

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

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The Energy Project appreciates the Commission's attention to the policies that should guide the structure and operation of bill assistance programs for low-income households served by Washington's investor-owned utilities and the opportunity to provide comments in the discussion. While there may be some signs that the economy is recovering, most indications are that the gap between haves and have-nots is simply getting wider. Data from Roger Colton on the changes in Washington state's low-income population between 2011 and 2012 corroborate that fact.¹ Colton's Home Energy Affordability Gap analysis indicates households with incomes below 50% of the federal poverty level "face a home energy burden of 22%." This means 22% of their income goes to pay their home energy bills. Those between 50%-100% FPL see a burden of 12%, while those between 100-125% see an 8% energy burden. At the same time, between 2011 and 2012, Washington added another 17,000 households to the population who currently qualify for assistance from the federal Low Income Home Energy Assistance Program (LIHEAP).

What policy goals should guide the implementation of electric and natural gas low-income assistance programs?

The Energy Project believes the most important policy goal for bill assistance is to keep people connected to affordable vital electricity and natural gas commodities and services. The program should also reach as many people as possible without sacrificing the ability for essential funding levels for individual households that provide the best chance to keep them connected. While it may seem more equitable to divide the funds across everyone who might qualify, that would defeat the purpose as it would amount just to throwing money at a problem with little chance of making a difference. At the same time, it is desirable to make program implementation as simple and straightforward as possible, both for ease of entry for prospective participants and to keep implementation costs to a minimum. There is some tension between these three main goals, however. Ideally, to keep households connected, the program would identify the reasons the household is not able to pay bills rather than simply use disconnection to extract payment. At the same time, the desire to serve more customers can lead to reducing assistance to levels that do not achieve the goal of keeping the customer connected and paying on the bill.

In the recent investigation of Avista's LIRAP program that resulted from the Multi-Party Stipulation in UE-120436/UG-120437, the Energy Project put forward the following list of desirable characteristics for a low-income bill assistance program.²

1. Helps the recipient stay connected to vital services over time: i.e., reduces the frequency of disconnections, particularly multiple disconnections for the same household;

¹ The Home Energy Affordability GAP 2012, 2nd Series published May 2013, for Washington, available at http://www.homeenergyaffordabilitygap.com/03a_affordabilityData.html.

² Some of these characteristics were indicated in Eberdt Testimony in UE-120436/UG-120437, p. 6.

2. Provides early identification of customers who are likely to have trouble paying for their energy consumption and provides a means to address those problems;
3. Identifies different types of customers and addresses their needs appropriately;
4. Enhances the provision/impact of LIHEAP;
5. Serves all customers who meet the eligibility requirements and indicate an inability to pay;
6. Is simple and less expensive to implement (both for qualifying eligibility and processing payment);
7. Minimizes the cost to other ratepayers;
8. Educates the recipient about their energy use and ways to use energy more efficiently
9. Reduces the energy burden (the proportion of household income that the home energy bill(s) represent, usually expressed as a %);
10. Reduces the frequency of non-payment by participants;
11. Reduces the build up of arrearages by the recipient;
12. Reduces bad debt and carrying costs for the utility;
13. Instills better payment behavior on the part of recipients (separately from making payments on their behalf);

It seems unlikely for any single program design to meet all these desirable characteristics. The result is that a utility has to choose those characteristics they deem most important and find some balance between competing interests. In some cases multiple programs are used to target different client needs. Ideally, the funding for a bill assistance program would be needs-based, rather than capped at some specific and perhaps arbitrary amount. Needs-based would mean anyone who qualifies for assistance would get a level of assistance that is appropriate to his/her need.

Which program design elements best support those goals?

Types of Program Designs

Different program designs will address certain items on the above list more than others. The Energy Project believes the best programs pay attention to the “energy burden,” or the percent of household income that a household must commit to their utility bill. APPRISE and Fisher, Sheehan and Colton (APPRISE/FSC) had categorized bills assistance programs into three structural types: 1) Rate Discounts, 2) Benefit Matrix, or 3) Percentage of Income Payment Plans.³

1) Programs that give the customer a credit of so many cents per kWh used, that provide a percentage discount of the monthly bill, or that simply waive certain charges like the monthly service charge are probably what most people think of when a low-income discount is mentioned. The greatest advantage of these programs is their simplicity. PacifiCorp’s Low-Income Bill Assistance program or Snohomish PUD’s low-income discount fall into this category. The PacifiCorp discounted rates are tiered and originally were established with an eye to creating a reasonable energy burden for the household receiving the benefit. It is unclear

³ *Ratepayer-Funded Low-Income Energy Programs: Performance and Possibilities*; APPRISE and Fisher, Sheehan, and Colton, July 2007, http://www.appriseinc.org/reports/NLIEC_Multi-Sponsor_Study.pdf

whether the discounted rate has kept pace with rate increases over the last dozen years or so to maintain bill payments below a specific burden.

2) The other four investor-owned utility bill assistance programs follow a different program structure – that of a credit (or discount) on the annual bill. This falls in the category that APPRISE/FSC call a benefit matrix. This is basically the same structure that is used in delivering the Dept. of Health and Human Services Low-Income Home Energy Assistance Program (LIHEAP) in Washington. These programs attempt to achieve a reasonable energy burden for the participants by providing a credit based on an estimate of the annual bill. The fact that the credit is based on annual consumption is another significant difference from the PacifiCorp discounted rate, which is only available during the winter months. The advantage to a benefit matrix is that it can be constructed to respond to different factors. In these Washington programs, the benefit is calculated based on multiple factors, as LIHEAP is.

3) The third type of program the APPRISE/FSC study identifies is a Percentage of Income Payment Plan (PIPP). The advantage to this design is it “directly targets the benefit to a measure of need.”⁴ In these types of plans a specific percentage of income is established as the reasonable level of payment for the customer. That percentage is applied to the customer’s income to determine the monthly bill payment. Ohio has run a PIPP since the mid 1980’s, but there are other examples as well. Clark PUD’s Guarantee of Service Program (GOSP) is a sort of PIPP with an arrearage management component.

As with the other two types of structures, there are variations in how PIPPs are structured. For example, if the annual bill is \$1000, the energy burden is 5%, and the household income is \$8000, a straight PIPP would require an annual payment of \$400. The monthly payment would then be $\$400/12 = \33.33 . A variation on this would establish a monthly credit instead of a monthly payment. That is, the customer still gets the 5% PIPP, but the \$400 is subtracted from the expected \$1000 bill to yield the \$600 credit which is then split across 12 bills. The customer’s bill then reflects a \$50 discount each month; the household is responsible for any costs beyond that. This puts the onus of higher usage on the customer, but also gives him the benefit from being conservative as well. Clark PUD’s GOSP program adds another component to their PIPP by reducing the customer’s debt by a specific amount if the customer successfully completes making payments for the designed period. Such arrangements have found good success in other states as well.⁵

⁴ APPRISE/FSC, p. 68

⁵ *Helping Low-Income Utility Customers Manage Overdue Bills Through Arrearage Management Programs (AMP)*; Charlie Harak, National Consumer Law Center, September 2013. http://www.nclc.org/images/pdf/energy_utility_telecom/consumer_protection_and_regulatory_issues/amp_report_final_sept13.pdf

The variety of payment structures are well described in Roger Colton's paper "Models of Low-Income Utility Rates."⁶ In addition, in response to a question from Commissioner Goltz in UE-111048, Puget Sound Energy's most recent general rate case, Energy Project witness John Howat provided a brief summary of 32 states that have rate assistance programs; included as Attachment A to the Energy Project's Post Hearing Brief in that case.⁷ *In and of itself, the structure of the discount does not determine whether the program reaches more customers.* How many customers benefit from the program is determined by two factors – how much of a benefit the customer is allowed, and how much funding is allocated to the program overall. Each design may have other attractive characteristics, but there is no advantage in terms of numbers of customers reached.

How to provide fair access if funds are insufficient to serve all eligible customers?

Utility Programs do not operate in a vacuum/targeting resources.

It is important to recognize that none of these utility programs operate all by themselves. While there is in most cases a link to energy efficiency programs through referrals and to conservation education, the most important link is with the Low-Income Home Energy Assistance Program. LIHEAP has been operating for more than 30 years trying to achieve this same goal – keeping households connected to vital services at a cost they can afford. With regard to the balance of numbers served/level of benefit, the Washington State Department of Commerce has recognized that the federal LIHEAP funds are not sufficient to serve everyone who would qualify with a level of service that will keep them connected. Understanding that it is more important to make a difference than merely to distribute benefits, Commerce has targeted the use of LIHEAP funds to households whose incomes are at 125% of the federal poverty level (FPL) or below. Only three states target a lower income level. Oklahoma and Michigan use 110% FPL (though Michigan goes higher in emergencies), while Nebraska uses 116%. Texas, like Washington, uses 125%. The majority of the remaining states use 60% of state median income or 150% FPL or higher. A handful run to 200% FPL. (<http://liheap.ncat.org/snapshots.htm>) Yet even the state with the lowest state median income, Mississippi, caps their income qualification at a level that is 37% higher for a two-person household than the \$19,388 allowed by Commerce. For comparison, to receive assistance from Seattle City Light, a two-person household can have a gross yearly income as high as \$40,020.

Clearly, the ideal program would be available to all eligible customers or needs-based. Depending on the set point for the upper threshold for qualifying income, this can quickly become a very large budget item. As noted, Seattle City Light's

⁶ Roger Colton; Fisher Sheehan and Colton, revised June 1995. Attachment A.

⁷ Energy Project Post Hearing Brief, pp. 6-7 and Attachment A, UE-111048.
<http://www.utc.wa.gov/docs/Pages/DocketLookup.aspx?FilingID=111048>

program currently qualifies households with roughly twice the income the LIHEAP does. This is at least in part a recognition that people with higher incomes can still be faced with serious economic pressures. At the same time, there are questions whether it draws outreach effort and needed assistance away from lower income households who may be harder to reach. California's CARES program is also needs-based and structured to make qualifying very easy. The result is a very high penetration rate, and a flat and, to some minds, relatively low benefit level for customers.

Outreach to target funds to hard to reach and/or vulnerable population is critical even when programs are needs-based, but is essential when the budget is capped at a certain level. The collaborative that developed the first IOU bill assistance program in Washington, the PacifiCorp Low-Income Bill Assistance (LIBA) program, recognized this when they established three tiers of assistance that would provide more assistance to households at 45% FPL than those at 75% or 120%. Still, within in the specific tiers a household at, say, 20% FPL will see the same benefit as a household at 50% FPL with the same energy usage. The LIHEAP program makes greater incremental adjustments by varying benefits according to household size, income, and consumption, rather than just by income blocks. This characteristic was a key consideration in the structure of the four ensuing IOU programs, which are designed to imitate LIHEAP in terms of how the benefit to the customer is determined. It is important that the utility program work with the LIHEAP program in order to extend the reach of services to more customers.

The question of fairness usually arises when someone points to the customers who are "just above the cut" – whose incomes are just a little too high to qualify for the program. Clearly setting the appropriate income level is a key program decision. Fairness also comes to mind, if the program serves customers at higher incomes who are more easily qualified because of participation in some related program, but doesn't commit sufficient effort to reach hard to reach populations who have greater need. Prioritizing vulnerable populations is also a fairness consideration.

There is another important way in which Washington's utility funded programs do not operate in a vacuum. The correlation of utility bill assistance and the HHS LIHEAP program has been noted. Often applying for bill assistance from either program through the local community action agency is a gateway to other services that can serve the household in their fight against poverty. They may be put in touch with childcare or Headstart services. Many of the community action agencies run or are partners with medical or dental clinics. Many operate food and nutrition programs. They may teach job skills or budgeting and banking skills. As each of these addresses one or another of the numerous financial shortfalls a household faces, it also helps the household spread their limited resources across their other needs.

What lessons can be learned from low-income assistance programs in other states?

Regular Payment/Program Resilience

Some people like discounted rates because, once the upfront work is done and the billing system is modified to accommodate them, they are relatively simple to process. People who believe it is good to have the customer required to pay something on the bill every month may argue for such a discount or a PIPP. While a PIPP is built around a specific energy burden target, it may be possible to construct a rate discount or an annual bill credit program around one as well. The Energy Project believes the original tiered discounts for the PacifiCorp program were set with the intention of keeping the participant's burden at or below 6%. A rate discount may require more "maintenance" over time to make sure that it continues to adhere to the original energy burden goal; that is, if the discounted per kWh rate is set based on achieving a specific burden level, then as rates increase, some effort will be required to ensure subsequent changes to the discount maintain that same burden. Regardless, one lesson is that targeting a reasonable energy burden can be key to getting regular payment behavior.

On the other hand, low-income households commonly experience loss of work or the occurrence of costs that are just beyond their means to handle. This will mean the utility bill will sometimes be the last one in the stack and go unpaid. If the bill assistance program requires a payment each and every month, then these customers will be thrown into crisis mode and are much more likely to suffer disconnection despite participating in the program. To our list above we would add the program should have the resilience/flexibility to respond when customers fail. Programs in other states recognize that some customers will face circumstances that cause them to miss an intended payment, but given the chance to recover or revise their agreement, those same customers will succeed in their participation. Even customers who are on PIPPs fail and need to fall back on emergency assistance from time to time. In Iowa, when a customer fails to perform on a payment plan they utility is required to reformulate the payment plan, at least once.⁸

⁸ (2)*Second payment agreement.* The utility shall offer a second payment agreement to a customer who is in default of a first payment agreement if the customer has made at least two consecutive full payments under the first payment agreement. The second payment agreement shall be for the same term as or longer than the term of the first payment agreement. The customer shall be required to pay for current service in addition to the monthly payments under the second payment agreement and may be required to make the first payment up-front as a condition of entering into the second payment agreement. The utility may also require the customer to enter into a level payment plan to pay the current bill. The utility may offer additional payment agreements to the customer. Iowa Administrative Code, Utilities Division [199]; Chapter 20 SERVICE SUPPLIED BY ELECTRIC UTILITIES; section 20.4(11)c.(2) Customer relations, Payment agreements, Terms of payment

APPRISE/FSC found that, contrary to expectations, evaluations did not show that a discounted monthly bill coupled with an equal payment plan did not show significant improvement in payment behavior over programs that provide a single annual credit. They go on to point out, however, that the one program that spread an annual credit across equal monthly payments did show improvement.⁹ This suggests that equal payment programs are a positive component to program design. All of the Washington programs could be adjusted to accommodate this feature.

Identifying Causes

Ron Grosse, manager for customer accounts for Wisconsin Public Service, pointed out more than 30 years ago that there are many reasons customers do not pay their utility bills and the utility will benefit from identifying and addressing them with appropriate and distinct approaches.¹⁰ Many customers will benefit from face-to-face energy conservation education. In some instances early identification of customers who are likely to have problems can help head off the amassing of arrears. Others need help with budgeting. Having a clear notion of what the bill will be each month certainly helps with budgeting. As noted above, putting the customer on an equal payment plan can enhance the bill payment behavior. But this does not work if the customer is kicked off the equal payment plan when they miss a payment or if they aren't allowed to be on one because they have an arrearage. Grosse emphasizes the point that customers who stay connected are more likely to pay on the bill than those who are repeatedly disconnected.

Arrearage Management

Some utilities have found that managing arrearages can go hand in hand with getting better payment behavior. Often some level of incentive is provided when a customer follows through with payments as arranged, usually in the form of a reduction of the past due amount.

Targeting

Targeting has been mentioned about, but a natural outgrowth to identifying causes is to try to design programs that target different types of customers. The LIHEAP program sets precedent in this regard by putting a higher priority on vulnerable populations, specifically the elderly, the disabled, and households with young children. The benefit matrix structure used in some Washington programs likewise targets more resources to households that have lower incomes, higher burdens, or higher consumption. Some programs target high users. At the same time these, targets can conflict; targeting high energy use can conflict with targeting the elderly

agreements, Second payment agreement. See also Chapter 19.4(10)c.(2) for application to gas utilities.

⁹ APPRISE/FSC; p. 89.

¹⁰ Ron Grosse, "Win-Win Alternatives for Credit & Collections"; originally published 1983, revised 1995, revised 2008, with collaboration of Nancy Brockway, Director, Multi-Utility Research and Analysis, National Regulatory Research Institute. Attachment B.

population, who might be high burden, but low use. It may put a household that conserves at a disadvantage while rewarding one that is wasteful. One of the positive characteristics about the Avista programs is that they have funds set aside to specifically target seniors separate from their “Heat” program. Outreach is a key factor in targeting success. In fact, if the program’s penetration is not limited by a budget cap, then outreach is probably what limits penetration. Some low-income populations are difficult to reach because of literacy, language and/or cultural barriers and require additional effort through materials in different languages, etc.

In the summary of the evaluations of some of the programs they looked at from thirteen states, the APPRISE/FSC paper noted the following positive characteristics:¹¹

- Targeting Benefits to Need – including arrearages, energy burden, and unsafe or unhealthy home environment;
- Facilitating Long-Term Participation – facilitating reapplication or recertification or allowing customers to continue in the program;
- Forgiveness of Preprogram Arrears – tied to bill payment and customer education;
- Integration with LIHEAP – though Washington’s programs aren’t “integrated” as APPRISE/FSC define it, they do coordinate benefits for the most part;
- Equal Monthly Payments – “customer surveys have shown that customers place great value of equal monthly payments” and that they can improve program performance;
- Refined Program Operations/Evaluation – the evaluators believe programs can benefit from the insights process evaluation can provide and a set program evaluation list across different programs.

Conclusion

Clearly, providing bill assistance is rife with difficult choices from how much funding to allocate, to what level of benefit is adequate, to what populations to target, to other intended achievements. Washington’s utility-based programs perform well in some of these categories. They all make some attempt to target benefits to need. They all coordinate the utility program with LIHEAP, though not all in the same way. The Avista program targets seniors distinctly in addition to other customers and has an emergency assistance component. The PacifiCorp program has begun extending certification to two years for appropriate customers. On the other hand, to the Energy Project’s knowledge, none of the programs has an arrearage management component nor is any tied to an equal payment plan that lets the customer know what their budget payment needs to be.

As APPRISE/FSC noted “[t]he most important goal of an affordability program is to make energy bills affordable for low-income customers.”¹² It is important to realize

¹¹ APPRISE/FSC; pp. 96-97.

that these programs are not failures if customers don't pay all of their bill or their arrearages. If the program keeps customers connected, it is successful. If the program results in the customer paying more than they would otherwise have paid, is successful. If the program reduces the costs for the utility to bill customers and diverts much needed customer income from disconnect and reconnect fees to paying for services, it is successful. Nevertheless, as the population changes, these programs need to be open to changes that will improve the ability to help low-income customers stay connected to vital energy services.

¹² APPRISE/FSC; p. 73.

