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The needs of some low-income households are best measured by United Way's ALICE threshold.

NOTE TO READERS

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UnitedWay's Asset-Limited, Income-Constrained, Employed (ALICE) Threshold Provides an Important New Mechanism to Use in Measuring Low-Income Needs.

Public Utility Commission (PUC) decisions regarding a host of issues presented in utility rate cases –whether those cases involve electricity, natural gas, or water/wastewater--fundamentally involve policy decisions on how to weight the interests of competing stakeholders. Those stakeholder interests generally involve the interests of utility investors on the one hand versus utility ratepayers on the other hand.

Perhaps at the top of the list, but not the exclusive issue, requiring a balancing of interests involves establishing a return on equity (ROE). Setting a “fair” ROE is fundamentally predicated on balancing customer and investor interests. Accordingly, it is necessary for the PUC to understand and consider the customer interests in order to appropriately balance them against the competing investor interests.

In deciding on the appropriate ROE and the reasonable capital structure, the obligation of a PUC to balance consumer and investor interests is clear. (*FPC v. Natural Gas Pipeline Co.*, 315 U.S. 575, 606-607 - 608). Indeed, of the consumer issues that are important drivers of the just and reasonable ROE determination, one of the most significant is the concern about affordability. If a sizable portion of customers cannot afford to pay the rates imposed by the PUC, the PUC can hardly be said to have approved just and reasonable rates. In engaging in this balancing, use of the relatively new ALICE Threshold (Asset-Limited, Income-Constrained, Employed) is an important tool to consider.

The discussion below explains the use of the ALICE threshold in two recent rate cases in Pennsylvania (one involving a natural gas utility and one involving an electric utility). It also explains the use of ALICE data in a recent Missouri-American Water Company rate proceeding.

The ALICE Threshold.

The PUC is not simply to consider the impacts of rate changes on low-income customers, but also to consider the impacts of consumer interests generally. Consideration of the impacts of proposed rate hikes on consumers generally used county-wide data provided in the ALICE Report for Pennsylvania in both a natural gas rate case involving Columbia Gas and an electricity rate case involving FirstEnergy. The ALICE data discusses the ability of households to afford the basics required for self-sufficiency.

The National Data.

The ALICE budget tracks the cost of household necessities that matter most to ALICE households: housing, child care, food, transportation, health care, and basic technology. According to United for ALICE, the United Way research arm which addresses the economic issues facing ALICE households:¹

The traditional measure of inflation, [the] Bureau of Labor Statistics' Consumer Price Index (CPI), tracks a much larger basket of over 200 goods and services – items that financially insecure households can't afford on a regular basis, like full-service meals at restaurants, wine, major appliances, flights, and jewelry. Tracking

¹ An overview of United for Alice, the research arm of United Way supporting the use of ALICE, is available at <https://unitedforalice.org/overview>.

costs over time using this larger basket alone can conceal important changes in the costs of basics.²

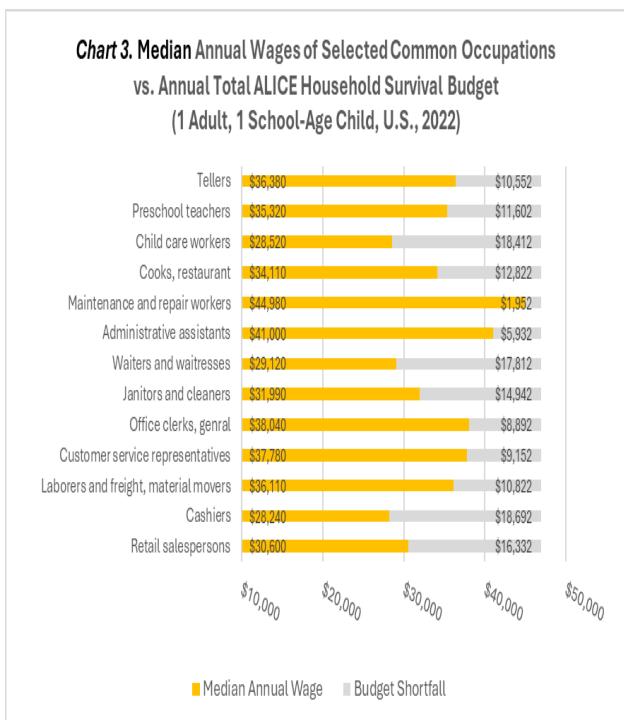
According to the 2024 ALICE report for the nation as a whole, the ALICE Essentials Index has consistently outpaced the broader CPI nationwide. Costs for both measures increased at a faster rate following the COVID-19 pandemic, peaking between 2021 and 2023. During this period, “the ALICE Essentials Index increased at an annual rate of 7.3% compared to 6.1% for CPI. . .”³ The 2024 ALICE report found that even in occupations where wages have grown faster than costs in recent years, wages started from such a low level that many workers are still not able to cover household essentials.⁴

Included among those “common occupations” are, for example, retail salespersons, cashiers, customer service representatives, janitors and cleaners, waiters and waitresses, administrative assistants, and cooks (restaurants), amongst others. The shortfalls between wages for a selection of these occupations and the ALICE Survival Budget (one adult, one school-age child) are set forth in the Figure below.

² ALICE Essentials Index, at page 3, available at <https://www.unitedforalice.org/essentials-index>

³ Id., at 3 - 4

⁴ Id., at page 7.



The Pennsylvania Natural Gas Case.

The ALICE data in Pennsylvania shows that the unaffordability of Columbia Gas bills is not exclusively a concern of low-income households. The lack of sufficient resources to pay household necessities extends upward, well into the “working poor” population. The households in Columbia’s service territory that would struggle to pay increased Columbia Gas bills associated with this rate case is more than two times higher than the Poverty rate.

In the 2023 report, using data from 2021, in Pennsylvania, a family of four would need an annual income of \$65,796 to cover essentials needed to live and work, pay rent, and pay utilities.⁵ Using the ALICE household survival budget of \$65,796 for a family of four in Pennsylvania, testimony presented on behalf of the Pennsylvania Office of Consumer Advocate (OCA) reviewed the median household income

(MHI) for the 26 counties which Columbia Gas serves in Pennsylvania.

This review of ALICE data separately considered MHIs for the total population, for the Black population, and for the Hispanic population.⁶ Of the 26 Columbia Gas counties, the MHI-ALL is below the ALICE survival income in 15 counties; the MHI-Black is below the ALICE survival income in 16 counties; and the MHI-Hispanic is below the ALICE survival income in 13 counties. The 15 counties where the MHI-ALL is below the ALICE survival income have a total population of 384,489. Those 15 counties have a poverty rate of 13.3%, but have an ALICE rate of 30.0%.

The Pennsylvania Electric Case.

Using the ALICE household survival budget for a family of four in Pennsylvania to live and work, pay rent, and pay utilities,⁷ in each of the 56 counties served in whole or part by FirstEnergy, testimony prepared for the OCA again separately compared MHI for the total population, the MHI for the Black population, and the MHI for the Hispanic population.

The MHI-ALL is less than the ALICE survival budget in five of the FirstEnergy counties (Forest, Huntingdon, Indiana, Potter, Wayne). In these counties, while 13% of all households are in Poverty, 37% of the county’s households live with income below the ALICE survival budget.

The MHI-Black population, however, is much worse off. The MHI-Black is below the ALICE

⁶ The MHI for the total population is referred to as “MHI-ALL”; the MHI for the Black population as “MHI-Black”; and the MHI for the Hispanic population as “MHI-Hisp.”

⁷ <https://unitedforalice.org/state-reports-mobile>

⁵ <https://unitedforalice.org/state-reports-mobile>

survival income in 32 of the 40 FirstEnergy counties for which MHI-Black is reported. The MHI-HISP is below the ALICE survival budget in 20 of the 38 FirstEnergy counties for which MHI-Hisp in reported .

In the 32 counties where the MHI-Black is less than the ALICE survival income, while 11% of households live in Poverty, 29% live with income less than ALICE. In the 20 counties where the MHI-Hisp is less than the ALICE survival budget, while 12% of households live in Poverty, 30% live with income less than the ALICE survival budget.

The Missouri Water Case.

A somewhat different approach to analyzing ALICE data was used in the Missouri-American Water Company rate proceeding. Rather than looking at the ALICE Threshold in total dollars, the Missouri data examined the earnings needed to meet the ALICE Threshold.

The ALICE data on state and county-specific wages documents that the national findings (discussed above) are equally applicable to the MAWC service territory. On November 5th, Missouri voters approved an increase in the state minimum wage to \$13.75 beginning January 1, 2025.⁸ The assessment below, therefore, assumes a per-worker wage of \$14/hour. This will somewhat overstate affordability since the most recent ALICE data calculating an ALICE Survival Budget is based on 2022 data. Increases in the costs of household essentials in the past two years years would have driven the ALICE Essentials Budget even higher.

⁸ Missouri Department of Labor and Industrial Relations (November 25, 2024), available at <https://labor.mo.gov/news/press-releases/minimum-wage-set-increase-january-1>

The Missouri assessment examined the counties which MAWC identifies as having offices to help customers access bill payment assistance.⁹ For each of those 15 counties, along with St. Louis City (which, for ease of reference, is referred to as a “county” below), the annual wage which ALICE has identified as necessary to support the ALICE Survival Budget was used as the basis for analysis. The Missouri testimony examined the ALICE Survival Budget for a 2-person, a 3-person, and a 4-person family. The data is set forth in the Table appended to this newsletter.

The data shows that even when the required hourly wage to support the ALICE Survival Budget is lower (because a family has two workers rather than one), the minimum wage beginning on January 1, 2025 (\$13.75/hour) is not sufficient in any of the study counties (again, listing St. Louis city as a “county” for purposes of this Table) to meet the 2022 ALICE Survival Budget for either a two-person or a four-person family. It is sufficient to meet the 2022 ALICE threshold in only ten of the sixteen “counties” for a three-person family.

The Table shows further that the geographic locations where the new minimum wage is *not* sufficient to meet the ALICE Survival Budget are those with the largest populations. While there may be fewer locations, there are far more households in those areas that do not have sufficient income to meet the ALICE Survival Budget. In the three largest jurisdictions (St. Charles and St. Louis counties, St. Louis city), the wage needed to be sufficient to meet the ALICE Survival Budget exceeds the minimum wage.

The Missouri analysis found that the ALICE data supports a number of conclusions.

⁹ <https://amwater.com/moaw/Customer-Service-Billing/Payment-Assistance-Options/>

- First, it found that the utility's broad conclusion that MAWC bills are generally affordable for the vast majority of Company customers was in error.
- Second, the data documents that the unaffordability of MAWC bills is not exclusively a concern of low-income households. In addition to affordability problems facing low-income households, the lack of sufficient resources to pay household necessities extends upward, well into the "working poor" population.
- Third, the number of households in MAWC's service territory that would struggle to pay increased water and wastewater bills as proposed by the utility is substantial.
- Finally, the number of customers who will face difficulties paying their MAWC bills is not only substantial, but is widely dispersed geographically throughout the Company's service territory as well.

Summary and Conclusions

Including an analysis of ALICE (Asset-Limited, Income-Constrained, Employed) households in future discussions of utility rate affordability is an important addition to affordability considerations. Substantial numbers of households have income which exceeds maximum income eligibility for public assistance, but which are nonetheless insufficient to allow the household to be able to afford its basic necessities. The ALICE Threshold provides an important tool to allow advocates (and others) to consider the impacts of utility bills on these households.

Persons interested in more information about how ALICE data can be used in reviewing utility rates to supplement traditional considerations of bill affordability can write for more information at:

roger [at] fsconline.com

**Wage Needed at Selected HH Sizes to Meet
ALICE Survival Budget by Selected Family Size (2022)**
(minimum wage [rounded to \$14] sufficient to meet ALICE Budget marked by dashed cells)

	No. Homeowners	2-person (1 worker, 1 child)	3-person (2 workers, 1 child)	4-person (2 workers, 2 children)
Chariton	2,591	\$18.37	\$12.67	\$14.75
Jefferson	86,455	\$22.53	\$15.23	\$17.57
Iron	3,821	\$19.54	\$13.02	\$15.18
Cole	30,151	\$20.21	\$13.60	\$15.86
Jasper	47,481	\$20.03	\$13.57	\$15.80
Newton	21,991	\$19.37	\$13.11	\$15.29
Audrain	8,968	\$18.91	\$12.95	\$15.15
Platte	42,606	\$27.10	\$17.64	\$20.45
Washington	9,032	\$18.56	\$12.73	\$14.82
Pettis	16,696	\$19.35	\$13.11	\$15.30
Buchanan	33,363	\$22.43	\$13.99	\$16.13
St. Charles	156,381	\$25.34	\$16.91	\$19.87
Warren	13,067	\$22.01	\$14.88	\$17.05
St. Louis city	143,059	\$24.58	\$16.49	\$19.56
St. Louis county	413,247	\$25.27	\$16.90	\$19.94
Johnson	20,613	\$19.80	\$13.41	\$15.60

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