications policy, regulatory economics, and public welfare policy.