

# Best Practices: Low-Income Rate Affordability Programs

Articulating and Applying Rating Criteria

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## GLOSSARY

**Affordable home energy burden:** A home energy bill which, as a percentage of household income, can regularly be paid on a full and timely basis without substantial household hardship. An affordable home energy burden can be calculated for a household's total home energy bill or for specific fuels (e.g., electricity, natural gas). Contrast to unaffordable home energy burden.

**Arrearage forgiveness:** A program or process through which a utility grants credits to retire an unpaid past-due bill owing the company.

**Case management:** A process through which a utility seeks to address not only the utility-related payment problems of a customer, but the holistic socio-economic conditions of the household giving rise to the payment problems.

**Crisis assistance:** A cash payment made to a utility on behalf of a utility customer designed to prevent a scheduled disconnection of service for nonpayment or to resolve amounts outstanding sufficiently to permit a reconnection of service after a disconnection for nonpayment.

**Customer copayment:** A customer payment required to be made in order to trigger a credit by a rate affordability program to be applied against a pre-existing arrears.

**Direct vendor payment:** A cash payment from a rate affordability program paid directly to a utility on a customer's behalf rather than being paid to the customer.

**Empirical evaluation:** A program evaluation based on data collected from a utility or other entity associated with the administration of a low-income rate affordability program rather than being based on generalized knowledge or on data not specific to the program or program service territory.

**Empirical needs assessment:** A needs assessment for a low-income rate affordability program in a specified geographic area that is based on data collected from the area served by the program rather than being based on generalized knowledge or on data not specific to the area.

**External benefit program:** A low-income rate affordability program under which funding is provided to a non-utility entity, whether a state agency or independent third party administrator, for the purpose of distributing benefits to a utility on behalf of a rate affordability program participant.

**External source of funding:** A source of funding generating a stream of revenue intended to be provided to a non-utility entity, whether a state agency or independent third party administrator, for the purpose of distributing benefits to a utility on behalf of a rate affordability program participant.

**Federal Poverty Level:** The dollar amounts, referred to by this phrase, published annually by the U.S. Department of Health and Human Services demarcating the income level, disaggregated by household size, which represents being “poor” in the United States. The Federal Poverty Level is sometimes referred to simply as “Poverty Level.” Separate Poverty Levels are published for the 48 contiguous states (plus the District of Columbia), for Hawaii and for Alaska.

**Fixed credit (fixed credit program):** A utility rate affordability program under which a program participant receives a fixed dollar payment toward his or her monthly bill individually calculated to reduce the bill to an affordable home energy burden assuming the bill remains no higher than historic levels. Under a “fixed credit,” the program participant is responsible for paying the difference between the fixed credit amount and the monthly bill at standard residential rates.

**Fixed monthly system benefits charge:** A funding mechanism imposed on utility ratepayers under which the per-customer payment is the same irrespective of consumption. A fixed monthly system benefits charge may impose a uniform charge on all customers, or may impose a uniform charge on all customers within any given customer class (with charges differing between customer classes).

**Home energy affordability gap:** The dollar difference between actual home energy bills and affordable home energy bills. The Home Energy Affordability Gap can be calculated on a per-household basis or can be aggregated for geographic areas (e.g., states, utility service territories). Historic calculations of Home Energy Affordability Gap data for various jurisdictions in the United States can be found on-line at: [www.HomeEnergyAffordabilityGap.com](http://www.HomeEnergyAffordabilityGap.com).

**Home energy burden:** A household’s home energy bill as a percentage of the household’s gross income. Home energy burdens can be calculated for total home energy bills or for the bills associated with specific fuels (e.g., electricity, natural gas).

**Levelized budget billing:** A utility billing process under which customers are asked to pay a levelized monthly bill calculated by dividing the estimated annual bill by 12. Some utilities offer 11-month levelized budget billing amounts. Some, but not all, utilities subtract federal fuel assistance benefits from the annual bill before calculating the levelized budget-billing amount.

**LIHEAP:** The federal Low-Income Home Energy Assistance Program.

**Low-income Home Energy Assistance Program:** The United States federal home energy assistance program through which federal funding is provided primarily for heating and cooling assistance to be distributed through state program administrators.

**Low-income rate affordability program:** A program or rate directed to low-income households designed to reduce utility bills to an affordable level by supplementing bill

payments or by reducing billed revenue independent of usage. Low-income rate affordability programs are to be distinguished from programs aimed at usage reduction, household budgeting, or credit and collection alternatives not involving reduced bills.

**Means-tested financial assistance program:** A financial assistance program the eligibility for which is determined by a household's income and/or the ratio of the household's income to the Federal Poverty Level.

**Net program donor:** In a state where low-income rate affordability programs are not operated on a utility-specific basis, but rather on a statewide basis, a utility where the aggregate system benefits charge revenue paid by its customers exceeds the aggregate rate affordability assistance received by its customers.

**Net program recipient:** In a state where low-income rate affordability programs are not operated on a utility-specific basis, but rather on a statewide basis, a utility where the aggregate rate affordability assistance received by its customers exceeds the aggregate system benefits charge revenue paid by its customers.

**Overpayment of rate affordability assistance:** A payment of rate affordability assistance to an individual customer which is *more* than the amount needed to reduce the customer's home energy bill to an affordable home energy burden.

**Percentage-of-income based program:** A low-income rate affordability program that is explicitly designed to reduce the utility bills of program participants to a predetermined home energy burden.

**Poverty Level:** The Federal Poverty Level published annually by the U.S. Department of Health and Human Services (HHS).

**Pre-existing arrears:** The arrears of a participant in a low-income rate affordability program incurred prior to the date the participant enrolled in the program.

**Preprogram arrears:** See, pre-existing arrears.

**Program cost offsets:** In reviewing the ratemaking treatment of total expenditures on a low-income rate affordability program, a set of credits to be applied against the total gross expenditures on the program to reflect both: (1) reduced expenditures on the normal operating costs of the utility created by the program; and (2) those expenditures on the program that have already been reflected in the utility's base rates for other purposes.

**Program eligibility:** That set of characteristics that a customer must necessarily exhibit in order to qualify to receive low-income rate affordability assistance should an application for such assistance be made. Eligibility criteria may include income criteria (e.g., household income at or below 150% of Federal Poverty Level) or non-income criteria (e.g., household must be payment-troubled).



**Program entry:** The process by which an eligible household applies for and is enrolled in a low-income rate affordability program.

**Program recertification:** The process by which a participant in a low-income rate affordability program periodically demonstrates to the satisfaction of the program administrator that the household remains eligible to continue participating in the program.

**Public benefit program:** A low-income rate affordability program under which benefits are distributed to a customer through a cash payment to the customer or a cash payment to a utility on the customer's behalf to be reflected as a payment on the customer's bill. A "public benefit" program is to be contrasted to a "rate structure" program.

**Rate structure program:** A low-income rate affordability program under which the customer receives a reduced bill from his or her utility. The utility offering the reduced bill may be compensated for the foregone revenue either by receiving payments from an external fund or by a funding mechanism directed to the utility's own customers. A "rate structure" program is to be contrasted to a "public benefit" program.

**Reconcilable rate rider:** A ratemaking process by which actual expenditures on a low-income rate affordability program are collected through a rate rider independently of a utility's distribution rates. A rate rider is reconcilable when the actual expenditures in an historic period are periodically compared to the revenues generated by the rate rider in that period, with over-collections or under-collections rolled over into the calculation of the appropriate level of the rate rider to be charged in a future period.

**Retail choice:** A program or process through which retail electric and/or natural gas customers are given the choice of selecting the provider of their supply service.

**System Benefits Charge:** A mandatory charge imposed on all or some portion of a utility's customers to fund a low-income rate affordability program. A System Benefits Charge may be imposed on a volumetric or on a fixed monthly charge basis.

**Tariffed discount:** A bill reduction underlying a low-income rate affordability program appearing in the tariffs of a natural gas or electric utility. A tariffed discount may be either: (1) a percentage discount off bills at standard residential rates; or (2) a percentage-of-income based rate. A tariffed discount is to be contrasted to low-income rate affordability assistance received from an external party and reflected as a payment on the customer's bill.

**Tiered rate discount:** A program or billing process under which a participant in a low-income rate affordability program receives a bill for current usage set at a predetermined percentage of the bill at standard residential rates. A rate discount is "tiered" when the predetermined percentage discount varies based on household income or the ratio of household income to the Federal Poverty Level.

**Unaffordable home energy burden:** A home energy bill which, as a percentage of household income, either: (1) can not regularly be paid on a full and timely basis, or (2) can not regularly be paid on a full and timely basis without substantial household hardship.

**Underpayment of rate affordability assistance:** A payment of rate affordability assistance to an individual customer which is *less* than the amount needed to reduce the customer's home energy bill to an affordable home energy burden.

**Volumetric system benefits charge:** A funding mechanism imposed on utility ratepayers under which the per-customer payment varies based on consumption. A volumetric system benefits charge may impose a uniform volumetric charge on all customers, or may impose a uniform charge on all customers within any given customer class (with charges differing between customer classes).

**Weatherization Assistance Program (WAP):** The federal low-income energy efficiency program administered by the U.S. Department of Energy. For purposes here, weatherization assistance provided with funding through "oil overcharge" funds are deemed to be part of WAP.

## EXECUTIVE SUMMARY

The analysis presented in this paper examines selected low-income affordability programs currently in operation around the United States as determined by the author to be best-in-class. Eight United States programs have been reviewed in addition to the low-income initiatives of Electricité de France (EDF) in France.

### ***Necessary Program Components***

Based on this analysis, we conclude that a best-in-class low-income rate affordability program has five necessary components to it. A low-income rate affordability program should:

- Reduce bills for current usage to an affordable percentage of income. The program should recognize the essential role played by home energy burdens in defining home energy affordability.
- Retire pre-existing arrears within a reasonable time period, without raising the overall monthly asked-to-pay amount to an unaffordable level.
- Protect against unexpected monthly bill volatility associated with changes in price and/or weather through facilitating or requiring entry into levelized budget billing plans.
- Promote the efficient use of energy, both through investments in usage reduction measures for the housing unit and the preservation of conservation incentives within the affordable rate structure.<sup>1</sup>
- Preserve funding to address crisis situations caused by the fragility of income experienced by poverty-level households.

### ***Lessons Learned***

In addition to these necessary components, the analysis below supports the following lessons learned from best-in-class programs:

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

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<sup>1</sup> Conservation incentives can be preserved through mechanisms such as offering percentage-of-income based benefits through a fixed credit on the bill or imposing bill or benefit caps.

- **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.

## PART 1. INTRODUCTION

The analysis presented in this paper examines selected low-income affordability programs currently in operation around the United States as determined by the author to be best-in-class. Eight United States programs have been reviewed, in addition to the low-income initiatives of Electricité de France (EDF).<sup>2</sup> The purpose of the assessment is 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 will focus exclusively on rate affordability programs. Initiatives involving usage reduction programs, as well as credit and collection practices directed primarily at low-income households,<sup>3</sup> are set aside not because they are unimportant, but rather simply because they are beyond the scope of this review.

The analysis below examines nine programs:

- 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);

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<sup>2</sup> Because the EDF "social tariff" is different in kind from the United States affordability initiatives, this analysis describes the program, but does not apply the best-in-class criteria to the French program. Such application was found to seek to compare what are fundamentally non-comparable programs.

<sup>3</sup> 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).

- The Electric Assistance Program (EAP) (New Hampshire);
- The Electric Universal Service Program (EUSP) (Maryland); and
- The “social tariff” of Electricité de France (France).

After providing a brief description of the structure of each program and its funding, the discussion below will consider the background of each program. That background will review what events triggered the promulgation of each program and the market environment within which the program now operates. Finally, the discussion below will apply the best-in-class criteria to each program.

Before turning to a discussion of each program, however, the first section below will provide a brief overview of the criteria that will be used to determine best-in-class.

## PART 2.

# DEFINING THE BEST-IN-CLASS CRITERIA FOR RATING LOW-INCOME RATE AFFORDABILITY PROGRAMS

Five criteria have been applied in the review of whether the programs below constitute a set of “best in class” low-income rate affordability programs. Each individual criterion, in turn, has different components to it. The criteria include:

### **2.1 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.

### **2.2 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--<sup>4</sup> 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.

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<sup>4</sup> 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% ( $\$1,600 / \$8,000 = 0.20$ ).



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 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.<sup>5</sup> 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.

### **2.3 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.<sup>6</sup> 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

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<sup>5</sup> Atypical changes in price are often associated with, or even caused by, atypical weather patterns.

<sup>6</sup> 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>.

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.<sup>7</sup>

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;<sup>8</sup> 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.

#### **2.4 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

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<sup>7</sup> Such benefit ceilings should have an exception for consumption or bills that are outside of the ability of the participant to control.

<sup>8</sup> Government “energy assistance” can come through non-energy programs. In the United States, for example, the federal Food Stamp program has an income-offset for “excess shelter burdens.” Shelter costs that exceed 50% of a household’s income are used to reduce household income for purposes of calculating the amount of Food Stamp benefits. The “shelter costs” used include both rent/mortgage payments and all utilities (including telephone). Through this program, high energy bills relative to income may result in increased Food Stamps even if they do not result in increased energy assistance.

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.

## **2.5 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.<sup>9</sup> 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.

## **2.6 Summary**

Best-in-class home energy affordability programs can be demarcated by five general criteria. These criteria define the design of the program, the availability of the program, the operation of the program, and the funding of the program. The criteria, all of which have implementing metrics, include:

- Whether the program is reasonably open to all in need;
- Whether the program recognizes and incorporates the multi-faceted nature of “need”;
- Whether the program efficiently uses program funds;
- Whether the program provides for continuous improvement; and
- Whether the program provides for reasonable funding.

The table below provides a more detailed assessment of what is involved with each of these best-in-class criteria.

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<sup>9</sup> 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.

## **Best-in-Class Criteria for Low-Income Rate Affordability Programs**

### **1 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 Recognizes and incorporates 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 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 Provides mechanism for continuous improvement.**

- a. Provides for periodic outcome evaluation relative to objectives.
- b. Provides for standardized data reporting.

### **5 Provides for reasonable cost recovery.**

- 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.

## **PART 3.**

# **ASSESSING NINE LOW-INCOME RATE AFFORDABILITY PROGRAMS**

In this chapter, the criteria that demarcate best-in-class home energy affordability programs are applied to a series of existing low-income programs across the United States to determine the prevalence of best-in-class practices. In addition, because of the unique relationship which Quebec maintains with France, the low-income initiatives of Electricité de France (EDF), the major French distribution electric utility, are considered as well.

The programs below have been selected to represent a range of best-in-class practices. Not all programs have every best-in-class practice. Indeed, the programs have been selected to provide a range of practices. Conversely, not all programs that exhibit best-in-class practices are included. Appendix A provides information on the applicability of best-in-class criteria to each program. Appendix B rates each program relative to each best-in-class criterion.

### ***3.1 Program #1: The New Jersey Universal Service Fund (USF)***

The New Jersey Universal Service Fund (USF) is a creature of statute. In directing the state to move to electric retail choice, the New Jersey legislature also provided that “there is established in the Board of Public Utilities a non-lapsing fund to be known as the Universal Service Fund.” The legislation provided that the Board of Public Utilities, the state utility regulatory commission, was to determine, amongst other things:

- The level of funding and appropriate administration of the USF;
- The “purposes and programs” to be funded with monies from the fund;
- Which “social programs” should be provided by an electric utility “as part of the provision of its regulated services”;
- How to integrate the other public funds available for low-income energy assistance with the USF.

The New Jersey commission established the Universal Service Fund through a proceeding devoted exclusively to this issue. With the legislation enacted in 1999, the New Jersey commission adopted an “interim” rate affordability program in 2001 and a permanent program in 2003.

### **3.1.1 An Outline of the Program**

In the first “full” year of the permanent program, the New Jersey USF enrolled roughly 133,000 accounts (or about 100,000 households, since some households have separate natural gas and electric accounts). Roughly 22,000 of the initial households were paying more than 20% of their pre-tax income on energy bills, even after federal and state energy assistance was applied against their bills. Another roughly 35,000 families were paying between 15% and 20% of their pre-tax income on energy. According to the Commission, “without USF, it would be very difficult for any of these customers to consistently pay their energy bills.”

#### **3.1.1.1 Program Description**

The purpose of the USF, the commission said, was to “ensure that low-income customers have access to affordable energy.” The commission determined that the program design should:

- Operate on a statewide basis;
- Be available to households with income at or below 175% of the Federal Poverty Level; and
- Be available to customers “with automatic screening for eligibility from means-tested financial assistance programs.”

The New Jersey commission included an arrearage program under which USF participants with arrears greater than \$60 could participate. Under the arrearage program, if a program participant pays his/her monthly utility bill for a 12-month period, then all of his/her remaining arrears will be forgiven at the end of the 12 months. The program does not require a customer to make 12 consecutive on-time payments. Instead, customers will be evaluated at the end of the 12-month period to see if they have made the required payments. Customers that do not receive forgiveness after the 12-month period will have a 3-month grace period to make-up the payments.

#### **3.1.1.2 Relationship to Utility Rate Structure**

The basic affordability benefits provided through the New Jersey USF are delivered through a percentage-of-income-based “fixed credit” program. The fixed credit provided through the New Jersey USF was designed to reduce participant natural gas and electric bills to an affordable percentage of income, deemed to be 6%. For customers taking natural gas and electric service from different utilities, no more than 3% of income would be devoted to each service respectively. In contrast, in 2006, the electric burden for households with statewide average incomes in New Jersey was 1.8%; the natural gas burden for New Jersey residents with average incomes was 1.2%.

The New Jersey USF is a blended rate structure/public benefit program. The blended nature of the program appears most clearly in the delivery of benefits. On the one hand, The affordability benefits provided by New Jersey's USF do not appear as payments from an external third party. Rather, they are bill credits provided by the utility. In addition, each customer's benefit is individually determined based on the actual bills that the customer is expected to pay to the utility. In this respect, the USF has attributes of a rate structure program.

The dollars provided in the form fixed credits, however, are not simply collected from each utility's own ratepayers. Rather, the statewide USF compensates each utility for the affordability benefits credited against bills. Depending on the amount of credits provided as affordability assistance, a utility can be either a net donor or a net recipient from the statewide Fund. Through this process, it is the utility that receives money from the statewide Fund, not the client. Moreover, each utility's contributions to the USF fund are tied to statewide funding needs, not to the specific needs of the utility's own customers. In this sense, the program adopts characteristics of an external benefit program. As can be seen, the USF has characteristics of both a rate structure program and an external benefit program.

### **3.1.1.3 Program Funding**

The New Jersey commission approved the collection of universal service costs through a system benefits charge (SBC). This SBC is structured as a uniform volumetric charge imposed on the electric and natural gas bills of all customers. Since the SBC is set prospectively each year, *actual* program expenditures may be greater than or less than the program revenues generated by the SBC. Should this occur, the difference between actual SBC costs and SBC recoveries is subject to deferral. The SBC is then reset annually to amortize the over- or under-recovered balances in addition to providing for current program cost recovery in the immediately ensuing year.

Finally, the commission decided that it would "segregate the USF revenues and benefits for gas and electric customers such that the total USF recoveries from gas customers will be used to provide payment assistance to gas customers and the total revenue recoveries from electric customers will be used to provide payment assistance to electric customers." This matching of revenues and benefits, however, does not occur on a utility-by-utility basis. Some companies may be net donors while other utilities may be net recipients.

### **3.1.1.4 Program Background**

The New Jersey legislature enacted the USF when it approved the state's move to retail choice for the electric industry. The state-funded Division of Ratepayer Advocate (DRA) had long-advocated for a low-income rate affordability program. The DRA urged the state's utility commission to incorporate a low-income program into each retail choice plan filed with the commission pursuant to the 1999 statute. Rather than implementing a rate affordability program on a utility-specific basis, the commission initiated a single



proceeding through which to establish a uniform statewide program. Since 1999, a competitive retail market has not developed for residential customers in New Jersey.

### **3.1.2 Application of Best Practices Criteria**

The New Jersey USF is one of the best designed and implemented utility rate affordability programs in the United States. The program is rated “exceptional” in ten of the 20 best-in-class criteria.

#### **3.1.2.1 Criterion #1: Is the program reasonably open to all households in need.**

The New Jersey program is reasonably open to all households in need. The program defines income eligibility at 175% of the Federal Poverty Level.<sup>10</sup> The program commits to serving all customers in need with no ceiling on participation rates. To the extent that participation increases, program funding will be expanded to meet that need.

The New Jersey USF leads the nation in its ease of program entry. Program enrollment may occur year-round. Households enrolling in the federal fuel assistance program (called the Low-Income Home Energy Assistance Program, LIHEAP) are automatically enrolled in the USF as well. While program participants must recertify their income annually, they may do so either in-person through local community-based organizations or by mail through the state USF administrator.

#### **3.1.2.2 Criterion #2: Does the program recognize the multiple facets of energy affordability “need.”**

The New Jersey program recognizes the multiple facets of energy affordability “need.” The program defines an affordable home energy bill as one that does not exceed 6% of household income for both natural gas and electricity (or for all electric homes). In those circumstances where customers use natural gas for heating, the affordable home energy burden is allocated equally between natural gas (3%) and electricity (3%).

The USF provides the opportunity for program participants to earn the forgiveness of preprogram arrears over a reasonable time period. The program provides a reasonable opportunity for participants to “cure” missed payments in order to earn their forgiveness.

One potential problem with the New Jersey USF is that it does not yet allocate federal fuel assistance benefits over multiple months. Instead, federal fuel assistance is applied against a customer account in a lump sum, thus creating bill credits on participant bills in

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<sup>10</sup> The generally accepted measure of “being poor” in the United States today indexes a household’s income to the “Federal Poverty Level” published each year by the U.S. Department of Health and Human Services (HHS). The Poverty Level looks at income in relation to household size. This measure recognizes that a three-person household with an annual income of \$6,000 is, in fact, “poorer” than a two-person household with an annual income of \$6,000. The federal government establishes a uniform “Poverty Level” for the 48 contiguous states. A household’s “level of Poverty” refers to the ratio of that household’s income to the Federal Poverty Level. For example, the year 2005 Poverty Level for a two-person household was \$12,830. A two-person household with an income of \$6,415 would thus be living at 50% of Poverty.

the early months of each year of program participation. The result of these bill credits is that program participants frequently skip bill payments in months where they receive a credit on their bill. Without these regular monthly payments, subsequent high winter bills sometimes prove to be unaffordable in the month received.<sup>11</sup> If customer payments had been made each month, if fuel assistance had been allocated across multiple months, or if bills had been rendered on an equal monthly budget billing basis, these months of unaffordable bills might have been avoided.

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

The New Jersey USF efficiently uses program funding. The individual calculation of home energy burdens ensures that program funds do not underpay or overpay benefits relative to need. While no minimum customer payment has been established, the program does establish a maximum benefit amount.<sup>12</sup>

The USF integration with the federal fuel assistance program provides substantial program efficiencies. Affordable energy burdens are determined after subtracting federal fuel assistance dollars to avoid the overpayment of benefits.<sup>13</sup> The automatic enrollment of program participants through the federal fuel assistance program also provides an efficiency of operation.

The program finally provides significant conservation incentives. USF benefits are distributed as a fixed-credit on the bills of program participants. To the extent that program participants can reduce their bills through energy efficiency efforts, the participants are allowed to retain the bill savings, thus creating a conservation incentive. The “down” side of this approach is that by making the level of the credit fixed, any fluctuation in bills yields a fluctuation in customer payment responsibility. Under this approach, it is the customers that bear the complete risk of bill volatility attributable to extreme weather or price fluctuations. If winter heating bills increase because of extreme cold, for example, program participants must pay the increase.

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

The USF provides for a reasonable, though not exceptional, process of continuous improvement. Program objectives have been articulated by statute and commission decision. Based on those stated objectives, the New Jersey utility regulatory commission requires regulated state utilities to provide limited standardized data reporting on program outcomes. While the commission has contracted for a program evaluation—this evaluation was completed in 2007—a regular evaluation of the USF, at prescribed time intervals, has not been incorporated into the program design.

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<sup>11</sup> Monthly bills, in other words, can be unaffordable even if the annual home energy bill is not.

<sup>12</sup> Whether the ceiling on benefits is *appropriately* set is not considered at this juncture.

<sup>13</sup> For example, if a household’s income is \$10,000, a home energy bill of \$2,000 would result in a home energy burden of 20%. If the household receives \$500 in federal fuel assistance, however, the home energy burden is considered to be only 15%  $((\$2,000 - \$500) / \$10,000 = 0.15)$ .

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

New Jersey provides for stable, adequate funding of its USF program. Program budgets are estimated on an annual basis, with a proceeding before the state utility regulatory commission to determine the volumetric charge needed to generate those program dollars. Cost recovery is obtained from all customer classes, both to recognize the benefits provided to the utility as a whole along with its various customer classes, and to recognize the societal commitment to support universal service for essential home energy needs. The New Jersey USF, however, does not account for the cost savings generated by the program. To this extent, participating utilities receive windfall benefits on an inter-rate-case basis.<sup>14</sup>

## **3.2 Program #2: The Columbia Gas Customer Assistance Program (CAP) (Pennsylvania)**

The Columbia Gas Company (Pennsylvania) Customer Assistance Program (CAP) is one of the oldest low-income rate affordability programs in Pennsylvania. Begun as a pilot program in 1990, the program was seen by the Pennsylvania utility regulatory commission as a way “to address realistically these customers’ problems and to stop repeating a wasteful cycle of consecutive, unrealistic payment agreements that cannot be kept, despite the best of intentions, followed by service termination, then restoration, and then more unrealistic agreements. . .”

### **3.2.1 An Outline of the Program**

The Columbia Gas CAP is one of the biggest natural gas home energy affordability programs in the state of Pennsylvania.<sup>15</sup> As of December 31, 2006, Columbia Gas served more than 24,000 low-income customers, roughly 40% of its confirmed low-income eligible population.<sup>16</sup> In 2006, Columbia Gas provided bill credits averaging \$965 to participating customers. Customers with preprogram arrears received an additional \$72 in arrearage credits each year.

#### **3.2.1.1 Program Description**

The Columbia Gas CAP is a percentage of income-based program. Bill credits are provided to CAP participants so as to reduce annual natural gas bills to an affordable percentage of income. In fact, Columbia Gas offers three primary payment options to participating customers. Customers may pay the lowest of a bill based on a percentage of income payment (either 7% or 9% depending on income) or a flat rate of 50% of their

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<sup>14</sup> At the time of a base rate case, the determination of revenue requirement will capture any cost reductions generated by a universal service program and pass those cost reductions on to ratepayers on a going forward basis through a reduced revenue deficiency.

<sup>15</sup> Two natural gas utilities serving the Philadelphia metropolitan area have more participants, PECO and the Philadelphia Gas Works.

<sup>16</sup> The participation rate would be much lower if the rate reflected the estimated number of eligible customers rather than the number of confirmed low-income customers.

budget billing amount.<sup>17</sup> In contrast, in 2006, the electric burden for Pennsylvania households with statewide average income was 2.0%. The natural gas burden for households with statewide average income was 1.5%.

In every case, a customer must pay at least the average of the bill payment made in the year before entering the program. The program is available to payment-troubled heating customers in the Columbia Gas service territory.

Columbia Gas provides for the forgiveness of preprogram arrears over a maximum of a six year period. Customers are required to make a \$5 monthly copayment and to maintain complete and timely payments in order to earn their arrearage forgiveness credits.

### **3.2.1.2 Relationship to Utility Rate Structure**

The Columbia Gas CAP is an integral part of the company's rate structure for low-income customers. The program is operated under guidelines promulgated by the Pennsylvania utility regulatory commission. Bills are reduced; the asked-to-pay amounts are lower. The program does not simply provide a standard bill with external assistance payments credited against the bill.

In mandating low-income programs, the Pennsylvania commission found that "an appropriately designed and well-implemented CAP, as an integrated part of a company's rate structure, is in the public interest." The Commission stated that its "guidelines prescribe a model CAP that is designed to be a more cost-effective approach for dealing with issues of customer inability to pay than are traditional collection methods."

### **3.2.1.3 Program Funding**

The Pennsylvania legislature included in its statute providing for the move of Pennsylvania to retail choice a requirement that the utility regulatory commission "ensure that universal service and energy conservation policies, activities and services are appropriately funded and available in each electric distribution territory." Moreover, the statute defined the low-income programs operated by the state's electric utilities (known as Customer Assistance Programs, or "CAPs") as a component of universal service. Similar language was also subsequently included in the natural gas retail choice statute.

While the statute provided that each CAP be "appropriately funded" and "available" in each utility service territory, the statute further mandated that sponsoring utilities would be allowed to "fully recover" their universal service costs, including CAP costs. The Commission has since held that this statutory language allows each utility to recover its CAP costs through a reconcilable rate rider should it choose to do so.

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<sup>17</sup> A "Senior CAP" provides that seniors (over age 60) with no history of bill payment troubles may pay 75% of the budget amount.

### **3.2.1.4 Program Background**

The Pennsylvania Office of Consumer Advocate (OCA) proposed that Columbia Gas Company adopt an “Energy Assurance Program” (EAP) as part of Columbia’s 1990 rate case. According to the OCA, the issue was one of collection efficiency. “The issue in this proceeding,” OCA said, “is not to devise a social response to the broad inability to pay problems of low-income households. The issue is one of what is the most cost-effective means of collection. It is the same issue as whether a utility should pursue new central station capacity, cogeneration or conservation. . . The requirement that utilities provide least-cost service should govern utility collection activities too.” The OCA continued: “the issue is this: how can Columbia Gas most effectively and least expensively collect as much as possible from households [that] cannot afford to pay?”

Columbia Gas did not completely oppose the OCA’s proposal given its experience with the Ohio Percentage of Income Payment Plan (PIPP). “Columbia reiterated its policy position that it is not philosophically opposed to percentage of income payment plans, provided that the plan fully recognizes the costs of such a program and provides for the timely and full recovery of such costs.”

The Pennsylvania utility regulatory commission ordered the company to implement a 1,000 participant pilot project. The Company expanded its program after the Pennsylvania legislature mandated continuation of such programs as part of the move to retail choice. After filing its initial comprehensive universal service plan in 1999, and obtaining temporary funding for that plan, the company received a permanent funding stream in 2003 through its distribution charge. The funding is adjusted on a quarterly basis as part of the quarterly gas cost adjustment proceeding.

The Columbia Gas CAP operates in a retail choice environment. Indeed, Columbia Gas sought to aggregate the participants in its CAP in Pennsylvania. Columbia Gas began its aggregation program in 1997. The CAP customers were grouped together for the purpose of obtaining lower cost gas from a marketer/supplier. Columbia served as the appointed purchasing agent for CAP customers. The aggregation program, however, no longer generates savings from CAP participants. Columbia Gas reported in 2004 that no marketer was participating in its CAP aggregation, a situation that continues through today. Marketers could not procure gas at prices below that which Columbia Gas could for its residential ratepayers generally.

### **3.2.2 Application of Best Practices Criteria**

The Columbia Gas CAP is one of Pennsylvania’s best-designed, and most mature, low-income rate affordability programs. The program is rated “exceptional” in nine of the 20 best-in-class criteria.

### **3.2.2.1 Criterion #1: Is the program reasonably open to all households in need.**

The Columbia Gas CAP is reasonably open to all households in need. Columbia Gas defines income eligibility as 150% of the Federal Poverty Level. The Company limits its program participation to payment-troubled customers. Payment-troubled refers to any customer that has failed a payment plan within the prior 12 months or has been identified as payment-troubled through cross-referral or credit scoring. Any customer that self-declares himself or herself as a payment-troubled customer in a contact with the company's call center is referred to dedicated universal service staff to determine the customer's eligibility for CAP. CAP enrollment is open year-round. The company places no ceiling on CAP enrollment.

Columbia Gas requires customers to recertify their program eligibility annually. However, customers participating in the federal fuel assistance program or in some other Columbia Gas universal service program are exempted from recertification. In addition, elderly and disabled program participants are allowed biannual recertification.

### **3.2.2.2 Criterion #2: Does the program recognize the multiple facets of energy affordability "need."**

The Columbia Gas CAP provides exceptional rate affordability assistance. The program limits customer bill payments for current usage to the *lesser* of either 7% or 9% of income (based on Poverty Level) or a designated percentage of the customer's budget bill for current usage. A customer, however, must pay at least the average of what he or she has paid in the past twelve months immediately preceding program enrollment (for customers on the Columbia Gas system for at least six months).

The company provides arrearage forgiveness for customers who maintain current bill payments and make a \$5 copayment toward their preprogram arrears. One weakness in the Columbia Gas program, however, is its requirement that preprogram arrearage forgiveness be spread over a six year period, longer than that which is reasonable.

High usage customers are given priority for treatment by the company's low-income usage reduction program. Customers are enrolled in all available weatherization programs at the same time they are enrolled in the CAP.

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

Columbia Gas appropriately matches benefit payments to customer needs. Individual determinations are made of the most affordable bill payment option available to the customer, so long as the customer pays at least as much as he or she paid in the year prior to entering the program. While matching benefit payments to customer-specific needs, the company does impose both minimum customer payment requirements (\$25) and benefit ceilings.

The Columbia Gas CAP is not integrated administratively with the federal fuel assistance program. No automatic referral or enrollment exists between the fuel assistance program and CAP. Program participants are required to apply for federal fuel assistance, however, with fuel assistance dollars being used to reduce the shortfall between the customer's affordable payment and the bill for current usage at standard residential rates.

The company seeks to integrate its CAP with other aspects of its residential customer service operations. Customers who self-declare themselves as payment-troubled are automatically referred to a dedicated, specially-trained universal service staff to determine eligibility for the CAP. The company waives deposits for its CAP participants. It does not, however, require mandatory leveled budget billing.

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

Columbia Gas complies with state-imposed requirements for standardized data reporting to the Pennsylvania state utility regulatory commission. That commission further provides, by regulation, for periodic program evaluations performed by an independent third party. In addition to these mandatory program evaluations, Columbia Gas performs independent empirical evaluations of particular program operations in support of decisionmaking regarding proposed program modifications. In 2003, for example, Columbia Gas undertook a study of why customers did not complete the enrollment process to enter CAP. In 2005, the company undertook a study of the barriers to program recertification and why customers failed to remain on CAP.

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

The Columbia Gas CAP provides for reasonable certainty in funding and a timely cost recovery for the company. The company's cost recovery mechanism is adjusted quarterly to take into account program participation rates and the amount of bill credits provided. Over- and under-collections are rolled forward into the next quarter's cost recovery mechanism. One weakness in the Columbia Gas program involves the decision to recover CAP costs only from the residential customer class. In addition, Columbia Gas does not take cost offsets into account in establishing its cost recovery.

### ***3.3 Program #3: The Equitable Gas Company Customer Assistance Program (CAP) (Pennsylvania)***

The Equitable Gas Company Customer Assistance Program (CAP)<sup>18</sup> is a utility-funded rate affordability program based on energy burdens. First adopted as a pilot program in 1990, according to the company, the program was:

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<sup>18</sup> Prior to 2007, the Equitable Gas CAP had been referred to as the Energy Assistance Program (EAP). The company decided to change the name to CAP, both to standardize it with similar rate affordability programs offered by other Pennsylvania utilities and to avoid customer confusion with the federal fuel assistance program (LIHEAP).

Needed to (1) remove these customers from the discouraging and expensive collection cycle, (2) motivate them to increase conservation, (3) increase their annual participation in available funding assistance programs, and (4) encourage consistent bill-payment efforts.

The Equitable program is available to customers with income at or below 150% of the Federal Poverty Level.

### **3.3.1 An Outline of the Program**

The Equitable Gas CAP is an explicit percentage of income program, with customer payments tied directly to an affordable percentage of income. It is a utility rate program, with revenues foregone from the utility discount collected from the company's own ratepayers as part of the rate structure. By 2007, the Equitable Gas program was projected to serve more than 22,000 low-income customers.

#### **3.3.1.1 Program Description**

The Equitable Gas CAP is an explicit percentage of income program. The program ties its affordable percentages to three levels of the Federal Poverty Level. Affordable home energy burdens range from 7% (0 – 50% of Poverty Level), to 8% (51 – 100% of Poverty Level), to 10% (101 – 150% of Poverty Level). In contrast, in 2006, the electric burden for Pennsylvania households with statewide average income was 2.0%. The natural gas burden for households with statewide average income was 1.5%.

The affordability provisions of the Equitable Gas CAP differ from most percentage of income programs. Under the Equitable Gas program, a customer must make his or her affordable monthly payment in order to earn a credit equal to the difference between the affordable bill and the bill for that month's consumption at standard residential rates. If a customer does not make a complete and timely payment, he or she forfeits the affordability credit. A missed monthly payment cannot be "cured" such that the credit can be earned after-the-fact.

Equitable Gas offers arrearage forgiveness as part of its CAP program as well. The Equitable Gas arrearage forgiveness is based on matching credits. The first five dollars (\$5) of each customer payment is deemed to be a payment toward arrears. For each arrearage payment made in a timely fashion, the company matches the customer payment with an arrearage credit of \$15 (a match of \$3 credit for each \$1 of customer payment). If a customer payment is not made, or not timely paid, no matching credit is provided.

#### **3.3.1.2 Relationship to Utility Rate Structure**

The Equitable Gas CAP is an integrated part of the company's rate structure. The company provides discounts to its low-income customers. In approving the Equitable Gas initiative in 1990, the Pennsylvania state regulatory commission noted that "we are aware that this Commission's main function in ratemaking is to assure that every rate



made, demanded, or received by any public utility shall be just and reasonable.” The commission said that “the relevant question. . .is whether or not the funding of Equitable’s proposed [energy affordability] program results in the ‘unreasonable’ rate discrimination prohibited by the Public Utility Code.” In holding that it did not, the Pennsylvania commission held that “a mere difference in rates does not violate” Pennsylvania statutes. The commission then found, on a number of bases, that “the record in this proceeding clearly demonstrates that any ‘preference’ that EAP would yield to program participants is reasonable, and further, the creation of EAP is in the best interest of all Equitable ratepayers, not just program participants.”

### **3.3.1.3 Program Funding**

As with funding for other low-income affordability programs offered by Pennsylvania utilities, funding of the Equitable Gas CAP is provided through the company’s ratepayers. The natural gas utility collects its non-administrative costs through a reconcilable rate rider imposed only on residential customers. The rider is reconciled on an annual basis based on the actual number of CAP participants and the actual credits provided to those participants. Those credits may vary based on weather, prices, the mix of program participants between income tiers—a higher mix of lower income customers would result in lower percentage of income payments and thus higher amounts of affordability credits—and the number of program participants actually earning their credits by making full and timely payments.

### **3.3.1.4 Program Background**

As with the National Fuel Gas and Columbia Gas affordability programs discussed elsewhere, the Equitable Gas Company CAP was offered to the Pennsylvania utility regulatory commission as a cost-effective way for the company to respond to low-income nonpayment. The Pennsylvania legislature, in adopting its natural gas retail choice statute, provided that universal service programs offered by natural gas utilities were to be continued in a retail choice environment. Universal service programs, defined to include each company’s CAP, were to be appropriately funded and “available” in each company’s service territory.

Retail choice has not developed a competitive residential natural gas market in Pennsylvania. Spiraling natural gas prices since 2005, however, have dramatically increased the need for the affordability programs such as that offered by Equitable Gas.

## **3.3.2 Application of Best Practices Criteria**

The Equitable Gas CAP is one of Pennsylvania’s best-designed low-income rate affordability programs. The program is rated “exceptional” in eleven (11) of the 20 best-in-class criteria.

### **3.3.2.1 Criterion #1: Is the program reasonably open to all households in need.**

The Equitable Gas CAP program is reasonably open to all households in need. Income eligibility is set at 150% of the Federal Poverty Level. In addition to being income-eligible, customers must also be payment-troubled, as is the case with other Pennsylvania low-income rate affordability programs. The company prepares a periodic needs assessment that empirically determines the number of estimated low-income customers in its service territory and reports the number of “confirmed” low-income customers (along with the proportion of those confirmed low-income customers that are payment-troubled).

The company has committed to serving all customers in need. Program enrollment is open year-round. There is no ceiling on program participation.

The company makes exceptional efforts to ease program entry. Payment-troubled customers may enter the Equitable Gas CAP through either customer service representatives at the company or through designated community-based organizations. Rather than requiring substantial income documentation, however, Equitable Gas accepts self-certification of income. The company then randomly audits 10% of its CAP participant base each year to determine whether the self-certification process results in significant eligibility errors. To date, it has not.

In addition to easing entry into the program, Equitable Gas seeks to facilitate customers remaining in the program as well. Equitable Gas requires recertification once every three years to remain in the program. Recipients of federal fuel assistance, however, are automatically re-enrolled. Moreover, the company engages in a data exchange with electric companies serving a coterminous service area and automatically re-enrolls program participants who are also participating in the corresponding electric company CAP.

### **3.3.2.2 Criterion #2: Does the program recognize the multiple facets of energy affordability “need.”**

The Equitable Gas CAP recognizes the multiple facets of energy affordability need. The company provides a three-tier home energy burden by which to measure energy affordability for bills for current usage. The energy burdens deemed to be affordable range from 7% for households at 0 – 50% of the Federal Poverty Level, to 8% for households with income between 51% and 100%, to 10% for households with income at 100% to 150% of Poverty. Given the income-based asked-to-pay amount, the risk of bill volatility attributable to prices or extreme weather rests with the program and not with the low-income program participant.

In addition to the program component directed to current bills, Equitable Gas incorporates arrearage forgiveness into its CAP. The company deems the first \$5 of each customer payment to be a payment toward preprogram arrears. For each such payment made, Equitable provides a matching \$15 arrearage credit (a matching grant of 3-for1).

Equitable Gas finally recognizes the need for energy efficiency investments as a way to address low-income affordability problems. High usage program participants are not only referred to the company's usage-reduction program, but are also given priority for the receipt of usage reduction services. Bill reductions achieved through usage reduction not only protect program participants against bill volatility and high bill burdens (in the absence of the CAP), but also protect the CAP against bill volatility and high program expenditures so long as the customer remains on CAP.

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

The Equitable Gas CAP has implemented a variety of program measures that promote the efficient use of program funds. Bill assistance benefits are individually determined on a household-specific basis. Payments are, as a result, neither too little nor too much, to reduce the household's bill for current usage to an affordable burden. Despite this individual affordability determination, the company requires program participants to take some minimum bill payment responsibility by making at least a minimum payment each month. The company also imposes a benefit cap on program benefits to ensure that the program does not pay for wasteful usage. Exceptions to the benefit cap can be granted to the extent that current usage is beyond the ability of the program participant to control.

Unlike most bill affordability programs, the Equitable Gas CAP requires program participants to make their monthly bill payment on a complete and timely basis in order to earn their monthly bill credit. If payments are *not* made, the bill credit for current usage is charged back to the customer account. Moreover, a customer does not earn a matching arrearage credit unless the current bill has been paid in a full and timely fashion. Past missed payments must be resolved before future bills credits may be earned. Customers are required to participate in the company's levelized budget billing plan to participate in the CAP.

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

Equitable Gas complies with data reporting and evaluation requirements imposed by the Pennsylvania utility regulatory commission. Standardized data reporting on program operations and outcomes are provided on a monthly basis.<sup>19</sup> Regular periodic evaluations are prepared by an independent third party evaluator and submitted to both the company and the regulatory commission. The evaluation considers uniform evaluation questions prescribed by the commission for all Pennsylvania utilities and offers program design and operations recommendations based on the empirical analysis. A new "universal service" plan is submitted to the commission on a triennial basis and considered for implementation after opportunity for hearing.

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<sup>19</sup> The actual submission of data may be done less frequently than monthly. Each submission, however, is of monthly data.

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

Equitable Gas has reasonable certainty in its budgeting and cost recovery process. The company recovers its CAP costs through a rate rider that is reconciled on an annual basis. Reconciliation of actual against budgeted expenditures may find differences based on the number of program participants, the price of natural gas, the mix of participants by income, and other relevant factors.

The Equitable Gas cost recovery is problematic in that it assigns cost recovery only to the residential class. Cost recovery also does not account for cost savings to the company (e.g., reductions in working capital, bad debt, credit and collection expenditures) generated by the operation of the program.

## **3.4 Program #4: The Ohio Percentage of Income Payment Plan (PIPP)**

The Ohio Percentage of Income Payment Plan (PIPP) is a creation of the Ohio state utility regulatory commission. The Ohio PIPP is an affordability program designed to limit low-income home energy bills to an affordable home energy burden. First approved in 1983, the Ohio PIPP had grown to serve nearly 210,000 households in 2006.

### **3.4.1 An Outline of the Program**

The Ohio Percentage of Income Payment Plan (PIPP) is an explicit percentage of income program. Customer bills are tied directly to a percentage of income deemed to be affordable by the state.

#### **3.4.1.1 Program Description**

Under the Ohio PIPP, customer bills are limited to a prescribed percentage of income. For customers taking service from two separate utilities, the customer is required to pay 10% of his or her income toward his or her primary heating source (generally natural gas), with 5% of income being paid to the electric company. Customers with income at or below 50% of the Federal Poverty Level are required to pay only 3% of income for non-heating electric service. In contrast, in 2006, the electric burden for Ohio households with the statewide average income was 2.0%; the natural gas burden for households at the statewide average income was also 2.0%.

The Ohio PIPP also offers arrearage forgiveness to low-income customers. The most common *electric* arrearage forgiveness program involves the Ohio PIPP's "graduate" program. Under this program, in the first year after a customer leaves PIPP, the customer's bills are still limited to the percentage of income payment. In the second year, the customer's bills are set equal to the residential bill at standard residential rates. In the third year, and years thereafter, a customer is required to make a monthly arrears payment of an amount not to exceed \$20. The utility matches these payments on a dollar-for-dollar basis.

Ohio's natural gas utilities offer a somewhat more generous arrearage forgiveness program. Preprogram arrears are forgiven over a three-year period in the Ohio natural gas PIPP. In order to gain arrearage forgiveness, a PIPP participant must make his or her payments on a full and timely basis. When such payments are made, one-third (33%) of the preprogram arrears are forgiven at the end of the first year of participation, one-half (50%) of the arrears are forgiven at the end of the second year, and the remaining 17% of arrears is forgiven at the end of the third year.

#### **3.4.1.2 Relationship to Utility Rate Structure**

The Ohio PIPP is part of the rate structure of each natural gas and electric utility. The revenue shortfall between bills at standard residential rates and the percentage of income payment requirement are tracked individually by each utility and recovered from that utility's ratepayers through either a rate rider or a system benefits charge.

Despite these linkages to the utility rate structure, the Ohio PIPP is not *completely* a rate structure program. The program administrator pays the bills of program participants. Customer payments, federal fuel assistance dollars, and monies generated by supportive rate riders and system benefits charges are aggregated by the administrator as the pool from which to generate payments. To the extent that the Ohio PIPP does not simply reflect a discount off of the asked-to-pay amount of program participants, it can be viewed as an external program rather than as a low-income component to the rate structure.

#### **3.4.1.3 Program Funding**

Under Ohio's statutory framework, the universal service fund is to include revenues from a variety of sources, dedicated exclusively to the statutorily-created universal service fund. The statute provides that Ohio's electric universal service programs are to be funded through a "universal service rider." In addition to the revenues generated by this rider, the fund is to include all revenues previously collected through previously-established riders approved by the state utility regulatory commission, revenues from federal energy assistance programs, and general fund appropriations. The rider, which is placed under the jurisdiction of the utility regulatory commission, is to be sufficient to "provide adequate funding for these programs." The programs to be funded include rate assistance through PIPP, weatherization, and consumer education.

The Ohio universal service rate rider is applied to all "retail electric distribution service rates," so long as the regulation commission action in setting or adjusting the rider does not "shift among the customer classes of electric distribution utilities the costs of funding low-income customer assistance programs."

Natural gas cost recovery is somewhat different. Cost recovery for the difference between low-income percentage of income payments and low-income bills at standard residential rates revenue is through a PIPP Rider which is embedded in distribution rates.

Utilities file to increase or decrease the rider based on their judgment regarding the need to adjust revenues to cover the shortfall in customer payments.

#### **3.4.1.4 Program Background**

The Public Utility Commission of Ohio (PUCO) created the Ohio PIPP in 1983 in response to an emergency arising from the inability of low-income Ohio residents to maintain their home energy service. The commission found that the disconnection of utility service for nonpayment by those who were financially unable to pay constituted an “emergency” as described by Ohio statute.

The Ohio PIPP, as initially conceived by the state regulatory commission, did not represent a discounted rate for low-income customers. Instead, the PIPP was designed to enable low-income customers to retain their utility service by entering into an agreement pursuant to which the customer would make a utility bill payment equal to a prescribed percentage of income. Customers entering into such agreements, however, would not be relieved of paying bills in excess of the percentage of income. Rather, customers would continue to be liable for those arrears. Those accrued arrears would be subject to repayment by the customers when such customers left the PIPP.

The regulatory proceeding that gave rise to Ohio’s PIPP in 1983 did not exclusively concern establishment of the PIPP. Instead, the proceeding considered a broad range of issues relating to payment plans, deposits, and voluntary fuel check-offs as a means to generate energy assistance funding. The proceeding was initiated by Columbia Gas, who filed a proposal to allow for the reconnection of service to customers upon payment by those disconnected customers of one-half of the outstanding arrears and entry into an agreement through which the remaining half would be paid in equal monthly installments.

Early in the proceeding, the state regulatory commission declared that an “emergency” existed because of the number of residential gas and/or electric customers who were unable to obtain service for the winter heating season because of the disconnection for nonpayment attributable to economic recession, increases in the cost of gas and electric service, and a decrease in the level of governmental assistance. Based on that emergency, the commission prohibited the disconnection of gas or electric service during the ensuing winter heating season and ordered the reconnection of service by customers who paid either one-third of their outstanding balance or \$200, whichever was less.

Consideration of the PIPP arose out of *utility* objections to the commission’s “failure to take into consideration a customer’s ability to pay before imposing the moratorium. . .” At least in partial response to that objection, the commission docketed an investigation into “long-term solutions to the problems arising from the winter emergency situations.” In responding to that search for long-term solutions, the commission found that the proposed PIPP “will do the most to assist those in need to maintain utility service while protecting the companies’ remaining ratepayers.”

Since the inception of Ohio's PIPP, the state has sought to promote the development of a competitive retail choice environment for both natural gas and electric service. While some municipal aggregation has occurred for electric service, efforts to bring competition to the provision of PIPP services have failed.

The State of Ohio sought to reduce the unaffordability of natural gas prices for participants in Ohio's Percentage of Income Payment Program (PIPP). In Ohio's PIPP, the home energy bills of income-qualified households are capped at a designated percentage of income. Bills in excess of the designated percentage of income are paid through dollars generated by a System Benefits Charge. The State of Ohio first sought to reduce the cost of the Ohio PIPP program through the aggregation of natural gas PIPP customers. For natural gas PIPP customers, the aggregation initiative resulted in minimal dollar savings. The failure to generate savings occurred because PIPP customers were a tough pool to serve. Efforts to aggregate natural gas PIPP customers were eventually abandoned.

The effort to aggregate Ohio's electric PIPP customers never succeeded either. Ohio's state LIHEAP office (the Ohio Department of Development or "ODOD") issued a Request for Proposals (RFP) in 2002 seeking a supplier to aggregate electric PIPP customers, either statewide or in selected regions or utility territories. ODOD received three bids, but did not find savings significant enough to accept any of them. The RFP was re-issued in 2004 but was subsequently withdrawn. Aggregation would have required expensive and time-consuming technology and accounting changes for all parties. At the time, ODOD concluded that any savings were likely to be minimal, and the change possibly could result in higher rather than lower PIPP costs.

### **3.4.2 Application of Best Practices Criteria**

The Ohio Percentage of Income Payment Plan (PIPP) is one of nation's oldest low-income rate affordability programs. The program is rated "exceptional" in five of the 20 best-in-class criteria.

#### **3.4.2.1 Criterion #1: Is the program reasonably open to all households in need.**

The Ohio Percentage of Income Payment Plan (PIPP) is reasonably open to all households in need. The Ohio PIPP is open to households that have income at or below 150% of the Federal Poverty Level. The program imposes no non-income-based eligibility criteria. The program commits to serve all customers in need. The program accepts enrollment year-round. No ceiling is placed on program enrollment.

The Ohio PIPP allows reasonable, though not exceptional, access to the affordability program. Customers must make in-person application (and provide income verification) through local community-based organizations. The application for PIPP is a uniform application allowing customers to apply for all available fuel assistance (including energy efficiency programs) at the same time.

The Ohio PIPP requires program participants to recertify annually. The program seeks to ease the process of recertification. In this process, the program first matches PIPP participants to participants in the federal fuel assistance program to determine if the information required for recertification has already been obtained. If not, recertification can be achieved through the mail; in-person income verification is not required.

#### **3.4.2.2 Criterion #2: Does the program recognize the multiple facets of energy affordability “need.”**

The Ohio PIPP recognizes the full range of energy affordability needs. While Ohio’s percentage of income payments (10% for primary heating; 5% for electricity) are considered somewhat too high to be truly affordable, the PIPP nonetheless limits bill payments for program participants to a percentage of income. Households with income at or below 50% of the Federal Poverty Level need pay only 3% of their income toward their electric bill. The Ohio PIPP, as the very first model of utility rates taking account of household energy burdens, does not otherwise tier its percentage of income payments.

The Ohio PIPP provides for limited arrearage forgiveness. Ohio operates separate programs for natural gas and electric arrears. Through each program, program participants may earn the forgiveness of preprogram arrears. The natural gas forgiveness program, which provides complete forgiveness over a three-year period, offers more reasonable relief than the electric matching grant program. The electric program provides matching grants for every dollar paid toward arrears by persons who have “graduated” from the underlying PIPP due to an increase in income. This matching grant program spreads the retirement of arrears over an indefinite period of time after the household leaves PIPP.

Finally, the Ohio PIPP recognizes the need for energy efficiency services. High usage PIPP participants are referred to public and private usage reduction programs and given priority for the receipt of usage reduction services.

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

The Ohio PIPP provides for an efficient use of program funds. Bill affordability benefits are determined on a customer-specific basis, with required bill payments tied to a prescribed percentage of income. No under- or over-payments are made. The Ohio PIPP imposes no minimum customer payment requirement, nor does it impose a ceiling on program benefits.

While the Ohio PIPP does integrate with the federal fuel assistance program, the program does not well integrate with company billing processes. PIPP participants are not required, for example, to participate in budget billing as part of the PIPP program.



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

The Ohio PIPP has been subjected to an empirical outcome evaluation. Such evaluations, however, are ad hoc and not prescribed by law or program regulation. As with other state programs, the Ohio PIPP is subject to a periodic sunset review. During this review process, potential program modifications and improvements are examined through a multi-stakeholder work group. Proposed regulations governing program operations are further subject to a public hearing process. Despite the lack of periodic outcome evaluations, the Ohio state utility regulatory commission has adopted extensive standardized data reporting by Ohio utilities on their PIPP participants.

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

The Ohio PIPP provides for reasonable certainty in budgeting and cost recovery. While the specific processes differ, PIPP costs for both the natural gas and electric programs are recovered through a volumetric charge imposed on all customer classes. The volumetric charge may be changed by the Ohio regulatory commission upon application of either the state's utilities or the Ohio Department of Development (ODOD), the PIPP program administrator.

### ***3.5 Program #5: The Citizens Gas & Coke Utility/Vectren Energy Delivery Universal Service Programs (USP) (Indiana)***

The Universal Service Programs (USPs) operated by Citizens Gas & Coke Utility (CGCU) and by Vectren Energy Delivery (collectively referred to as Indiana Utilities) are grounded in the flexible regulation provided by statute to the Indiana Utility Regulatory Commission (IURC). The flexible regulation allowed under this Indiana statute permits the Indiana commission to set aside traditional regulation for all or part of a utility's rates or services should the commission find it is in the public interest to do so.

Arguing that the Indiana utility low-income programs met that public interest standard, Carey Lykins, president and Chief Executive Office of CGCU, noted that the objectives of the USP were three-fold: (1) to protect the health and safety of the utilities' low-income customers by helping them maintain affordable natural gas service; (2) to help low-income customers conserve energy and reduce residential heating bills; and (3) to significantly lower the number of payment defaults by low-income customers, thereby benefiting all of the utility's customers.

#### **3.5.1 An Outline of the Program**

The Indiana Universal Service Programs represent tiered rate discount programs directed toward participants in the federal Low-Income Home Energy Assistance Program (LIHEAP, known simply as EAP in Indiana). The Citizens Gas program served roughly 17,300 low-income customers during the 2006/2007 winter heating season, while the Vectren USP served 23,800 low-income customers.

### **3.5.1.1 Program Description**

The Citizens/Vectren program design offers income-eligible customers a discount off of the natural gas bill they would otherwise receive from the respective companies. Both companies divide their low-income customer population into three tiers. Customers are placed in each tier based on the “State Benefit Matrix” used in the distribution of federal fuel assistance through the federal Low-Income Home Energy Assistance Program (LIHEAP). The discount tiers are designed to approximate a 4% affordable home energy burden under average incomes and usage levels. In contrast, in 2006, the electric burden for Indiana households with the statewide average income was 2.2%; the natural gas burden for households at the statewide average income was 1.7%.

Low-income customers must participate in LIHEAP in order to receive the utility discounts in Indiana. Enrollment in LIHEAP automatically places the customer into the respective utility’s discount program.

### **3.5.1.2 Relationship to Utility Rate Structure**

The Indiana USPs are an integral component of the utility rate structures. Citizens provides a discount of either 9%, 18% or 24%; Vectren provides a discount of 15%, 26% or 32% applied to their residential gas service bill. When combined with LIHEAP benefits, the combined benefit of the discount tiers and LIHEAP will represent an approximate reduction of 27%, 40% or 50% in the overall heating costs to CGCU’s eligible low-income customers. Vectren’s low-income customers will experience a reduction of approximately 35%, 50% or 60%. The highest benefits go to the households with the lowest income. Vectren’s discounts are somewhat higher since the company has somewhat higher rates than Citizens Gas.

### **3.5.1.3 Program Funding**

Program funding for both Indiana low-income tiered rate discount programs is provided through a rate rider imposed on all customer classes. The volumetric charges, while imposed on all customer classes, are not uniform between classes. The per therm residential charge for CGCU, for example, is \$0.0048, while the commercial charge is \$0.0026 per therm. The corresponding payments by the large volume customers will be \$0.0005, but will not exceed \$200 per year. Vectren, too, collects its universal service rider volumetrically from all customer classes, but using non-uniform per therm charges.

Both utilities use an annual true-up based on the balance of its USP funds, the projected average residential bill for the upcoming 12-month period, and the projected enrollment/eligibility requirements of the State’s fuel assistance program. While neither utility has needed to place a ceiling on program participation, both utilities place a cap on the maximum per therm charge to be imposed. CGCU, for example, agreed that in no event would the per therm charge exceed \$0.0068 for residential customers or \$0.0036 for commercial customers.

### **3.5.1.4 Program Background**

The Indiana programs were adopted at the behest of the respective utilities. Unlike many other states, the Indiana programs did not arise out of a move to a retail choice environment. According to Niel Ellerbrook, Chairman of the Board and Chief Executive Officer of Vectren Utility Holdings, the parent company of Vectren Energy Delivery, the primary driving factor behind his utility's low-income proposal involved "the dramatic rise in natural gas prices and the resulting impact on customers and the economy." According to Ellerbrook, "the impact of significantly higher energy costs creates especially acute problems for low-income customers." The company CEO justified the program by stating:

Given the magnitude of the situation, no single solution has been found to ensure that low income customers can obtain and retain utility service that is necessary to sustain life. For Vectren, the Universal Service Fund has been part of the package of efforts designed to help those customers in need of assistance. There is a cost to serve customers who need heat but are unable to pay the full cost of service for any number of reasons, including job loss, cost of medicine, or the number of their dependents. Like other real costs to provide service to our entire customer base, this cost must be recognized and addressed in a constructive manner to assure that people have service.

Ellerbrook concluded by noting that the universal service program "provides an answer in conjunction with LIHEAP and other available programs, by identifying customers with true need, determining in a consistent and accepted manner how much they can pay for service, and providing them with more affordable bills that better match their ability to pay."

As can be seen, rather than being driven by a move to retail choice, the Indiana natural gas low-income programs have been driven by spiraling natural gas commodity prices and the adverse impacts those prices have had not only on low-income customers but also, by extension, on the utilities serving those low-income customers (and their remaining ratepayers).

### **3.5.2 Application of Best Practices Criteria**

The Universal Service Program (USP) operated by Citizens Gas & Coke Utility and by Vectren Energy Delivery is one of the nation's best examples of a "tiered rate discount" program that ties tariffed discounts for low-income customers to a determination of affordable home natural gas bills. The Indiana USPs are rated "exceptional" in five of the 20 best-in-class criteria.

### **3.5.2.1 Criterion #1: Is the program reasonably open to all households in need.**

The Indiana Universal Service Programs (USPs) are reasonably open to households in need. The USPs are directly tied into the administration of the federal fuel assistance program (LIHEAP). A CGCU/Vectren customer enrolling in the fuel assistance program is automatically enrolled into the USPs as well. No separate application forms, and no additional customer steps, are required for the utility program.

The fuel assistance program eligibility has been set at 150% of the Federal Poverty Level in Indiana. While the Indiana utilities contracted for an empirical needs assessment in 2007, such needs assessments are not periodically prepared either by the companies or by the state LIHEAP office.

The integration of the company programs with the federal fuel assistance program has both advantages and disadvantages. While tying USP enrollment to enrollment in the federal fuel assistance program eases program entry, it also limits the time period of enrollment to those months in which the federal program takes applications. Since the federal program is primarily a heating program, USP enrollment does not occur year-round. Moreover, no special efforts have been made to ease the retention of program participants from year-to-year. USP participation from year-to-year is simply tied to LIHEAP participation.

### **3.5.2.2 Criterion #2: Does the program recognize the multiple facets of energy affordability “need.”**

The Indiana USPs do not fully reflect the multiple aspects of home energy affordability needs. On the one hand, the Indiana programs are designed to promote the affordability of bills for current usage. Citizens Gas and Vectren provide a tiered rate discount, with three tiers tied primarily to the ratio of participant income to the Federal Poverty Level. The discount tiers have been calculated so that, when coupled with the receipt of federal fuel assistance benefits, net participant natural gas bills (i.e., bills minus benefits) are reduced to an affordable percentage of income. The Indiana programs do not address the affordability of electricity.

The Indiana USPs do not offer an arrearage forgiveness program component. While making bills for current usage more affordable has been found to also help reduce pre-existing arrears, and to help prevent the incursion of new arrears, there is no specific initiative to help retire pre-existing arrears so as to bring total bill payments down to an affordable level.

Having said that, unlike most affordability programs, the Indiana utilities do offer substantial crisis assistance as part of their affordability programs. This crisis assistance leverages private funding with utility-sponsored contributions to provide a supplemental source of funding to customers facing the potential loss of service due to outstanding arrears. As with most such crisis assistance programs, the need for arrearage assistance considerably outstrips the amount of funding provided.

Both Indiana utilities fund low-income energy efficiency initiatives. While high-use USP program participants are referred to these usage reduction programs, however, high-use program participants receive no priority over other households that are income-qualified for the low-income efficiency programs.

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

The Indiana utilities provide for reasonable efficiencies in the use of program funding. The integration of the utility program intake and eligibility determinations with the administrative activities of the federal fuel assistance program allows for nearly 100% of utility funding to be distributed as benefits (rather than being devoted to administrative purposes).

The tiered discounts provided by the companies have also been designed to reduce the over- and under-payment of benefits often associated with discount programs. Typically, discounts provide identical benefits to customers with identical usage, irrespective of the income or home energy burden experienced by that customer. As a result, some customers receive more benefits than needed to reduce their bills to an affordable burden while others receive fewer benefits than are needed. This problem of over- and under-payments is exacerbated when the level of discount is not calculated to result in any preset determination of affordability. In contrast, the Indiana tiered rate discounts are explicitly calculated to result, when combined with federal fuel assistance benefits, in an affordable burden. So long as program participants are at average income and consumption level within their tier, benefits will match needs. To the extent that participants diverge from average consumption and income levels, the program will somewhat over- or under-pay benefits relative to need.

The Indiana utilities are seeking to increase the integration of their tiered discount programs with existing bill payment processes. Both companies have announced that they will target the promotion of levelized budget billing to program participants. Neither company, however, will require budget billing as a condition of program participation.

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

The Indiana utilities engage in a process of continuous improvement based on an empirical review of program operations and outcomes. The companies have agreed to report a set of standardized monthly metrics documenting program impacts on arrears, payments, bills, and various collection activities. The programs have operated with annual evaluations through their first three years of operation. In 2007, the programs were extended for four years with ongoing review and data reporting continuing throughout that time period. A comprehensive program evaluation will occur at the end of three years and serve as the basis for any consideration of additional extensions of the programs.

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

The Indiana utilities provide for reasonable certainty in program budgeting and cost recovery. Program costs are recovered from all customer classes through a volumetric rate rider. The rate rider is reconciled annually to prevent under- or over-recovery of program costs by the utilities. Customers are protected from excess program costs by a maximum cap placed on the volumetric charge. The 2007 universal service charge, however, is considerably below the allowed cap. In addition to the overall cap on the per unit of energy rate rider charge, a separate cap has been placed on the total payment obligation which can be imposed on any individual industrial customer. This separate cap is to prevent a disproportionate imposition of universal service charges on large user customers.

### ***3.6 Program #6: The National Fuel Gas Distribution Corporation's Low-Income Rate Assistance (LIRA) Program (Pennsylvania)***

The Low-Income Rate Assistance (LIRA) program operated by National Fuel Gas Distribution Corporation (NFGDC) is another excellent example of a “tiered rate discount” program that ties tariffed discounts for low-income customers to a determination of affordable home natural gas bills.

#### **3.6.1 An Outline of the Program**

The National Fuel Gas LIRA program represents a blending of tiered rate discounts and percentage of income principles. While LIRA is primarily a tiered rate discount program, its discount tiers are explicitly tied to achieving predetermined levels of affordability as defined by home energy burdens deemed to be affordable to low-income customers. By 2007, the NFG LIRA program's blended approach to rate affordability was serving more than 11,300 program participants.

##### **3.6.1.1 Program Description**

The National Fuel Gas LIRA program is a blended tiered rate discount program. The calculation of LIRA's affordability benefits is tied to a structure of rate discounts, ranging from 10% to 60% off of bills at standard residential rates. In turn, however, the structure of LIRA discounts is tied to a determination of what discounts are necessary to achieve pre-determined levels of affordability defined by home energy burdens.

The LIRA program calculates its rate discount by beginning with an average bill distinguished by household size. These average bills are recalculated quarterly using actual consumption data for existing program participants. From these bills, the company subtracts the customer's expected percentage of income payment along with the assistance a program participant is expected to receive from the federal fuel assistance program. The resulting net bill (average bill minus percentage of income household payment minus federal fuel assistance benefit) is then converted into a percentage

discount for the customer. If the average bill is, for example, \$800 and the net bill is \$400, the customer is provided a 50% discount through the LIRA program.

The National Fuel Gas LIRA program also offers program participants arrearage forgiveness. Preprogram arrears can be retired, in exchange for complete and timely payment of bills for current usage, over a 24 month period of time.

### **3.6.1.2 Relationship to Utility Rate Structure**

The LIRA program is an explicit part of the National Fuel Gas rate structure. Discounts provided are calculated by reference to a percentage off the bills that would have been rendered to program participants at standard residential rates. To the extent that bills increase to individual customers during their program participation, whether because of changes in usage, price or weather, the dollar amount of the discount increases as well (even though the percentage discount will remain constant).

### **3.6.1.3 Program Funding**

The revenue shortfall experienced by the company as a result of the discount is tracked by National Fuel Gas and collected from residential customers through a reconcilable rate rider approved by Pennsylvania utility regulators. Reconciliation between actual program expenditures and program revenues generated by the rate rider is performed on an annual basis.

### **3.6.1.4 Program Background**

The National Fuel Gas LIRA program has expanded from a 1,000 customer pilot program in 1991 to a program serving more than 11,000 low-income customers in 2007. The program arose out of the Pennsylvania state regulatory commission's investigation into the control of uncollectible accounts. Shortly after the Pennsylvania commission had approved pilot low-income rates for Columbia Gas Company and Equitable Gas Company, the commission began a further investigation into the control of uncollectible accounts in general. As a result of that investigation, the commission recommended that low-income programs be adopted by other utilities throughout the state. According to the Pennsylvania commission, low-income rate affordability programs were a necessary tool for utilities to use in combating the problem of nonpayment. Through its investigation into the control of uncollectibles, the Pennsylvania commission concluded that:

As a result of our investigation, the Commission believes that an appropriately designed and well implemented CAP, as an integrated part of a company's rate structure, is in the public interest. To date, few utilities have implemented CAPs. The purpose of this Policy Statement is to encourage expanded use of CAPs and to provide guidelines to be followed by utilities who voluntarily implement CAPs. These guidelines prescribe a model CAP which is designed to be a more cost effective

approach for dealing with issues of customer inability to pay than are traditional collection methods.

While the implementation of CAPs was left to the voluntary decision of the state's energy utilities, the PUC made clear that it believed "alternative programs must be supported as clearly being in the public interest." The National Fuel Gas LIRA program was one of the CAP alternatives approved by the Pennsylvania regulators.

### **3.6.2 Application of Best Practices Criteria**

The National Fuel Gas Distribution Corporation's (NFGDC) Low-Income Rate Assistance (LIRA) program is an excellent example of a utility-specific tiered rate discount. The program is rated "exceptional" in six of the 20 best-in-class criteria.

#### **3.6.2.1 Criterion #1: Is the program reasonably open to all households in need.**

The National Fuel Gas LIRA program is reasonably open to all households in need. Program eligibility is set at 150% of the Federal Poverty Level. The program eligibility is supported by an empirical needs assessment that is periodically updated by the company and submitted to the Pennsylvania utility regulatory commission. The program imposes one non-income-based program eligibility requirement, that customers be payment-troubled (i.e., have an arrears at the time of application or have at least one existing, canceled or defaulted payment arrangement). Program enrollment is open year-round. No ceiling on program participation is imposed.

The company, however, creates unnecessary barriers that impede the ease of entry into its LIRA program. In particular, verification and application requirements are more onerous than most other programs. NFG requires that all adults in a household become "customers" in order for a household to enter its program. In addition, NFG imposes documentation requirements (e.g., a copy of the household's deed, mortgage or lease) to enter the program. NFG further requires that all LIRA program participants execute a written "LIRA Service Agreement" in order to participate in the program.

#### **3.6.2.2 Criterion #2: Does the program recognize the multiple facets of energy affordability "need."**

The National Fuel Gas LIRA program recognizes the multiple facets of energy affordability "need." While the LIRA program operates as a tiered discount program, its tiered discounts are explicitly tied to reducing bills to an affordable percentage of income. Bill affordability is defined to be 6.5% of income for households at 0 – 50% of Poverty, 8.0% for households with income at 51 – 100% of Poverty, and 9.0% for households with income at 101 – 150% of Federal Poverty Level. In contrast, in 2006, the electric burden for Pennsylvania households with the statewide average income was 2.0%; the natural gas burden for households at the statewide average income was 1.5%.



Irrespective of a household's home energy burden, however, LIRA guarantees a minimum discount of 10%.

National Fuel Gas also incorporates an arrearage forgiveness program for households with preprogram arrears. The LIRA program provides for a forgiveness of preprogram arrears over 24 months. For each month of a full and timely payment, LIRA provides for a forgiveness of 1/24<sup>th</sup> of the preprogram arrears. In any month in which the customer fails to make a full and timely payment, that customer forfeits the forgiveness for that month. If at the end of the 24 months, however, a LIRA participant has a sum of forfeited arrears credits, the customer is given an additional 12 months over which he or she may earn the forgiveness of those forfeited credits through full and timely payments. Only at the end of this additional period does the customer lose the ability to earn forgiveness altogether.

As with other Pennsylvania utilities, National Fuel Gas operates a Low-Income Usage Reduction Program (LIURP) in conjunction with its rate affordability program. While high use LIRA customers are referred to the usage-reduction program, they are provided no particular priority of treatment within that program.

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

The LIRA program is particularly adept at making an efficient determination of affordability benefits within the context of a tiered rate discount program. Unlike most tiered discount programs, which have from three to six tiers (e.g., New Hampshire (6 tiers), Indiana (3 tiers), Maryland (4 tiers)), the National Fuel Gas LIRA program distinguishes its discount tiers by income level and household size. Separate discounts are calculated for each "cell" in an affordability matrix determined by household income and household size. LIRA uses this expanded system of tiers so that it can recognize that household natural gas consumption (and thus household natural gas bills) varies by household size. Given the different levels of income (which vary in increments of \$1,000) and household size, National Fuel Gas offers discounts of between 10% and 60% on current bills. Because the company takes into account a detailed disaggregation of customer income, along with disaggregated consumption by household size, the LIRA program provides far less under- and over-payments than do other tiered rate discount programs.

The National Fuel Gas calculation of expected customer payments incorporates not only minimum monthly customer payments (\$12 per month), but also minimum discount percentages (10%).

The National Fuel Gas LIRA program provides for an efficient use of program funds, also, by requiring program participants to enter into a levelized monthly Budget Billing plan. Through this levelized billing, LIRA not only promotes the affordability of annual home energy bills, but maintains the affordability of individual monthly bills as well.

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

National Fuel Gas complies with state-imposed standardized monthly data reporting regarding program costs, operations, and bill payment outcomes. The company engages in a program outcome evaluation by an independent third party evaluator on a prescribed time interval. The company files a new universal service plan with Pennsylvania regulators on a triennial basis, which is subject to review through a public hearing process.

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

The National Fuel Gas LIRA program provides for reasonable cost budgeting certainty and timely cost recovery. The company recovers its costs through a rate rider imposed on residential customers. Actual program expenditures are reconciled against revenues generated by the rate rider on an annual basis. The company takes limited account of cost offsets for the incremental additions to program participation rates gained since its last base rate case. These cost offsets include primarily savings in reduced bad debt and reduced working capital expenses.

### ***3.7 Program #7: The Electric Assistance Program (EAP) (New Hampshire)***

The Electric Assistance Program (EAP) adopted by the New Hampshire state utility regulatory commission is an excellent example of a “tiered rate discount” program that ties tariffed discounts for low-income customers to a determination of affordable home electric bills.

#### **3.7.1 An Outline of the Program**

The New Hampshire tiered rate discount is a uniform statewide program that provides electric affordability assistance to participants in the federal Low-Income Home Energy Assistance Program (LIHEAP) in New Hampshire. New Hampshire operates a single uniform statewide program extending to each regulated electric utility. By design, the program operates to provide substantial rate discounts to 30,000 low-income customers each year.

##### **3.7.1.1 Program Description**

The New Hampshire EAP provides a tiered discount with tiers based on the ratio of household income to the Federal Poverty Level. The program is based on six tiers. The lowest tier is for households with income at or below 75% of Poverty, while the highest tier is for households between 175% and 185% of Poverty Level. Using the Federal Poverty Level, New Hampshire stakeholders agreed, allows the benefits to be better targeted to those with the most need as the Poverty Level takes into account not only income but also the size of the household. Household payments toward their electric bills are expected to range between 4% and 4.5% of gross household income. In contrast, in

2006, the electric burden for New Hampshire households with the statewide average income was 1.7%; the natural gas burden for households at the statewide average income was 0.9%. Discounts range from 5% to 70% off of the total electric bill. Average benefits under the New Hampshire EAP reach roughly \$400 per year.

The New Hampshire tiered discount program does not make a distinction for electric heat usage. The program assumes that most households eligible for program benefits will be eligible for LIHEAP benefits for their primary source of heating.

### **3.7.1.2 Relationship to Utility Rate Structure**

The New Hampshire EAP is built right into each participating utility's rate structure. Percentage discounts are applied to the entire bill for electricity.<sup>20</sup> The percentage discounts are gradually reduced with the largest percentage discount applicable to the bills of customers in the lowest income group and the lowest percentage discount applied to the bills of customers in the highest income group.

The New Hampshire EAP, however, differs from the National Fuel Gas and Indiana tiered rate discounts. Both the NFGDC and Indiana programs are funded internally by utility ratepayer funds. Those three utilities (NFGDC, CGCU, Vectren) track the lost revenue attributable to their respective tiered discounts and recoup those revenues through a rider imposed on their own ratepayers. In contrast, New Hampshire utilities access the state's System Benefits Charge as an outside source of revenue to compensate them for their lost revenue. Unlike Indiana and NFGDC, the New Hampshire utilities need not be self-supporting. Indeed, some electric utilities are net donors (with their ratepayers contributing more in SBC funds than the utility's low-income customers use in tiered discounts) while other electric utilities are net recipients.

### **3.7.1.3 Program Funding**

Program funding for the New Hampshire EAP is provided by a statutorily-created System Benefits Charge. The SBC was created as part of New Hampshire's 1996 approval of an SBC of 3.0 mils (\$0.003) per kWh, with 1.2 mils being devoted to low-income assistance.<sup>21</sup> The SBC was extended by the legislature in 2005 and is currently scheduled to expire in 2008. The low-income funding was retained at a level basis in the 2005 program extension. The SBC generates roughly \$13 million each year to support the EAP.

### **3.7.1.4 Program Background**

The New Hampshire System Benefits Charge (SBC) was adopted as part of that state's approval of legislation approving a move to retail choice in the electric power industry. The SBC was designed to support what many stakeholders considered to be public

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<sup>20</sup> An exception to this principle is made for certain state-imposed taxes.

<sup>21</sup> The remainder of the SBC is devoted to the support of energy efficiency programs, though not necessarily low-income efficiency programs.

purposes that would likely not be well-served by a competitive electric marketplace. Since the enactment of the retail choice statute a competitive retail market for residential customers has not developed in New Hampshire.

### **3.7.2 Application of Best Practices Criteria**

The New Hampshire Electric Assistance Program (EAP) is one of the nation's best examples of a tiered rate discount program. Developed by a working group of regulatory staff, energy assistance staff, and representatives of poverty and electric utility stakeholders, the program was explicitly designed to meet the objectives of a percentage of income-based affordability approach while retaining the administrative efficiencies of a tariffed rate discount. The New Hampshire EAP is rated "exceptional" in seven of the 20 best-in-class criteria.

#### **3.7.2.1 Criterion #1: Is the program reasonably open to all households in need.**

The New Hampshire EAP is reasonably open to all households in need. The EAP defines eligibility as those households with income at or below 175% of the Federal Poverty Level. Customers who enroll in the federal fuel assistance program are automatically enrolled in the EAP. The program has limitations, however, created by its funding ceiling. As a result, it cannot commit to serve all program applicants. Instead, if the program projects that its committed budget will exceed its stream of revenue through the state's System Benefits Charge, the program will place program applicants on a waiting list. In addition, since program enrollment is tied to enrollment in the federal fuel assistance program, which is primarily a heating assistance program, program enrollment is effectively limited by the enrollment period available for fuel assistance participants.

Despite the challenges facing New Hampshire's EAP in program enrollment, the EAP is well-served by its recertification processes. The EAP generally requires annual recertification by program participants. This recertification can occur by mail. In addition, biannual recertification is allowed for certain classes of customers whose income is not expected to vary by year. Included in this biannual recertification are the aged and disabled.

The New Hampshire EAP is not supported by a periodic needs assessment. Given its intrinsic ties to the federal fuel assistance program, the program operates by reference to past experience with fuel assistance participation. The program is, however, overseen by a multi-party workgroup consisting of representatives of various stakeholders. This workgroup commissions issue-specific empirical studies in support of discussions of specific program modification proposals on an as-needed basis.

#### **3.7.2.2 Criterion #2: Does the program recognize the multiple facets of energy affordability "need."**

The New Hampshire EAP is not designed as a comprehensive electric bill affordability program. While the EAP is structured to deliver rate affordability assistance directed

toward bills for current usage, the EAP does not have an arrearage forgiveness component. This lack of arrearage forgiveness is driven not by a lack of recognized need for such assistance, but rather by program funding limitations imposed by the New Hampshire legislation authorizing the program. Neither does the program incorporate a crisis assistance component.

While New Hampshire utilities have implemented energy efficiency programs directed toward residential customers in general, there are no specific low-income efficiency programs that are integrated with the EAP. High use EAP customers are referred to the federal weatherization assistance program (WAP) and to these utility programs, but are given no priority for treatment. No formal integration exists between the low-income rate affordability and residential usage reduction programs.

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

The New Hampshire EAP was developed so that program discounts would reduce low-income electric burdens to an affordable percentage of income. With discount tiers targeted based on the ratio of household income to the Federal Poverty Level, the EAP discounts are designed to reduce non-heating electric bills to between 4.0% and 4.5% of household income.

A six-tier structure allows for reasonable targeting of discounts and a minimization of the overpayment or underpayment of customers whose bills or income diverge below or above the averages used in determining appropriate discount levels. An empirical analysis of program participants found minimum divergence from averages within the multiple rate discount tiers.

There is no minimum payment required in the New Hampshire EAP. An empirical analysis of program participant bills found that the proposed discounts would not result in bills less than the fixed monthly customer charge. Establishing a minimum payment was thus considered to add administrative complexity without adding program efficiencies. There are no maximum benefit amounts. Conversely, however, no program participant receives less than a 5% discount.

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

The New Hampshire EAP provides for a periodic program evaluation. In 2007, the program adopted required standardized monthly data reporting for participating utilities, along with a prescribed program evaluation. In addition, the program is overseen by a multi-party working group that reviews program operations and, annually, recommends program modifications (if any) to the New Hampshire utility regulatory commission for its consideration. As with other New Hampshire government programs, the EAP also is subjected to a periodic sunset review.

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

The greatest weakness in the New Hampshire EAP involves the limitations imposed by statutorily imposed budget constraints. The EAP is funded through a statewide System Benefits Charge of 3.0 mils per kWh, of which 1.2 mils is directed toward low-income rate affordability assistance. The SBC has not been increased since the program's inception. The SBC is not indexed to fuel prices or to program participation. Indeed, a statutorily-mandated increase in program eligibility levels resulted in substantial decreases in per-participant benefits as the higher participation levels were met with a fixed program budget.<sup>22</sup>

Conversely, the fixed SBC charge of 1.2 mils per kWh provides a stable annual funding base for EAP program operation. Program administrators need not address the inefficiency of not knowing whether funding will exist in any given year, or what that level of funding might be.

The funding of New Hampshire's EAP is assisted by the requirement that program funding be allocated to all retail customers. In this fashion, the burden of supporting the low-income program does not become too great for any given customer class.

### **3.8 Program #8: The Maryland Electric Universal Service Program (EUSP)**

Maryland's Electric Universal Service Program (EUSP) is a creature of statute. Mandated by the statute directing the state to move to retail choice, the EUSP was statutorily established to deliver bill payment assistance, low-income weatherization, and arrearage retirement to low-income customers. The statute generally provides that the Maryland state utility regulatory commission: (1) shall order a universal service program to be made available on a statewide basis to benefit low-income customers; (2) shall establish a universal service program; and (3) shall have oversight responsibility for the universal service program.

In contrast, the state Department of Human Resources, which is the state agency that administers the federal Low-Income Home Energy Assistance Program (LIHEAP) (also known as the Maryland Energy Assistance Program—MEAP), was statutorily charged with the responsibility for administering the EUSP along with disbursing EUSP funds (with oversight by the commission).

#### **3.8.1 An Outline of the Program**

The Maryland EUSP consists of both a rate discount for bills for current usage and an arrearage forgiveness program. The EUSP is available to electric customers who have

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<sup>22</sup> The primary benefit reduction was the elimination of heating benefits. The EAP determined that program participants would need to rely on the federal fuel assistance program for heating benefits with EAP benefits limited to non-heating electric bills.

income at or below 175% of the Federal Poverty Level. In Fiscal Year 2007, EUSP provided electric affordability grants to more than 93,000 households.

### **3.8.1.1 Program Description**

Bill payment assistance is the EUSP program component designed to make monthly electric bills more affordable. While benefits are designed to make bills more affordable, EUSP program administrators emphasize that they design their benefits to ensure that the program will never exhaust its funding. This limitation is to ensure that all applicants to EUSP will receive a benefit. Applications are taken on a year-round basis.

EUSP benefits are distributed as annual benefits representing a percentage discount applied to an average electric bill. Benefit amounts reflect a tiered rate discount structure. The program has adopted four tiers for households below 175% of the Federal Poverty Level. The lowest tier is for households at 0 – 75% of Poverty, while the highest tier is for households at 150 – 175% of Poverty Level. An average bill is calculated by applying weighted electricity prices to average statewide consumption for EUSP participants from the previous 12 month program year. Discounts range from 75% for the lowest income participants to 30% for the highest income customers.<sup>23</sup>

In general, in 2006, the electric burden for Maryland households with the statewide average income was 1.9%; the natural gas burden for households at the statewide average income was 0.8%.

The arrearage retirement provision of EUSP is a key benefit provided through the program. This program component provides a one-time opportunity to eliminate past-due bills. Program administrators have recommended that customers have a minimum arrearage of \$300 in order to receive arrearage retirement benefits. The minimum arrearage will both help spread limited arrearage retirement funds further and prevent customers from foreclosing future assistance when their need is perhaps greater. EUSP administrators report that they expect that privately available funds can meet the need for customers with arrearages less than \$300. Arrearage retirement credits will be provided to customers up to a maximum of \$2,000. Arrearage retirement benefits can be provided to customers currently taking service and in arrears or to customers who are currently “off-service” and who seek to re-establish service. Off-service is defined as service that has been terminated and the customer has received a final bill.

### **3.8.1.2 Relationship to Utility Rate Structure**

Unlike the tiered rate discounts implemented in New Hampshire and in the National Fuel Gas service territory in Pennsylvania, the Maryland EUSP’s tiered rate discount is not a part of any utility’s rate structure. Instead, EUSP is administered by a third party agency. The EUSP benefits are distributed to utility customers as a single annual lump-sum payment. The payment is designed to subsidize a program participant’s annual electric

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<sup>23</sup> Discounts are provided only for non-heating electricity. Heating bills are presumed to be offset by receipt of federal fuel assistance benefits.

bill so as to reduce that bill to an affordable amount. The EUSP benefit, however, is an external benefit, paid as a direct vendor payment to the program participant's electric company. It is not part of the rate structure of the company. It is simply viewed as an additional payment on the customer's account, albeit a payment from non-customer funds.

### **3.8.1.3 Program Funding**

The Maryland EUSP is supported by a cost recovery mechanism that is uniform statewide. The statute provided not only a fixed program budget for the first three years of the EUSP, but that a fixed contribution toward that budget be obtained from each customer class. The residential charge was set at a uniform, statewide monthly fee, of \$4.97 to \$5.00 annually (\$0.41 to \$0.42 monthly). A multi-step charge was established for commercial and industrial customers. The commission explained, however, that it sought:

. . . a funding methodology that results in sets of uniform Statewide fees for commercial and industrial customers that apply irrespective of the service territory in which the customers are located. The use of Statewide fees should not preclude the differentiation of charges by customer size or electric usage, as long as the methodology proposed includes an appropriate cap. . . The commission's primary interest in a proposal of this type is (i) to have flat fees that do not vary each month, thereby avoiding customer confusion, and (ii) to ensure that similarly-situated customer that happen to be located in different service territories pay the same charge, thereby avoiding any questions of competitive advantage.<sup>24</sup>

The statute prohibited collecting the universal service charges on a per kilowatthour basis. In adopting a fixed monthly fee, the commission agreed with the argument by the commercial and industrial representatives that the universal service charge "is similar to a utility 'customer charge,' which is traditionally designed and intended to recover a cost that bears no relationship to a customer's consumption." The Maryland commission now considers a proposed EUSP budget each year and annually sets the appropriate fixed monthly fees to generate the necessary funds.

### **3.8.1.4 Program Background**

The Maryland Electric Universal Service Program (EUSP) was statutorily created as part of that state's move to retail choice in the electric industry. The concern by state legislators was not simply that electricity bills were unaffordable to low-income customers, but also that the move to retail choice would create a market structure under which low-income customers would not be actively solicited by competitive electric service providers.<sup>25</sup>

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<sup>24</sup> Order 75401, at 5.

<sup>25</sup> As it turns out, no residential customers are being actively solicited by competitive suppliers in Maryland.



Ultimately, a competitive electric industry did not develop for residential customers, with customers choosing not to abandon their electric distribution utilities, and suppliers choosing not to market to residential customers. Today, in 2007, as price caps continue to be removed from market-based prices offered to residential customers, Maryland consumers are experiencing substantial spikes (60% or more) in their electric prices. In these circumstances, EUSP has become both more important and more stressed, as the need for affordability assistance grows but the burden of meeting that need outstrips the ability to meet that burden.

### **3.8.2 Application of Best Practices Criteria**

The Maryland Electric Universal Service Program (EUSP) is one of the nation's best examples of an SBC-funded external benefit rate affordability program. Adopted as part of the legislation directing Maryland to move to a retail choice electric environment, the EUSP has been implemented to pursue affordability targets within strict budget constraints. The Maryland EUSP is rated "exceptional" in nine of the 20 best-in-class criteria.

#### **3.8.2.1 Criterion #1: Is the program reasonably open to all households in need.**

The Maryland EUSP is reasonably open to all households in need. Program eligibility is set at 175% of the Federal Poverty Level. Program enrollment is open year-round. There is no ceiling on program enrollment.<sup>26</sup>

The population to be served by EUSP is supported by extensive empirical analysis. An annual needs assessment is filed with the program operating plan each year. In addition, the program completes an annual report examining the extent to which the EUSP met the expected need within six months after the close of each fiscal year.

EUSP provides reasonable ease of entry into the program. No non-income eligibility criteria are imposed through the EUSP. Unlike the corresponding federal fuel assistance program, however, the EUSP *does* require that the program applicant be limited to the named utility customer (the federal fuel assistance program requires the applicant to be part of the household, but the applicant need not be the named customer). EUSP entry occurs primarily, though not exclusively, through the federal fuel assistance program. The two programs use a unified program application. Ease of entry into EUSP through the federal fuel assistance program is impeded somewhat by the fact that the two programs are on different fiscal years.<sup>27</sup>

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<sup>26</sup> In theory, the fixed nature of the EUSP budget would create a ceiling on program participation. The program administrator, however, reports that it consciously sets benefits at a level to ensure that its budget authorization will not be exhausted, so as to ensure that all applicants, at whatever point in the program year, will be assured of receiving program benefits.

<sup>27</sup> As a state program, EUSP is on the state fiscal year (July through June). The federal fuel assistance program is on the federal fiscal year (October through September). A household applying for EUSP in July, August or September, in other words, may *not* also receive federal energy assistance benefits until October, the beginning of the new federal fiscal year.

The EUSP has adopted some, but nonetheless limited, mechanisms to facilitate the required annual recertification. While new applications must be submitted in person, annual recertification applications may be submitted by mail. Unlike other programs, the EUSP does not provide for less than annual recertification, for automatic certification under prescribed circumstances, or for less stringent income verification under prescribed circumstances.

### **3.8.2.2 Criterion #2: Does the program recognize the multiple facets of energy affordability “need.”**

The EUSP operates primarily as a bill affordability program for current usage. Bill discounts range from 30% (for households at 150 – 175% of Federal Poverty Level) to 75% (for households with income less than 75% of Poverty). The EUSP has four discount tiers.

The program operates a limited arrearage forgiveness program. By law, however, the budget to be allocated toward preprogram forgiveness is quite limited. As a result, the program administrator has imposed a minimum arrears requirement of \$300 before a program participant may access arrearage credits. Once accessed, arrearage credits can be obtained up to a maximum of \$2,000. Arrearage retirement credits can be accessed only once.<sup>28</sup>

The EUSP recognizes the role that energy efficiency plays in helping to resolve low-income affordability problems. The statutory budget, however, substantially limits the use of EUSP funding for “weatherization” purposes. Moreover, the state utility regulatory commission has held that the statutory reference to “weatherization” as an allowed use disallows the use of EUSP funds for usage reduction investments not involving traditional building shell improvements. The regulatory commission held, for example, that “the commission does not view appliance replacement as within the scope of a weatherization program.”

Even though traditional weatherization measures are often not applicable to an electric affordability program, the inability to address the efficiency needs of electric program participants is largely budget driven. Maryland’s regulatory commission held that it “recognizes that there are other measures that also may reduce energy consumption but do not fall within the parameters of weatherization. . .may come within the scope of ‘universal service program,’ as defined and may be desirable. However, [the statute] speaks to low-income weatherization and not the broader category of energy conservation. The commission notes that the USP has finite resources. . .With the limited amount of money that can be directed toward weatherization at this time, it is appropriate that the measures undertaken meet the narrower parameters defined above.”

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<sup>28</sup> A proposal has been advanced by the program administrator to change this one-time only requirement to a limitation of once every seven years.

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

The Maryland EUSP incorporates multiple program components that result in the efficient use of program funding. The EUSP program design does an exceptional job of matching program benefits to individual needs. While the EUSP is a type of a tiered rate discount, the program delivers its benefits as a single lump sum payment based on an individual calculation of customer needs. Discounts vary based not only on the ratio of household income to Federal Poverty Level, but also on the location of the customer within the state (as measured by the electric distribution utility), and by the actual electricity consumption of the household.

The EUSP is well-integrated with both the federal fuel assistance program and the billing processes of the state's regulated utilities. EUSP provides bill affordability assistance only for non-heating electricity. Given the program's integration with the federal fuel assistance program, as with the New Hampshire EAP, the Maryland EUSP provides that the heating component of any electricity affordability benefit should be paid by the federal program. Federal fuel assistance benefits increase rate discounts by 15% (from 75% to 90% for households with income below 75% of the Federal Poverty Level) for electric heating customers.

Integration with utility billing processes helps protect program participants against seasonal bill volatility. Maryland's EUSP requires program participants to enroll in the levelized monthly budget billing programs of their respective electric companies.

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

The EUSP does a reasonable job of program assessment and continuous improvement. On the one hand, while a comprehensive outcome evaluation was recently completed of the EUSP, neither the program's authorizing statute nor implementing regulations require periodic outcome evaluations. On the other hand, the EUSP program administrator files an annual report in December of each year (after the June close of the prior fiscal year) which outlines the immediately preceding year's program operations. That annual report further assesses the extent to which the needs identified in the annual program operations plan were satisfied. The annual report does *not*, however, comprehensively review program outcomes, including outcomes involving bill burdens or payment patterns and practices.

To this extent, while the EUSP engages in limited standardized data reporting from the program operations side, it falls short in gathering regular, periodic standardized data from participating utilities on the payment practices of program participants.

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

The EUSP provides for reasonable program budgeting and program cost recovery. EUSP program costs are collected as a fixed customer charge on all customer classes. While the

EUSP statute mandates that program costs be collected from all customers, the statute prohibits that such cost recovery be accomplished on a volumetric basis. The EUSP program administrator submits a proposed annual budget to the Maryland utility regulatory commission each year. Based on that budget submission, the utility regulatory commission establishes the fixed customer charge needed to generate the program budget.

The Maryland EUSP suffers from the lack of any indexing of the program budget to increases in energy prices or program participation. Indeed, increasing prices often drive increasing participation. Unlike programs with reconcilable rate riders through which to collect programs costs, Maryland's EUSP does not have the flexibility to increase its budget to reflect increasing electric prices without legislative approval.

Given the expiration of price caps on electricity prices in Maryland in recent years, and the corresponding spike in electric prices—electric prices have increased by 70% or more in some electric service territories—the failure to adjust the program budget to reflect these changes in the underlying environment has resulted in decreased benefits and increasing hardships on Maryland's low-income customers.

### **3.9 Program #9: The Electricité de France (EDF) “Social Tariff” (France)**

Electricité de France (EDF) serves nearly 28 million customers in that country. According to the company, as a “responsible industrialist,” it seeks to “reconcile its management constraints and therefore its constraints related to the strict collection of its accounts receivable with its public service obligations.” EDF actions are taken within the context of a legally recognized “right to electricity.”

French law first articulated a “right to electricity” in 1998 as the country adopted statutes providing for the “modernization and development” of the electric power industry. In October 2005, EDF signed an agreement that specified certain actions the company would take to promote this right to electricity for “customers with precarious situations.” The “right to electricity” is defined to mean “guaranteeing temporary maintenance of the supply of electricity for people faced with precarious situations and contributing to the Housing Solidarity Fund.”

#### **3.9.1 An Outline of the Program**

The EDF low-income electric affordability program consists of four distinct components:

##### **3.9.1.1 Case Management**

EDF seeks to prevent electricity debt through a network of what it calls “solidarity correspondents,” “solidarity representatives” and “social mediators.” This network of specially-trained company staff provides case management services to customers having

difficulty paying their bills. These staffpersons, located in each Department in France,<sup>29</sup> are charged with maintaining contact with public and private stakeholders, including not merely those who can provide utility assistance but those who can provide health, housing, employment and other types of social assistance. While the primary role of the company staff is to “help [payment-troubled customers] bring their energy bill under control and, together with them, find a method of payment adapted to their situation,” that process is tied to helping the customer address his or her underlying financial problems in the meantime.

### **3.9.1.2 Energy Maintenance Service**

EDF provides a system of “minimum electricity supply” in an effort to minimize the number of service disconnections for nonpayment. Known as the Energy Maintenance Service, this system helped reduce the number of nonpayment disconnections from 670,000 in 1993 to fewer than 190,000 in 2004. In 2004, more than 200,000 households benefited from EDF’s Energy Maintenance Service.

The Energy Maintenance Service provides a minimum supply of electricity to a customer facing nonpayment disconnections during the time it takes for a government public assistance official to review the customer’s file to determine eligibility for public assistance. The Energy Maintenance Service guarantees power of 3,000 watts. The purpose is to allow the household to provide basic lighting, along with the use of a refrigerator, television and one or two appliances.

Through the Energy Maintenance Service program, EDF installs a mini-switch without charge in the home. This switch automatically limits the power consumed in the home. If the electricity consumption exceeds 3,000 watts, the power is interrupted for 15 seconds. Before the switch can remain on, the customer must determine how to reduce consumption.

When the Energy Maintenance Service is begun, the customer must agree, in writing, to submit an application to the appropriate public assistance agency within fifteen days to determine his or her eligibility for such assistance.

The company cannot, of course, always make personal contact with a household prior to the disconnection of service for nonpayment. In such situations, the company installs a switch allowing for 1,000 watts of power to be consumed at any given time. According to EDF, this Minimum Service allows for the customer to operate lighting and auxiliary back-up heating. A customer using this lesser Energy Maintenance Service then is provided five days to contact the company to arrange for bill payment (or to move his or her service to the 3,000 watt service).

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<sup>29</sup> A “Department” is the French equivalent to a “state” in the United States or a “province” in Canada. Since 1790, France has been divided into 95 metropolitan *départements*.

### **3.9.1.3 Solidarity Funds**

EDF is a primary contributor to the country's Solidarity Funds, the French equivalent to local fuel funds. According to the company, when a customer's precarious utility bill payment situation is presented to a social services agency, the customer is "likely to benefit from financial assistance equivalent to total or partial payment of their electricity bill."

The funds are operated by local commissions that operate under the authority of the local council which runs each of the 95 French départements. These local commissions include representatives of various public assistance agencies, businesses, and community-based organizations, who seek to resolve not only the specific electricity bill payment problem, but seek also to address the underlying economic situation of the household.

EDF is one of the primary funders of the Solidarity Funds. According to the company, in 2004, EDF provided 27% of the total funding of the Solidarity Funds, more than any other single contributor. The EDF contribution in 2004 reached 17 million Euros. Through this EDF contribution, Energy Solidarity Funds provided financial assistance to 245,000 families with financial problems.

### **3.9.1.4 Rate for Absolute Essentials**

Established by legislation approved in February 2000, the Rate for Absolute Essentials was implemented by EDF effective January 1, 2005. The Rate for Absolute Essentials is expected eventually to be applied to 1.2 million households in France.

Eligibility for the Rate is determined through the country's health insurance organizations. Once such an organization determines that the family income is less than or equal to 400 Euros per month,<sup>30</sup> the health insurance organization provides the appropriate electric distribution utility (of which EDF is one) with the family's contact information. EDF provides an application to the family who must complete it and return it to the company. Once a complete application is returned, the family "automatically benefits from this special rate."

The Rate for Absolute Essentials provides an annual reduction of 30%, 40% or 50% (depending on family composition) off of the first 100 kWh of monthly consumption. The program provides annual benefits of roughly 70 Euros.

Households may participate in the Rate for Absolute Essentials for one year, with an annual confirmation of entitlement being required each subsequent year.

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<sup>30</sup> This income level is considered to be an "intermediate level between income ceilings providing entitlement to financial aid and those providing entitlement to universal health coverage."

### **3.9.2 Application of Best Practices Criteria**

The low-income rate initiatives offered by EDF in France differ in kind, and not merely degree, from the universal service rate affordability programs offered in the eight United States jurisdictions assessed in this report. Because of these major differences in program objectives, design and implementation, the Best Practices Criteria have not been applied to the EDF program. To do so would seek to compare fundamentally noncomparable programs. For this reason, and to this extent, the EDF program is not considered to be a best-in-class program as such programs are defined and assessed throughout this analysis.

## PART 4. LESSONS LEARNED FROM BEST PRACTICES

The discussion above examines selected low-income affordability programs currently in operation around the United States as determined by the author to be best in class. Eight United States programs have been reviewed, in addition to the low-income initiatives of Electricité de France (EDF) in France.

The analysis focuses exclusively on rate affordability programs. Initiatives involving usage reduction programs, as well as credit and collection practices directed primarily at low-income households,<sup>31</sup> are set aside not because they are unimportant, but rather simply because they are beyond the scope of this review.

The discussion examined nine programs:

- 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 EDF (France).

### **4.1 Fundamentals of a Best Practice Rate Affordability Program.**

Low-income rate affordability programs are legitimate utility operations. While directed at low-income customers, the best-in-class programs are designed to pursue utility-oriented objectives. Programs directed toward improving collections, reducing arrears, and addressing inability-to-pay in a more cost-effective and cost-efficient manner than traditional collection activity tend to be best-in-class. There is no single “right” way to

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<sup>31</sup> 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).



implement such a program. There are, however, program attributes that make some programs more effective, more cost-effective, and more cost-efficient than others. Those program attributes are discussed in more detail below.

#### **4.1.1 The Values Underlying an Affordability Program**

A best-in-class low-income rate affordability program is directed toward addressing the inability-to-pay problems of income eligible households. Inability-to-pay, however, goes beyond the mere existence of payment troubles. The unaffordability of home energy does not always manifest itself through an unpaid bill. The paid-but-unaffordable bill is a real phenomenon.

When home energy burdens –energy burdens are the home energy bill as a percentage of household income-- reach a certain point, the household will *either* not regularly be able to pay the bill on a full and timely basis *or* not regularly be able to pay the bill without substantial household hardship. Best-in-class programs address the affordability of annual home energy bills relative to annual household income.

Nearly all utilities offering best-in-class rate affordability programs explicitly take home energy burdens into account. Programs such as the New Jersey Universal Service Fund (USF), the Columbia Gas Customer Assistance Program (CAP), and the Equitable Gas CAP, tie their affordable rates to an individually-calculated affordable home energy burden. Even programs such as the tiered discounts offered by the New Hampshire Electric Assistance Program (EAP), the Citizens Gas/Vectren Universal Service Program (USP), and the National Fuel Gas Low-Income Rate Assistance (LIRA) program base the level of their discount on a calculation of what percentage of income burden will be borne by low-income ratepayers as a result.

**Lesson #1:**

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

Paying the bill for current usage can not be the exclusive focus of home energy affordability. Low-income home energy affordability consists of more than helping a customer to be able to pay their bill for current usage. Addressing the *future* 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 to the customer whether the bill's unaffordability is caused by the charges for current usage or by the charges for pre-existing arrears.

Addressing pre-existing arrears can occur in multiple ways. Programs such as the New Jersey USF, the Columbia Gas CAP and the Equitable Gas CAP provide credits toward pre-existing arrears in exchange for full and timely payment of current bills over a period of time. The National Fuel Gas LIRA program provides matching credits for customer payments toward arrears, offering a \$15 match for each \$5 customer payment in a given month. The Maryland Electric Universal Service Program (EUSP) provides arrearage credits, but requires a minimum arrears of \$300 for customers to be eligible and places a \$2,000 cap on arrearage credits. The EUSP further provides an arrearage credit only one time (though proposals have been advanced by the program administrator to modify this to be one-time every seven years).

**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.**

#### **4.1.2 The Legitimacy of an Affordability Program**

A best-in-class low-income rate affordability program must balance the interests of a utility's low-income customers, the nonparticipating ratepayers of a utility, and utility investors.

A best-in-class low-income rate affordability program takes account of the interests of the utility's low-income customers by ensuring that the program is reasonably open to all customers in need. 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. Ease of entry, however, further involves not only *becoming* a program participant, but also *remaining* a program participant over time.

In the United States, best-in-class programs tend to define eligibility exclusively in terms of income-eligibility. Eligibility guidelines are defined by reference to income, taking into account household size (a measure known as Federal Poverty Level). While Pennsylvania's utilities—three of which are listed within the list of best-in-class in this discussion—add the requirement that customers be “payment-troubled” to be eligible for their low-income programs, “payment-troubled” is defined broadly. Overall, utilities operating best-in-class rate affordability programs tend to shy away from imposing non-income-based eligibility requirements.

Moreover, to ease program entry, most of the best-in-class utilities provide for year-round enrollment with no ceiling on the number of customers that may enter the program. Programs without year-round enrollment (e.g., the Citizens/Vectren USP) have tied their rate affordability enrollment to the federal fuel assistance program. While this partnership provides for administrative efficiencies, one “price” to be paid for the

partnership is to limit enrollment in the utility program to the same enrollment time period of the seasonally-based federal fuel assistance program.

Many utilities have specifically addressed not simply the ease of entry into the program, but the ease of remaining in the program from year to year. Nearly all best-in-class programs provide for mail recertification, limiting the need for personal applications to the initial program entry. Programs such as the New Hampshire EAP, the Columbia Gas and Equitable Gas CAP, and the National Fuel Gas LIRA allow for multi-year certification for households whose income is not likely to vary from year-to-year. Equitable Gas and Columbia Gas, in addition to the New Jersey USF, further provide for an automatic re-enrollment of program participants so long as those participants also receive benefits from other programs with similar income eligibility guidelines.

Indeed, Equitable Gas allows for a self-certification of income-eligibility by program applicants, with ongoing testing of whether this self-certification leads to unreasonable error rates in eligibility determination occurring through random audits of a small percentage of program participants.

**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.**

A best-in-class low-income rate affordability program takes account of the interests of the utility's nonparticipating ratepayers by ensuring that program funds are efficiently distributed. An efficient program distributes funding in the amount necessary to accomplish its program objectives, but in an amount no greater than is necessary to accomplish its program objectives.

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. 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.

The ideal mechanism to use to prevent the underpayment or overpayment of benefits is to individually determine the rate discount needed to reduce a customer's home energy burden to an affordable percentage of income. The New Jersey USF, along with the Columbia Gas and Equitable Gas CAPs, as well as the Ohio Percentage of Income Payment Plan (PIPP), all set natural gas and electric bills at an affordable percentage of income.

Tiered discount programs, such as those adopted by the New Hampshire EAP, the National Fuel Gas LIRA, and the Citizens Gas/Vectren USP, are less well-targeted, but are nonetheless specifically designed to reduce the bills of program participants to an affordable percentage of income. Each of these programs adopts rate discount tiers, taking into account income and household size, within which, so long as the customer is at the average, the customer will pay the targeted home energy burden. To the extent that the customer diverges from the average, however, there will be some overpayment or underpayment. The number of tiers a program uses minimizes this divergence. While, for example, the Indiana utilities (Citizens Gas, Vectren) operate with three tiers, the New Hampshire EAP operates with six. National Fuel Gas creates a separate tier for each income level in increments of \$1,000.<sup>32</sup>

**Lesson #4:**

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

A best-in-class low-income rate affordability program takes account of the interests of the utility's investors by ensuring that program costs are recovered in a full and timely fashion. Utility expenditures on a low-income rate affordability program will generally vary based on factors largely outside of the ability of a company to control. In particular, programs that explicitly tie affordability benefits to an affordable percentage of income bear the risks of volatility in bills associated with changes in price or weather. Moreover, total program expenditures will vary based on factors ranging from the number of program participants, to the average income of program participants (as average participant income decreases in a percentage-of-income based programs, average participant program benefits will increase), to the level of bills for current usage based on weather and fuel prices.

A rate rider is “reconcilable” when the actual expenditures in an historic period are periodically compared to the revenues generated by the rate rider, with over-collections or under-collections rolled over into the calculation of the appropriate level of the rate rider to be charged in the next period.<sup>33</sup> The period of reconciliation may differ from

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<sup>32</sup> A household with an income of \$5,000, in other words, is in a different tier than a household with an income of \$6,000.

<sup>33</sup> A reconcilable rate rider need not absolutely be adopted to ensure the full recovery of program costs. Maine utilities, which operate programs not considered to be best-in-class for reasons other than cost recovery, book their over-collections and under-collections in a reserve account. Any reserve surplus would be treated as a deduction from rate base in future rate cases. Net reserve deficiencies, if this situation were to occur, would be treated as a rate base addition in future years.

program to program; some programs are reconciled quarterly while most are reconciled annually.<sup>34</sup>

Virtually all best-in-class rate affordability programs allow for program cost recovery through a reconcilable rate rider. All three Pennsylvania rate affordability programs use reconcilable rate riders for program cost recovery. These utilities all operate under a statutory framework which specifically requires “full recovery” of program costs. The Pennsylvania commission rejected proposals to include rate affordability expenditures in base rates, holding that base rate recovery allows only a “reasonable opportunity for cost recovery” rather than the assurance of “full recovery” required by statute. The New Jersey USF, along with the Citizens/Vectren USPs, also adjust their rate riders prospectively, including program over-collections or under-collections from the immediately preceding year as part of their respective budgets.

**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.**

### **4.1.3 The Integration of an Affordability Program with a Utility’s Full Service Offerings**

A best-in-class rate affordability program integrates the affordability provisions of the low-income program with the existing processes and structures of the sponsoring utility to the extent practicable. Best-in-class programs seek to integrate the affordability initiatives into the sponsoring utility’s existing rate structure and collection processes.

A best-in-class low-income rate affordability program integrates the affordability benefits into its existing rate structure within the constraints of efficient program spending.<sup>35</sup> An integrated program can involve either a tiered rate discount or an explicit percentage-of-income based program. Integrating the affordability program into the rate structure makes clear that rate assistance is being provided to the low-income customer from the utility. Programs such as the New Jersey USF, as well as the Columbia Gas and Equitable Gas CAPs, provide credits toward bills for current usage that appear on the face of the bill. The tiered rate discount programs of the New Hampshire EAP, the National Fuel Gas LIRA, and the Citizens Gas/Vectren USP also identify the bill reductions as part of the rate structure. These approaches stand in contrast to the Maryland EUSP, which provides

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<sup>34</sup> Some programs adjust their rate riders on a quarterly basis without making those riders reconcilable. Under this approach, any under-collection or over-collection in program costs would result in a prospective adjustment of the rate rider, but the past difference is not rolled forward into the future period.

<sup>35</sup> While a rate discount may, for example, be integrated into a company’s rate structure, discounts tend to be inefficient mechanisms through which to distribute affordability benefits. Straight discounts tend to overpay some customers while underpaying others.

the ratepayer funding to a third party administrator who then distributes the money back to low-income customers in the form of an annual benefit payment.

Integrating low-income rate affordability programs into the normal collections process is a second best-in-class practice. By applying normal credit and collection practices to program participants, utilities avoid the need to create special procedures to address nonpayment by program participants. Nonpayment by a low-income program participant is not met with dismissal from the program (with the corresponding need to implement processes to monitor late payments or the cure of missed payments meriting program reinstatement). Nonpayment is addressed by placing the low-income program participant in the same collections process as any other customer, albeit under a separate tariffed rate. Of the best-in-class programs, only Equitable Gas conditions its grant of affordability benefits on full and timely payment of current bills.

**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.**

#### **4.1.4 The Impact of an Affordability Program on the General Population**

Low-income rate affordability programs have positive impacts on the general ratepayer population. Low-income programs have been found to more effectively address nonpayment problems caused by the unaffordability of home energy to limited income households. In this sense, low-income programs should not be viewed as social service responses to poverty, but rather as a business response to the need to provide essential life services to customers who are likely to have difficulty paying for those services.

In approving the Columbia Gas CAP, the Pennsylvania state utility regulatory commission found that “an appropriately designed and well-implemented CAP, as an integrated part of a company's rate structure, is in the public interest.” After investigation, the commission stated that the CAP approach to addressing low-income payment problems is “a more cost-effective approach for dealing with issues of customer inability to pay than are traditional collection methods.” As the state Office of Consumer Advocate noted the issue to be: “The issue in this proceeding is not to devise a social response to the broad inability to pay problems of low-income households. The issue is one of what is the most cost-effective means of collection.”

The Pennsylvania programs (Columbia Gas CAP, Equitable Gas CAP, National Fuel Gas LIRA) were seen as a way to respond to low-income unaffordability so as “to address realistically these customers’ problems and to stop repeating a wasteful cycle of consecutive, unrealistic payment agreements that cannot be kept, despite the best of

intentions, followed by service termination, then restoration, and then more unrealistic agreements. . .”

Adopted at the behest of the respective utilities, the Indiana low-income rate affordability programs were based on a similar finding. According to Niel Ellerbrook, Chairman of the Board and Chief Executive Office of Vectren Utility Holdings, the parent company of Vectren Energy Delivery, the primary driving factor behind his utility’s low-income proposal involved “the dramatic rise in natural gas prices and the resulting impact on customers and the economy.” According to Ellerbrook, “There is a cost to serve customers who need heat but are unable to pay the full cost of service for any number of reasons, including job loss, cost of medicine, or the number of their dependents. Like other real costs to provide service to our entire customer base, this cost must be recognized and addressed in a constructive manner to assure that people have service.” He concluded by noting that “[T]he USF program provides an answer in conjunction with LIHEAP and other available programs, by identifying customers with true need, determining in a consistent and accepted manner how much they can pay for service, and providing them with more affordable bills that better match their ability to pay.”

**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.**

## ***4.2 Common Elements of a Best Practice Rate Affordability Program.***

An effective low-income rate affordability program is designed to address the multi-levels of need created by the inability of certain customers to pay for their essential home energy service. Not only should a program address the affordability of bills for current usage, but the program should also address past-due arrears. Not only should a program address the annual unaffordability of bills, but the program should also address the seasonal unaffordability of bills. Not only should a program address the payment of current bills, but the program should also address the consumption underlying those current bills.

To perform these multiple tasks requires a partnership between the utility, community-based organizations, government, and the low-income customers themselves.

### **4.2.1 The Necessary Components of a Rate Affordability Program**

A best-in-class low-income rate affordability program has five necessary components to it. A low-income rate affordability program should:

- Reduce bills for current usage to an affordable percentage of income. The program should recognize the essential role played by home energy burdens in defining home energy affordability.
- Retire pre-existing arrears within a reasonable time period, without raising the overall monthly asked-to-pay amount to an unaffordable level.
- Protect against unexpected monthly bill volatility associated with changes in price and/or weather through facilitating or requiring entry into levelized budget billing plans.
- Promote the efficient use of energy, both through investments in usage reduction measures for the housing unit and the preservation of conservation incentives within the affordable rate structure.<sup>36</sup>
- Preserve funding to address crisis situations caused by the fragility of income experienced by poverty-level households.

**Lesson #8:**

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

#### **4.2.2 The Roles of the Different Actors**

A best-in-class low-income rate affordability program represents a partnership between multiple stakeholders, each of which plays a key, though not exclusive, role in delivering program benefits. The key roles played by the various stakeholders include:

- A **utility regulatory commission** recognizes the need for a low-income rate affordability program as a cost-effective mechanism for addressing the inability-to-pay problems by the poor. The commission provides policy oversight of the program, in addition to providing fiscal oversight and control of program cost-recovery. In each of the best-in-class programs discussed herein, the regulatory commission provides this policy and fiscal oversight.
- The **local distribution utility** serves as the delivery agent for the low-income rate affordability program. The delivery agent is the institution through which affordability benefits are posted and communicated to the customer. Rather than providing cash benefits directly to a customer, affordability benefits are delivered either through bill reductions, or through direct vendor payments made to the utility. In each of the best-in-class programs discussed herein,

<sup>36</sup> Conservation incentives can be preserved through mechanisms such as offering percentage-of-income based benefits through a fixed credit on the bill or imposing bill or benefit caps.



benefits are distributed as bill credits, whether calculated by reference to percentage-of-income-based rates (Columbia Gas CAP, Equitable Gas CAP, Ohio PIPP, New Jersey USF), or by reference to tiered discounts (New Hampshire EAP, Maryland EUSP, National Fuel Gas LIRA, Citizens Gas/Vectren USP).

The local distribution utility further plays the primary role in targeting the rate affordability program to payment-troubled low-income customers. This targeting involves recognizing a persistently payment-troubled customer and referring that customer to the appropriate institution to determine whether the customer is income-eligible for the rate affordability program. Only the utility has the capacity to use its existing processes (call center conversations, collection processes) to recognize the persistently payment-troubled customers that would benefit from a low-income rate affordability program.

- The **state or provincial government**, acting through its legislative body, may act to authorize the implementation of a low-income rate affordability program. While such legislative action should not be necessary so long as the local distribution utility offers the rate affordability program as a mechanism to improve the efficiency and effectiveness of utility operations, rather than exclusively as a social benefit, enactment of legislation may eliminate any ambiguity in regulatory jurisdiction over affordability programs.

In the event that the legislative body acts, the best-in-class programs find that the legislative action is limited to language either authorizing (you “may” implement an affordability program) or mandating (you “must” implement an affordability program) regulatory agency action. Program design and operational decisions are best *not* placed in legislation, but rather left to the implementing agency.

- **State and federal government agencies** (other than the utility regulatory commission) serve as the front-line in determining income eligibility for a low-income rate affordability program. While the local distribution utility company is likely the institution who identifies a potential program participant, referrals for the actual determination of income-eligibility are generally made to a government agency.<sup>37</sup> While some utilities retain the task of determining income-eligibility for in-house utility staff, this is unusual. Programs such as the New Hampshire EAP, the Maryland EUSP, the New Jersey USP, and the Citizens Gas/Vectren USP rely on the federal fuel assistance program nearly exclusively to determine income eligibility for individual program applicants.

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<sup>37</sup> These government agencies, of course, frequently operate through contractual relationships with local community-based organizations. The determination of income eligibility for the federal fuel assistance program, for example, is generally made through a contract with a local Community Action Agency.

State agencies can play various roles in administering a low-income rate affordability program. On the one hand, in some of the most successful affordability programs, state agencies are completely divorced from the program. Outside of the utility commission, no state agency in Pennsylvania plays an institutional role in the affordability programs of that state's utilities. In contrast, in some states, the state agency plays the primary role in the program. The Maryland EUSP generates a stream of revenue for the state's Office of Home Energy Programs (OHEP), which then distributes benefits to program participants. The only role for the utility is to receive the payment and post it to the customer's account. In yet other states, the state serves as the financial repository. The utilities in New Hampshire and New Jersey post prescribed bill credits to the accounts of program participants and seek reimbursement from the state. The state holds the funding generated by each state's system benefits charge pending a request for cost reimbursement. Finally, in states such as Indiana, the state plays no role other than serving as the intake agency.

- **Community-based organizations** perform critical outreach and intake functions for a low-income rate affordability program. Whether intake is undertaken at the governmental or utility level, the actual field personnel involved with outreach and intake are likely to be those persons who directly interface with low-income customers on a day-to-day basis. The staff of these community-based organizations have both the professional expertise, as well as the connection to the community, to allow them to perform these tasks effectively.
- The **program participants** play multiple roles in the success of a low-income rate affordability program. Primarily, a program participant has the obvious role of being responsible for the full and timely payment of monthly bills. Bill reductions can be offered to bring energy burdens into an affordable range, but the ultimate responsibility for bill payment remains with the customer. A program participant who does not pay will be subject to traditional credit and collection processes.

Moreover, even once bills have been reduced to an affordable home energy burden, program participants have ongoing fiscal responsibilities. Program participants must be aware of their own consumption patterns to prevent program benefits from being curtailed for exceeding bill or benefit ceilings.

Finally, program participants must also be responsive to the need to maintain their participation in the affordability program. Notice of the need to recertify income for continuing participation will come from the program; indeed, the program may facilitate such recertification in various ways (e.g., allowing mail recertification rather than in-person recertification). The ultimate responsibility for maintaining program participation, however, remains with the customer.

**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 of utility operations, rather than exclusively as a social benefit.**

### **4.2.3 The Funding of a Rate Affordability Program**

The funding of a low-income rate affordability program has implications for the program, for the sponsoring utility, and for nonparticipating customers. Funding involves not only the level of dollars devoted to the program budget, but also the structure and timing of program funding.

Best-in-class home energy affordability programs should provide for reasonable certainty in the level and timing of program funding. 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. Reasonable funding is accomplished by building the funding mechanisms into the utility rate structure. In contrast, relying on annual government appropriations leads to year-to-year uncertainty as to whether funding will be provided or what that funding level will be.

The existence of utility-based low-income program funding is universal within the best-in-class programs. The utility-based funding does not depend on the structure of the underlying delivery of benefits. The New Hampshire EAP (tiered discount), New Jersey USF (fixed credit percentage of income program), and Maryland EUSP (tiered discount) all rely on a statewide system benefits charge.<sup>38</sup> In contrast, the Citizens Gas/Vectren USP (tiered discount), Columbia Gas and Equitable Gas CAPs (percentage of income programs), and National Fuel Gas LIRA (tiered discount), all rely on a utility-specific reconcilable rate rider. No best-in-class program relies on state-appropriated funding for its budget.

**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.**

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<sup>38</sup> 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.

Just as the certainty of program funding is an attribute of best-in-class low-income rate affordability programs from the program perspective, certainty of cost-recovery is an attribute from the perspective of the sponsoring utility. Certainty of cost-recovery is generally provided through a reconcilable rate rider. The nature and prevalence of reconcilable rate riders is discussed elsewhere in this report within the context of protecting investor-based interests.

**Lesson #11:**

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

A best-in-class low-income rate affordability program should protect the interests of nonparticipating customers by ensuring that all stakeholders equitably contribute to program funding. In particular, given the nature of the home energy affordability problem, all customer classes should contribute to the funding of these programs. 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. 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.”

With the exception of Pennsylvania, whose utility commission has chosen to limit cost recovery exclusively to the residential class, low-income rate affordability programs recover their costs from all customer classes. The New Jersey USF, Ohio PIPP, Maryland EUSP, and Citizens/Vectren USPs all impose a system benefits charges (SBC) on all customer classes. In each of these states, the charge varies between classes, but is uniform within the class. In contrast, the New Hampshire EAP is based on a uniform charge across all customer classes.

**Lesson #12:**

**A best-in-class rate affordability program views the costs for low-income rate affordability programs as a cost of operating as a public utility for which all ratepayers must share the costs.**

Similarly, while the interests of utility investors should be protected through timely cost-recovery, utility investors should not be the sole beneficiaries of cost reductions generated by a low-income rate affordability program on a between-rate-case basis. Instead, cost-recovery should recognize that program expenditures generate cost reductions 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. A best-in-class affordability program should account for the benefits generated by the program as well as the expenditures made to support the program.

Some, but not all, best-in-class rate affordability programs account for cost savings in their ratemaking. National Fuel Gas agreed to implement a cost offset for the incremental additions to its LIRA program since its last base rate case.<sup>39</sup> Moreover, both Vectren and Citizens Gas have agreed to make investor-contributions to their rate affordability programs in partial recognition of the cost offsets generated by the program. Other programs, such as the New Hampshire EAP, the New Jersey USF, and the Maryland EUSP, have not recognized program cost offsets in their ratemaking treatment of program costs.

**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.**

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<sup>39</sup> In a base rate case, any cost savings that are generated by a low-income rate affordability program are recognized and accounted for through a reduced revenue requirement. The issue here involves the extent to which, if at all, cost savings are accounted for on a between-rate-case basis.

**APPENDIX A:  
IDENTIFICATION OF BEST-IN-CLASS CRITERIA**

Program Attribute		Universal Service Fund (NJ)	Columbia Gas CAP (PA)	Equitable Gas CAP (PA)	Percentage of Income Payment Plan (OH)	Universal Service Programs (Citizens Gas and Vectren) (IN)	National Fuel Gas Low Income Rate Assistance (PA)	Electric Assistance Program (NH)	Electric Universal Service Program (MD)
<b>1. Reasonably open to all in need</b>									
a.	Needs assessment prepared as basis for program design.	No	Yes	Yes	No	No	Yes	No	Yes
b.	Non-income criteria used to establish program eligibility.	No	Payment troubled	Payment troubled	No	No	Payment troubled	No	No
c.	Rolling year-round program applications accepted.	Yes	Yes	Yes	Yes	No	Yes	No	Yes
d.	Reasonable definition of "low-income" established as eligibility level.	175% FPL	150% FPL	150% FPL	175% FPL	150% FPL	150% FPL	185% FPL	175% FPL
e.	Enrollment performed in conjunction with other public benefit programs.	LIHEAP/Food Stamps	No	No	LIHEAP	LIHEAP	No	LIHEAP	LIHEAP
f.	Multi-year income certification accepted for households with fixed income.	No	Limited	Yes	No	No	Yes	Limited	No
g.	Ceiling placed on participation numbers.	No	No	No	No	No	No	Yes	No
<b>2. Recognizes and incorporates multi-faceted nature of "need."</b>									
a.	Bill for current usage tied explicitly to household home energy burden.	Yes	Yes	Yes	Yes	Tiered discount	Tiered discount	Tiered discount	Tiered discount
b.	Minimum payment required by customer.	No	Past year average or \$25	\$25/month	No	No	\$12/month	No	No
c.	Programs benefits subject to ceiling.	Yes	Yes	Yes	No	No	Yes	No	Yes
d.	Risk of increased bills due to weather/prices placed on customer, on program, or shared.	Customer	Program	Program	Program	Shared	Shared	Shared	Customer
e.	Preprogram arrears forgiven over time.	12 months	6-years	Matching	Matching	No	24-months	No	Limited
f.	High use program participants automatically referred to usage reduction program.	Referred	Referred	Referred	Referred	Referred	Referred	No	No
g.	Program includes proactive reminder telephone calling.	PILOT	No	Yes	No	No	No	No	No
h.	Program offers crisis intervention funding.	No	Fuel fund support	Fuel fund support	No	Fuel fund support	Fuel fund support	No	No
<b>3. Efficiently uses program funds.</b>									
a.	Uses federal fuel assistance program as intake mechanism.	Yes	No	No	Yes	Yes	No	Yes	Yes
b.	Service delivered through partnerships with community-based organizations.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
c.	Joint intake/eligibility determination made through federal fuel assistance program/joint application.	Yes	No	No	Yes	Yes	No	Yes	Yes
d.	Federal fuel assistance dollars explicitly used in setting rate affordability assistance levels.	Yes	No	No	Yes	Yes	Yes	Yes (heating)	Yes (heating)
e.	Rate affordability assistance combined with mandatory levelized budget billing.	No	No	No	No	Yes	Yes	No	Yes

Program Attribute		Universal Service Fund (NJ)	Columbia Gas CAP (PA)	Equitable Gas CAP (PA)	Percentage of Income Payment Plan (OH)	Universal Service Programs (Citizens Gas and Vectren) (IN)	National Fuel Gas Low Income Rate Assistance (PA)	Electric Assistance Program (NH)	Electric Universal Service Program (MD)
f.	Conservation incentives designed into the rate structure or specific control features.	Yes	Yes	Yes	No	No	Yes	No	Yes
<b>4. Provides mechanism for continuous improvement.</b>									
a.	Program objectives explicitly articulated in public document.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
b.	Program outcome evaluation performed at regularly designated time intervals.	No	Yes	Yes	No	Yes	Yes	Yes	No
c.	Regular periodic standardized data reporting institutionalized.	No	Yes	Yes	Yes	Yes	Yes	Yes	No
<b>5. Provides for reasonable cost recovery.</b>									
a.	Cost recovery spread over all customer classes.	Yes	No	No	Yes	Yes	No	Yes	Yes
b.	Program cost recovery annually determined/cost recovery annually adjusted.	Yes	Yes	Yes	No	Yes	Yes	No	Yes
c.	Cost recovery accounts for program cost offsets generated by program.	No	No	Yes	No	Yes	Yes	No	No
d.	Cost recovery independent of utility service territory limits.	Yes	No	No	No	No	No	Yes	Yes



**APPENDIX B:  
RATINGS BASED ON BEST-IN-CLASS CRITERIA**

Criteria	Program Rating (see notes)	Notes
<b>1 Reasonably open to all in need</b>		
a. Empirical needs assessment	0	While program evaluation assessed "need," needs assessment is not used to establish program budget or design.
b. Scope of eligibility	*	Sets eligibility at 175% of the Federal Poverty Level.
c. Ease of program entry	*	Automatic enrollment through state-administered federal fuel assistance program eliminates entry barriers.
d. Open enrollment	*	Program commits to serve all in need. Program accepts enrollment year-round. There is no ceiling on participation.
e. Ease of recertification	+	Must recertify annually. Can do in-person at local community based organization or by mail.
<b>2 Recognizes and incorporates multi-faceted nature of "need."</b>		
a. Affordability of bills for current usage.	*	Seeks to reduce combined gas/electric home energy burden to 6% of income, split 3% for electric baseload and 3% for heating (6% for all electric)
b. Resolution of pre-program arrears.	*	Programs "Fresh Start" component provides for the forgiveness of arrears after 12-months of timely payments. May "cure" missed payments within 3-months after first 12-month period. Eligible for Fresh Start forgiveness only once.
c. Targeted assistance to high usage/high benefit participants.	+	High usage USP participants routinely referred to utility-funded "Smart Comfort" energy efficiency program. Explicit tie between USP and Smart Comfort.
d. Allocation of risk of weather/price volatility.	-	"Fixed credit" nature of program benefits places entire risk of increased bills due to weather or prices on program participant.
<b>3 Efficiently uses program funds.</b>		
a. Matches payments to needs	*	Program individually determines an affordable home energy bill for each program participant. No under- or over-payment occurs.
b. Maximum/minimum payment.	0	No minimum customer payment. Program imposes \$1,800 ceiling on benefit payment. Ceiling on benefit not indexed.
c. Integrates with other utility payment processes (e.g., budget billing).	-	Program's inability to move to budget billing results in federal fuel assistance creating bill credits in some months and high monthly bills in other months, even though annual energy burden is "affordable."
d. Integrates financially with other energy assistance programs.	+	High integration with federal LIHEAP program. LIHEAP benefits subtracted from bill prior to calculating home energy burden. LIHEAP used as automatic intake for USP.
e. Conservation incentives designed into the program.	*	Fixed credit nature of benefit allows customers to retain benefits of usage reduction. Fixed credit requires customers to pay for increased consumption. Benefits subject to ceiling.
<b>4 Provides mechanism for continuous improvement.</b>		
a. Provides for periodic outcome evaluation relative to objectives.	+	Program outcome evaluation performed under contract to state utility regulatory commission. Periodicity of evaluation not memorialized in program design or regulations.
b. Provides for standardized data reporting.	+	BPU has prescribed limited standardized data reporting by all regulated utilities. Information not compiled and made publicly available.
<b>5 Provides for reasonable cost recovery.</b>		
a. Spreads costs over appropriate customer base.	*	Universal service costs spread volumetrically over all customer classes.
b. Ensures timely and reasonable certain recovery of program costs.	*	State regulatory commission establishes annual budget, and annual USF charge, to cover program budget. Over/(under) cost recoveries for any given utility rolled over into the immediately subsequent program year.
c. Accounts for cost offsets generated by program.	0	Evaluation found inadequate information upon which to form a conclusion one way or the other regarding offsets. State regulatory commission considered efficacy of program cost offsets and postponed consideration for lack of information.
d. Cost recovery independent of utility service territory limits.	*	Statewide funding distributed based on need irrespective of source of funding. Natural gas funding supp

Notes: Four ratings are possible for each program attribute:

- \* Exceptional: An identified program attribute makes it stand out above other programs.
- + Positive: An identified program attribute enhances program operation and success.
- 0 Neutral: No program attribute enhances or degrades program operation or success.
- Negative: An identified program attribute degrades program operation or success.

Criteria	Program Rating (see notes)	Notes
<b>1 Reasonably open to all in need</b>		
a. Empirical needs assessment	+	Needs assessment periodically prepared as per regulatory commission directives.
b. Scope of eligibility	+	150% of Federal Poverty Level AND payment-troubled (one failed payment agreement, cross-referral, credit scoring).
c. Ease of program entry	*	Emphasizes telephonic applications. Must apply for fuel assistance. Specialized dedicated staff trained in universal service program intake. Self-declared payment-troubled customer referred to dedicated universal service staff.
d. Open enrollment	*	Program commits to serve all in need. Program accepts enrollment year-round. There is no ceiling on program participation.
e. Ease of recertification	*	Annual recertification required. Mail-in recertification allowed. Participants receiving LIHEAP, fuel fund benefits, or benefits from some other Columbia Gas universal service program exempt from annual recertification. Elderly and disabled allowed bi-annual recertification.
<b>2 Recognizes and incorporates multi-faceted nature of "need."</b>		
a. Affordability of bills for current usage.	*	Gives four payment options: percent of bill, percent of income, 50% of budget billing, or average of last 12-months. Average of last 12 months is minimum payment.
b. Resolution of pre-program arrears.	-	Arrearages forgiven over six (6) years if regular payment is made (along with \$5 copayment toward arrears).
c. Targeted assistance to high usage/high benefit participants.	*	Halted conservation education as ineffective. Refers high users to company usage-reduction program. Operates pilot program to address high usage in homes previously treated with usage-reduction measures. To be reevaluated 2008.
d. Allocation of risk of weather/price volatility.	+	Percentage of income and average prior payment options place risk on the Company. Percentage of bill shares risk between company and customer.
<b>3 Efficiently uses program funds.</b>		
a. Matches payments to needs	*	Customer offered lowest payment option of four available, with minimum payment of average of last 12 months of customer payments. Percentage of income payment requirements tiered by ratio of income to Federal Poverty Level.
b. Maximum/minimum payment	+	Program requires minimum customer payment. Program imposes ceiling on benefit level. Neither payment level indexed.
c. Integrates with other utility payment processes (e.g., budget billing).	+	Waives security deposits for CAP participants. No mandatory budget billing.
d. Integrates financially with other energy assistance programs.	+	Federal fuel assistance funds used to reduce the shortfall between required customer payments and customer bill at standard residential rates.
e. Conservation incentives designed into the program.	*	Ceiling on benefits imposed.
<b>4 Provides mechanism for continuous improvement.</b>		
a. Provides for periodic outcome evaluation relative to objectives.	*	Periodic program evaluation prepared pursuant to regulatory commission directive. Program evaluation considers uniform outcome and process questions adopted by regulatory commission. Evaluation prepared by independent third party.
b. Provides for standardized data reporting.	*	Regular periodic data is reported to state utility regulatory commission as per commission directive. Uniform data reporting required for all regulated gas and electric utilities.
<b>5 Provides for reasonable cost recovery.</b>		
a. Spreads costs over appropriate customer base.	-	Costs of program assigned to residential class only.
b. Ensures timely and reasonable certain recovery of program costs.	+	Program costs recovered through a reconcilable universal service rider.
c. Accounts for cost offsets generated by program.	-	Cost recovery does not take into account cost savings to the utility generated by the program.
d. Cost recovery independent of utility service territory limits.	0	Utility-specific funding.

Notes: Four ratings are possible for each program attribute:

- \* Exceptional: An identified program attribute makes it stand out above other programs.
- + Positive: An identified program attribute enhances program operation and success.
- 0 Neutral: No program attribute enhances or degrades program operation or success.
- Negative: An identified program attribute degrades program operation or success.

Criteria	Program Rating (see notes)	Notes
<b>1 Reasonably open to all in need</b>		
a. Empirical needs assessment	+	Needs assessment periodically prepared as per regulatory commission directives.
b. Scope of eligibility	+	Income eligibility set at 150% of Federal Poverty Level. Must be payment-troubled to enter program.
c. Ease of program entry	*	May enter program through company representative or an external community-organization. Company accepts self-certified income. Each year, 10% of participant base randomly audited to determine whether self-certification provided accurate information.
d. Open enrollment	*	Program commits to serve all in need. Program accepts enrollment year-round. There is no ceiling on program participation.
e. Ease of recertification	*	Program requires recertification once every three years. Recipients of federal fuel assistance automatically re-enrolled. Participants in corresponding electric program are automatically re-enrolled.
<b>2 Recognizes and incorporates multi-faceted nature of "need."</b>		
a. Affordability of bills for current usage.	*	Tiered affordability tied to ratio of income to Federal Poverty Level. Payment percentages set at 7%, 8% and 10% for households with income at 0 - 50%, 51-100% and 101-150% of Federal Poverty Level respectively.
b. Resolution of pre-program arrears.	*	Company provides \$3 in matching funds for each \$1 in customer payment. First \$5 of each monthly customer payment is deemed to be toward arrears. Customers may "cure" missed arrearage payments and gain matching credits. Arrears projected to be forgiven over four years on average.
c. Targeted assistance to high usage/high benefit participants.	*	High usage customers referred to the Company's Low-Income Usage Reduction Program (LIURP). High-usage referrals given priority for receipt of LIURP services.
d. Allocation of risk of weather/price volatility.	*	Customer bills tied to percentage of income. Risk of volatility in price/weather borne by program.
<b>3 Efficiently uses program funds.</b>		
a. Matches payments to needs	*	Percentage of income payment requirements tiered by ratio of income to Federal Poverty Level. Affordability set at 7%, 8% and 10% for households with income at 0 - 50%, 51 - 100% and 101 - 150% of Federal Poverty Level respectively.
b. Maximum/minimum payment.	+	Program requires minimum customer payment. Program imposes ceiling on benefit level. Neither payment level indexed.
c. Integrates with other utility payment processes (e.g., budget billing).	0	Customer must make payment to earn his or her credit toward the bill for current usage. Missed payments must be "made up" to earn future credits.
d. Integrates financially with other energy assistance programs.	+	Federal fuel assistance funds used to reduce the shortfall between required customer payments and customer bill at standard residential rates.
e. Conservation incentives designed into the program.	*	Ceiling on benefits provided. Discount nature of program provides for sharing of burden of increased usage.
<b>4 Provides mechanism for continuous improvement.</b>		
a. Provides for periodic outcome evaluation relative to objectives.	*	Periodic program evaluation prepared pursuant to regulatory commission directive. Program evaluation considers uniform outcome and process questions adopted by regulatory commission. Evaluation prepared by independent third party.
b. Provides for standardized data reporting.	*	Regular periodic data is reported to state utility regulatory commission as per commission directive. Uniform data reporting required for all regulated gas and electric utilities.
<b>5 Provides for reasonable cost recovery.</b>		
a. Spreads costs over appropriate customer base.	-	Costs of program assigned to residential class only.
b. Ensures timely and reasonable certain recovery of program costs.	+	Program costs recovered through a reconcilable universal service rider.
c. Accounts for cost offsets generated by program.	-	Cost recovery does not take into account cost savings to the utility generated by the program.
d. Cost recovery independent of utility service territory limits.	0	Utility-specific funding.

Notes: Four ratings are possible for each program attribute:

- \* Exceptional: An identified program attribute makes it stand out above other programs.
- + Positive: An identified program attribute enhances program operation and success.
- 0 Neutral: No program attribute enhances or degrades program operation or success.
- Negative: An identified program attribute degrades program operation or success.

Criteria	Program Rating (see notes)	Notes
<b>1 Reasonably open to all in need</b>		
a. Empirical needs assessment	0	No periodic empirical needs assessment underlies the Ohio program.
b. Scope of eligibility	+	Income eligibility set at 150% of Federal Poverty Level. No non-income-based eligibility requirements.
c. Ease of program entry	0	Household applies through local community-based organization. Must apply for all available energy assistance.
d. Open enrollment	*	Program commits to serve all in need. Program accepts applications year-round. There is no ceiling on program participation.
e. Ease of recertification	+	Each customer must re-certify annually. Federal fuel assistance list first checked to determine whether needed information already exists. If not, application sent to customer which can be returned by mail. PIPP participants reporting zero dollar income must re-certify every 90-days.
<b>2 Recognizes and incorporates multi-faceted nature of "need."</b>		
a. Affordability of bills for current usage.	+	Program sets payments at an affordable percentage of income. Program "affordable" payments, however, set home energy burdens at somewhat high levels (5% for electricity; 10% for home heating). If summer electric bills higher than 5% of income, must pay actual bills. Households with income below 50% of Poverty Level pay 3%, not 5%, for non-heating.
b. Resolution of pre-program arrears.	+	Most common arrearage forgiveness provided through "graduate" program. Year 1: PIPP payment required; Year 2: actual bill required to be paid; Year 3 and after: actual bill plus some increment not to exceed \$20 paid. Utility forgives amount equal to the additional amount paid.
c. Targeted assistance to high usage/high benefit participants.	+	High usage customer referred to, and given priority for, energy usage reduction services.
d. Allocation of risk of weather/price volatility.	+	For heating customers, risk of bill volatility placed on program since bill is set at percentage of income. For electric customers, risk of bill volatility is placed on customer since customer must pay 5% of income or actual bill, whichever is higher, during non-heating season.
<b>3 Efficiently uses program funds.</b>		
a. Matches payments to needs	*	Bill affordability benefit individually determined for each customer. No under- or over-payment occurs.
b. Maximum/minimum payment	0	No minimum customer payment. No ceiling on benefit payment. No minimum benefit amount.
c. Integrates with other utility payment processes (e.g., budget billing).	0	No institutionalized integration of Ohio PIPP with utility bill payment processes.
d. Integrates financially with other energy assistance programs.	*	Benefits provided to program participants by limiting bill to a percentage of income. The distribution of particular benefits from the state or federal programs performed by state agency and is transparent to customer.
e. Conservation incentives designed into the program.	0	Referrals of high use customers to usage reduction program, but no structured conservation incentive.
<b>4 Provides mechanism for continuous improvement.</b>		
a. Provides for periodic outcome evaluation relative to objectives.	0	While outcome evaluation of Ohio PIPP has been performed, periodicity of evaluation not set by statute or regulation.
b. Provides for standardized data reporting.	*	State regulatory commission prescribes standardized data reporting that is filed by utilities on annual basis.
<b>5 Provides for reasonable cost recovery.</b>		
a. Spreads costs over appropriate customer base.	*	Uniform charge per unit of energy imposed on all customer classes.
b. Ensures timely and reasonable certain recovery of program costs.	+	Utility cost recovery rider set by state regulatory commission. Adjusted on application of program administrator or utilities.
c. Accounts for cost offsets generated by program.	0	No consideration is given to program cost offsets.
d. Cost recovery independent of utility service territory limits.	0	Utility-specific funding.

Notes: Four ratings are possible for each program attribute:

- \* Exceptional: An identified program attribute makes it stand out above other programs.
- + Positive: An identified program attribute enhances program operation and success.
- 0 Neutral: No program attribute enhances or degrades program operation or success.
- Negative: An identified program attribute degrades program operation or success.

Criteria	Program Rating (see notes)	Notes
<b>1 Reasonably open to all in need</b>		
a. Empirical needs assessment	+	Empirical needs assessment made a part of universal service plan. Prepared pursuant to regulations of state utility commission.
b. Scope of eligibility	+	Program extends to households with income at or below 150% of Federal Poverty Level. Customer must be payment-troubled (must have an arrears at the time of application or at least one current, canceled or defaulted payment arrangement).
c. Ease of program entry	-	Requires all residents of household to become "ratepayer" to enter program. Requires program applicant to provide copy of household mortgage, deed or lease to enter program. Must execute written "LIRA Service Agreement."
d. Open enrollment	*	Program commits to serving all in need. Program accepts enrollment year-round. There is no ceiling on program participation.
e. Ease of recertification	*	Household income must be reverified every two years, unless household situation changes or household reports \$0 income or household does not receive federal fuel assistance.
<b>2 Recognizes and incorporates multi-faceted nature of "need."</b>		
a. Affordability of bills for current usage.	*	Affordability tied to tiered percentage of income based on ratio of income to Federal Poverty Level. Affordable burdens set at 6.5%, 8.0% and 9.0% of income for households with income at 0 - 50%, 51 - 100% and 01 - 150% of the Federal Poverty Level respectively.
b. Resolution of pre-program arrears.	*	Households may earn forgiveness of 1/24th of preprogram arrears for each complete and timely payment. If complete and timely payment NOT made, household forfeits that month of forgiveness. At end of 24 month period, household may earn forgiveness of any forfeited months over 12-month period.
c. Targeted assistance to high usage/high benefit participants.	+	High usage customers referred to low-income usage reduction program. No priority given to high-use LIRA customers.
d. Allocation of risk of weather/price volatility.	*	The tiered discount shares the risk of changes in bills (either up or down). Company shares risk to the extent of the level of discount granted. Customer shares risk to the extent the undiscounted portion of the bill increases.
<b>3 Efficiently uses program funds.</b>		
a. Matches payments to needs	+	Company provides tiered discount based on income and household size. Tiered discount directed toward reducing bills to an affordable percentage of income, tiered by Federal Poverty Level. Discounts ranges from 10% to 60%. Minimum discount of 10% for income eligible household.
b. Maximum/minimum payment.	+	Program requires minimum customer payment. Program imposes ceiling on benefit level. Neither payment level indexed. Program provides for minimum benefit level.
c. Integrates with other utility payment processes (e.g., budget billing).	+	Program requires participation in equalized monthly Budget Billing Plan.
d. Integrates financially with other energy assistance programs.	+	Federal fuel assistance applied to reduce program participant's budget bill, without affecting customer's required percentage of income-based payment.
e. Conservation incentives designed into the program.	*	Ceiling imposed on benefits provided. Discount nature of program provides for sharing of increased usage.
<b>4 Provides mechanism for continuous improvement.</b>		
a. Provides for periodic outcome evaluation relative to objectives.	+	Periodic program evaluation prepared pursuant to regulatory commission directive. Program evaluation considers uniform outcome and process questions adopted by regulatory commission. Evaluation prepared by independent third party.
b. Provides for standardized data reporting.	+	Regular periodic data is reported to state utility regulatory commission as per commission directive. Uniform data reporting required for all regulated gas and electric utilities.
<b>5 Provides for reasonable cost recovery.</b>		
a. Spreads costs over appropriate customer base.	-	Costs of program assigned to residential class only.
b. Ensures timely and reasonable certain recovery of program costs.	+	Program costs recovered through a reconcilable universal service rider.
c. Accounts for cost offsets generated by program.	+	Cost recovery takes into account limited cost offsets for incremental additions to number of participants entering program since resolution of last base rate case.
d. Cost recovery independent of utility service territory limits.	0	Utility-specific funding.

Notes: Four ratings are possible for each program attribute:

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- Negative: An identified program attribute degrades program operation or success.

Criteria	Program Rating (see notes)	Notes
<b>1 Reasonably open to all in need</b>		
a. Empirical needs assessment	0	No periodic needs assessment prepared for each company. Each company participates in statewide uniform reporting of credit and collections data for all residential customers and for federal fuel assistance participants.
b. Scope of eligibility	*	Customers are automatically enrolled in the utility programs upon enrollment in the federal fuel assistance program. No extra effort is needed to enroll in the utility programs.
c. Ease of program entry	+	Utilities work with community-based organizations who enroll customers in federal fuel assistance to promote LIHEAP.
d. Open enrollment	+	Enrollment in the universal service program is tied to enrollment in the federal fuel assistance program. While this eases program entry, it limits the time period of enrollment to those months in which the federal program takes applications. Since the federal program is primarily a heating program, enrollment does not occur year-round.
e. Ease of recertification	0	Recertification is performed through the federal fuel assistance program. No special recertification regulations are in effect.
<b>2 Recognizes and incorporates multi-faceted nature of "need."</b>		
a. Affordability of bills for current usage.	*	Companies provide a tiered discount for three tiers of customers. Each tier is structured so that the discount plus the federal fuel assistance grant will, on average, reduce participant bills to an affordable percentage of income.
b. Resolution of pre-program arrears.	0	No special program component directed toward preprogram arrears. Utilities financially support local fuel fund which provides "crisis" grants.
c. Targeted assistance to high usage/high benefit participants.	+	Customers with usage at or above 130% of median participant usage referred to each company's usage reduction program.
d. Allocation of risk of weather/price volatility.	*	The tiered discount shares the risk of changes in bills (either up or down). Company shares risk to the extent of the level of discount granted. Customer shares risk to the extent the undiscounted portion of the bill increases.
<b>3 Efficiently uses program funds.</b>		
a. Matches payments to needs	+	Tiered discount provides some overpayment to low-use customers and some underpayment to high use customers. On average, utility discount plus federal fuel assistance benefit lowers bill to a predetermined affordable percentage of income.
b. Maximum/minimum payment.	0	No minimum customer payment. No ceiling on benefit payment.
c. Integrates with other utility payment processes (e.g., budget billing).	+	Both companies have announced their intention to require budget billing as a condition of program participation, at least for a period of months that include the winter heating months.
d. Integrates financially with other energy assistance programs.	*	Outreach, intake and benefit determination are tied to LIHEAP.
e. Conservation incentives designed into the program.	0	Referrals of high use customers to usage reduction program, but no conservation incentive structural incorporated into program.
<b>4 Provides mechanism for continuous improvement.</b>		
a. Provides for periodic outcome evaluation relative to objectives.	+	Annual reporting of monthly data used as basis for periodic evaluation.
b. Provides for standardized data reporting.	+	Two sets of monthly data. Statewide credit and collection data are reported from all six Indiana utilities. In addition, the three utilities with low-income programs report on a set of agreed-upon 36 program metrics.
<b>5 Provides for reasonable cost recovery.</b>		
a. Spreads costs over appropriate customer base.	*	All customer classes pay something toward programs.
b. Ensures timely and reasonable certain recovery of program costs.	0	Pre-established funding stream on a per unit of energy basis for term of program (current term is four years).
c. Accounts for cost offsets generated by program.	+	Without quantifying program offsets, the companies agree to make investor contributions to programs in light of program cost offsets.
d. Cost recovery independent of utility service territory limits.	0	Utility-specific funding.

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- Negative: An identified program attribute degrades program operation or success.

Criteria	Program Rating (see notes)	Notes
<b>1 Reasonably open to all in need</b>		
a. Empirical needs assessment	+	No periodic needs assessment memorialized in regulation or statute. Program overseen by multi-party work group of state agencies, electric utilities and community organizations who provide empirical data in support of specific inquiries regarding program operation.
b. Scope of eligibility	*	Income eligibility set at 175% of Federal Poverty Level. No non-income based eligibility requirements.
c. Ease of program entry	*	Customers who enroll in federal fuel assistance program automatically enrolled in electric affordability program.
d. Open enrollment	+	Program enrollment capped by whether committed benefits exceed annual budget. Waiting list maintained. Waiting list participants moved onto main program as budget allows, with priority given to households at lowest Poverty Levels.
e. Ease of recertification	+	Annual recertification allowed by mail. Biannual recertification provided for customers with types of income not likely to vary by year (e.g., elderly, disabled).
<b>2 Recognizes and incorporates multi-faceted nature of "need."</b>		
a. Affordability of bills for current usage.	+	Tiered discounts provided so that, at average income and usage level within range of Poverty Level, bills will equal affordable percentage of income.
b. Resolution of pre-program arrears.	-	No preprogram arrearage provided.
c. Targeted assistance to high usage/high benefit participants.	0	No institutionalized referrals of high usage customers to usage reduction program.
d. Allocation of risk of weather/price volatility.	*	The tiered discount shares the risk of changes in bills (either up or down). Company shares risk to the extent of the level of discount granted. Customer shares risk to the extent the undiscounted portion of the bill increases.
<b>3 Efficiently uses program funds.</b>		
a. Matches payments to needs	+	Some overpayment to low-usage customers and some underpayment to high-usage customers. With five discount tiers, the over- or under-payment is minimized.
b. Maximum/minimum payment.	0	No minimum customer payment. No ceiling on benefit payment. Program provides at least a minimum rate discount to all eligible customers.
c. Integrates with other utility payment processes (e.g., budget billing).	0	No systematic program integration with specific utility payment processes.
d. Integrates financially with other energy assistance programs.	+	Program is administratively and financially integrated with federal fuel assistance. Federal fuel assistance recipients automatically enrolled in electric program. Electric heating benefits are provided through federal program rather than through electric affordability program.
e. Conservation incentives designed into the program.	+	No structural conservation incentives incorporated into program, but discount nature of program provides for a sharing of increased usage.
<b>4 Provides mechanism for continuous improvement.</b>		
a. Provides for periodic outcome evaluation relative to objectives.	*	Periodic program outcome evaluation required by monitoring and evaluation manual adopted by state utility commission. Performed by independent evaluator.
b. Provides for standardized data reporting.	*	Program adopted monitoring and evaluation manual that articulates uniform data reporting by participating utilities.
<b>5 Provides for reasonable cost recovery.</b>		
a. Spreads costs over appropriate customer base.	*	System Benefits Charge collected on uniform volumetric basis from all customer classes.
b. Ensures timely and reasonable certain recovery of program costs.	+	Program costs recovered through statutorily established volumetric System Benefits Charge.
c. Accounts for cost offsets generated by program.	-	Cost recovery does not take into account cost savings to the utility generated by the program.
d. Cost recovery independent of utility service territory limits.	*	Statewide funding distributed based on need irrespective of source of funding.

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Criteria		Program Rating (see notes)	Notes
<b>1 Reasonably open to all in need</b>			
a.	Empirical needs assessment	*	Annual operational plan filed by program administrator with state regulatory commission contains an empirical needs assessment. Annual program report provided to legislature.
b.	Scope of eligibility	*	Program eligibility goes up to 175% of the Federal Poverty Level. No non-income eligibility requirements.
c.	Ease of program entry	0	Program entry attained through application process at local community-based organizations. Mail-in applications limited to repeat participants.
d.	Open enrollment	*	Program commits to serve all in need. Program accepts enrollment year-round. There is no ceiling on participation.
e.	Ease of recertification	0	Program participants required to annually recertify income. Program recertification may be done by mail.
<b>2 Recognizes and incorporates multi-faceted nature of "need."</b>			
a.	Affordability of bills for current usage.	+	Bill discounts are tiered based on ratio of income to Federal Poverty Level. Discounts are 30% (150%-175%), 50% (110% - 150%), 60% (75% - 110%), or 75% (-0 - 75%). For households heating with electricity, bill reductions of an additional 15% are provided through the federal fuel assistance program.
b.	Resolution of pre-program arrears.	-	Program provides limited arrearage forgiveness. Must have minimum of \$300 in arrears. Available only once per customer. Preprogram arrears credit can be up to \$2,000 per program participant. Arrearage forgiveness may extend to "off-service" customers to help them restore service.
c.	Targeted assistance to high usage/high benefit participants.	0	High usage participants referred to usage reduction program. Usage reduction only provides "weatherization" services and not appliance or other non-building shell services, thus limiting usefulness of efficiency services for the electric affordability program.
d.	Allocation of risk of weather/price volatility.	0	The risk of bill volatility based on weather or price increases is borne by customer. The affordability benefit is paid in one lump sum at the time of the application for assistance.
<b>3 Efficiently uses program funds.</b>			
a.	Matches payments to needs	*	The level of the rate discount plus the federal fuel assistance coordinated to reduce the participant's bill to an affordable percentage of income. Household benefit individually calculated for each program participant.
b.	Maximum/minimum payment.	0	No minimum customer payment. Program imposes ceiling on benefit payment.
c.	Integrates with other utility payment processes (e.g., budget billing).	+	Program requires participants to agree to enter into levelized monthly Budget Billing plan.
d.	Integrates financially with other energy assistance programs.	*	Utility affordability application is identical to application for federal fuel assistance, even though programs are on different fiscal years. Amount of utility affordability benefit takes into account level of federal fuel assistance.
e.	Conservation incentives designed into the program.	*	Benefits established using average usage of program participants. Consumption over average must be borne by program participant. Fixed payment nature of bill credit imposes burden for increased usage on program participant.
<b>4 Provides mechanism for continuous improvement.</b>			
a.	Provides for periodic outcome evaluation relative to objectives.	0	Program has been subject to empirical outcome evaluation. Periodicity of outcome evaluation not established by regulation or statute.
b.	Provides for standardized data reporting.	+	Program provides annual report to legislature based on standardized program data reporting. No standardized outcome data reporting is obtained from electric utilities.
<b>5 Provides for reasonable cost recovery.</b>			
a.	Spreads costs over appropriate customer base.	*	Program costs collected from all customer classes on volumetric basis. System Benefits Charge varies by customer class and, for some customer classes, by size of load of customer.
b.	Ensures timely and reasonable certain recovery of program costs.	*	Annual state regulatory commission proceeding establishes System Benefits Charge to be collected from each customer class.
c.	Accounts for cost offsets generated by program.	-	Cost recovery does not take into account cost savings to the utility generated by the program.
d.	Cost recovery independent of utility service territory limits.	*	Statewide funding distributed based on need irrespective of source of funding.

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