State of Utah

DEPARTMENT OF COMMERCE
Committee of Consumer Services

To: The Public Service Commission of Utah

From: The Committee of Consumer Services
Roger Ball, Director
Dan Gimble, Chief of Technical Staff
Kelly Francone, Utility Analyst

Copies To: The Division of Public Utilities
Lowell E Alt, Director
Artie Powell, Utility Analyst
The Crossroads Urban Center
Jeff Fox
The Salt Lake Community Action Program
Betsy Wolf

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Subject: Comments on the Division of Public Utilities' First Annual Report on the Home Electric Lifeline Program – Dockets 99-035-10 and 00-035-T07

1 Background

In August 2000 the Home Electric Lifeline Program (HELP) was established in compliance with the Public Service Commission's (Commission) Order in Docket No. 99-035-10. The Commission charged the Division of Public Utilities (Division) with monitoring the program, as well as conducting a thorough audit within three years. A joint stipulation, which defined details of the implementation of the program, was developed by various interested parties and adopted by the Commission in Docket No. 00-035-T07. The stipulation specifies three tasks to be performed by the Division:

1 Developing a set of standards and measures against which to evaluate the lifeline program;

2 Evaluating the effectiveness and success of the program against the determined measures and standards; and

3 Monitoring and auditing the program, and submitting, at a minimum, annual reports to the Commission and other interested parties.

The Division retained consulting firm RW Beck to develop a set of Measures and Standards against which to evaluate the effectiveness of HELP. It also audited the program and, on 7 January 2003, filed a report containing its comments and recommendations to the Commission. On 24 February, in response to a request from Commission Chairman Mecham, the Division provided an Update to its Report. This memo provides a response and recommendations from the Committee of Consumer Services (Committee) on the Division's Report and Update.

2 Analysis

The Committee believes the Division has done valuable work on the development of standards and measures, and in monitoring and auditing the program so far. Problems found during the audit have been resolved. The Committee agrees with the Division that it appears that HELP is being administered in a reasonable, effective and inexpensive fashion, and that the funds are being collected and disbursed in accordance with the Commission's Order in Docket 00-035-T07[1].

DEFINITIONS

On Page 3, under "Definitions Relative to Benefit", the Committee does not agree that all benefits are monetary or even quantifiable. Financial accounting for HELP is a zero-sum game, so overall there are no monetary benefits. And the definitions of the three categories suggest that only PacifiCorp is a potential beneficiary. HELP was not established to provide the Company with benefits. When PacifiCorp "benefits" by $1k, someone else – most likely the Company's customers – is suffering an equal and opposite detriment.

On Pages 3 and 4, under "Definitions Relative to Measures", a focus on monetary measurement alone will never result in an adequate assessment of HELP. And the Committee does not agree that the use of "floor", "ceiling", and "absolute" standards alone is adequate. It believes that the use of more comparative measures would be very valuable.

HELP PROGRAM OVERVIEW AND SUMMARY OF ACTIVITIES

On Page 11, under the last bullet, the Report says: "It was indicated that the DCED audits to date generally uncover about one recipient every other year that does not qualify for the HEAT and HELP programs." But the Report does not explain why they do not qualify.

[1] The 6th goal of the Commission is that the program "be administratively simple and inexpensive to administer."

HELP PROGRAM EVALUATION

The Division also reported its evaluation of the recommendations made by the Low-Income Working Group and RW Beck regarding the development of Measures and Standards. The Committee offers the following comments on those aspects:

Potential Measures and Standards

1 Process for Granting Credits to Recipients

The Committee agrees that data is available to verify that the process for certifying applicants to receive credits is in accordance with policies set by the Commission, and that such data provides valuable information regarding the certification process. It also agrees that this measure will be helpful in future audits and should be included in the program's Measures and Standards.

2 Benefit to Recipients

The Committee simply disagrees with RW Beck's observation that "the decision to target $8 as the level of subsidy is one of the least well-defined elements of this program's design."

The amount of the credit resulted from the Low-Income Working Group's analysis of programs in other states (based on data compiled by consultants Jerrold Oppenheim and Theo MacGregor) and in-depth discussion within the Working Group determining a credit amount that would be "meaningful." Oppenheim's 1999 report on low-income consumer utility issues, "A National Perspective," indicates that there are three basic types of discount programs in states that have low-income programs: fixed percent of bill; fixed dollar discounts; and discounts that vary with usage. Oppenheim also notes that while the fixed discount amount varies, a number of states have placed theirs between $7 and $9 a month: Alabama, $7.65; Georgia, $7.50, and Mississippi, $8.55[2].

In addition, the Working Group determined the monthly credit in such a way that the amount would provide a meaningful impact on low-income customer bills, while not overly burdening the non-recipients. The Salt Lake Community Action Program (SLCAP) states in its comments to the December 1999 Task Force report to the Commission that "the $8 per month rate offers a meaningful benefit to low-income customers … and helps to reduce the energy burden of a low-income household to a more reasonable level."[3]

The $8 credit makes enough of an impact that a recipient (according to anecdotal comments made by recipients to SLCAP) could purchase something of value, ie a couple of pies, a couple of packages of socks, two movie tickets, a pizza, etc. There

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[2] "Summary of Electricity Low-Income Assistance Programs," Jerrold Oppenheim and Theo MacGregor, July 1999.

[3] Task Force Report on Low-Income Issues, Page 14, 17 December 1999.

are many other benefits to recipients that include enhanced ability to pay their bills, enhanced safety, improved quality of life, reduced energy burden, etc.

The Committee also disagrees that recording the amount of the credit is superfluous. We believe that it is important to record and report this data element on an ongoing month-by-month basis. Should the Commission change the level of the credit at some future date, it will be important to be able to readily see that change and relate it to changes on other data elements.

3 Administrative Costs

The Committee agrees that evaluating the costs expended to administer the program is a useful tool to ensure that the costs stay within the limits put in place by the Commission.

4 Benefits to PacifiCorp

According to Oppenheim's "National Perspective" report, low-income programs provide benefits back to the utility in such categories as reduced arrearages, reduced terminations and reconnections, lower O&M costs, etc, that can be quantified. The Committee believes that the data should be collected and reported so that it will be available for analysis at a future stage when it may be possible to draw some meaningful conclusions.

5 Process for Collecting Surcharge from Ratepayers

The Committee agrees that the collection data provide useful information and should be included in the Measures and Standards.

6 Cost to Ratepayers in General

As in "Benefit to Recipients," the Committee believes this amount should continue to be recorded and reported for use as a future benchmark if the amounts collected change.

7 Cost to Other Parties

The Committee agrees that these costs probably cannot be accurately recorded or reported, and that, therefore, this measure is unlikely to be useful in evaluating the program.

8 Balance in Arrears

It appears that data is generally collected on a monthly basis, but occasionally is not reported. The Committee believes the Commission should order PacifiCorp to record and report the information on a monthly basis. Under those circumstances it could be a useful tool for the Program.

9-13 Terminations Per Customer, Reconnections, Accounts Sent to Collection Agencies, Write-offs Per Customers and Recoveries Per Customer

Just because neither RW Beck nor the Division has been able to analyze these numbers in a meaningful way does not mean that it cannot be done. The Committee believes that PacifiCorp should continue to keep track of such information.

14 Ending Account Balance

The HELP account balance is tracked and reported by PacifiCorp. The Commission ordered the Company to use its best efforts to collect no more than $1.85 million per year (the cap). RW Beck recommended that the standard for the ending account balance should be just 5% of the cap, or $92,500.

It is not clear to the Committee that 5% is the proper level at which to set this standard. Not since January 2001, when the program was still being geared up, have disbursements been lower than $92,500 in any month. It does not seem prudent to have less than one month's funds in hand. In April and May 2002, disbursements exceeded twice the balance recommended by RW Beck. It seems very risky to have less than two weeks funds in hand.

The Committee notes that some $0.7M was disbursed during July to December 2001, and about $1.1M during January to June 2002 (see Appendix A). It also notes that the Division reports that a reasonable rate of interest accrues on the balance. It believes that it would be prudent to maintain a balance of about six months' anticipated disbursements, suggesting that the standard should be set somewhere in the range $0.7M to $1.1M.

It isn't clear when RW Beck thought the ending balance should be struck. Nor is it clear what constitutes the program year.

The Division selected the calendar year, January to December, for the purposes of their Report. Yet HELP collections began in September, and the Division's January 2003 Report only looked at 2001 results. The Committee recommends that the Commission require a report each January on the results for a twelve-month period ending 30 September.

We would expect the balance to fall during the months when most applicants have been approved and are receiving credits (typically January through June) and rise during the other months (July through December) (see Appendix B)[4]. Accordingly, the Committee recommends that the standard for the Account Balance should be $900,000.

In its "Conclusions and Recommendations" on Page 40, the Division's Report expresses concern about the size of the account balance, which it claims "at the end

[4] In practice, the balance rose to its highest level in February 2002 (figures for the 1st quarter of 2001 have to be discounted because the program was ramping up then) and fell to its lowest levels in June 2001 and May 2002.

of Year One … was slightly less than $1,000,000 and growing". (It isn't clear exactly what the Division meant: the balance was $862k at the end of September 2001 and $1.03M at the end of December.) In its 24 February 2003 Update, the Division reports that, by 31 December 2002, the balance was $1.2M. The latest figures available to the Committee show the balance as $1.05M at 30 September 2002.

The Division recommends that monthly collections be reduced by one-third to "allow the account balance to gradually decline to a level the Division views as reasonable.

Given the Committee's very different view of what is a reasonable level for the account balance, it does not agree that monthly collections should be reduced so dramatically. The parties have been closely monitoring the account balance and monthly collections with respect to the program cap over the past two years. The Committee has not yet detected a consensus, or anything close to one, on recommending any action. To the extent that one is emerging, it would look more like an 8% reduction in the Schedule 91 tariff rider for those classes of customers whose surcharge is not presently capped[5].

However, the Committee does not believe that the time is yet ripe even for such a limited reduction. The Division has not yet provided a thorough analysis of Year 2[6] results, and the Committee hasn't seen the numbers for the fourth quarter of Calendar 2002. The number of low-income customers on the program continues to grow, particularly as the economy is slow to recover. Based on the current level of participation, the program is little more than just maintaining itself.

According to data in Table 1 of the Division's 24 February Update, the program over collected, on average, $9,135 monthly[7] during Calendar 2002. The comparable number for the period October 2001 – September 2002 was $9,765. For the period July 2001 – June 2002 it was $10,050. These numbers suggest a falling over-collection. The Committee is concerned that, if the surcharge is too greatly reduced, it might later need to be increased, contrary to the principle of rate stability and at the risk of confusing customers and resulting in increased numbers of complaints.

If the Commission does believe that Schedule 91 should be changed to reduce collections, the Committee recommends that it (the Commission) should determine the overall reduction and have the Division convene the parties to work out the details.

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5 Three schedules that are capped at $6.25 would be contributing approximately $130 monthly if their contributions were based on their percentage of revenues, as is the case for the rest of the schedules. Therefore, they are already significantly undercharged.

6 The Division defines Year 2 as October 2001 through September 2002, Report, Page 3

7 Based on year-end calendar figures from December 2002.

15 Program Cap

The amount collected under Schedule 91 is capped at $1.85 million and is tracked and reported by PacifiCorp. The Committee agrees that this is useful data and should be used in evaluating the program.

16 Penetration

It is important that the HELP program reach the appropriate customers and penetrate a certain percentage to be considered successful. The Working Group determined that a penetration level of 42% was reasonable, as that is the penetration level of HEAT participation[8]. RW Beck recommended 42%. The Committee, however, believes that, as a standard, the use of this percentage is ambiguous. The number of eligible households would have to be tracked in order to calculate what the 42% of that number actually is at any time. The Committee recommends simply using what originally represented the 42% level – 19,000 recipients – as the standard for penetration. The Committee believes this is a valuable mechanism to determine if the program is reaching a meaningful level of customers and should be included as a Measure and Standard.

17 Energy Consumption Trend

The Committee agrees that the average monthly consumption for program recipients and other residential customers tracks consumption rather than impact, but believes the information is useful.

During the period in which the low-income task force determined the framework for the program, some parties voiced concern that the credit could incent recipients to increase usage, which defeats conservation. However, recent data shows that, historically, Utah low-income customers use less energy than other customers. For example, in recent years, Utah Power customers who have received HEAT subsidies used, on average, 8 percent less power than customers who did not receive any assistance. Similarly, in Questar Gas' territory, HEAT customers used, on average, 13 percent less gas than those customers receiving no subsidy. The Committee believes tracking consumption will provide meaningful information on usage behavior for customers receiving the HELP credit.

18 Donors' Missed Investment Opportunity

The Committee agrees that this "investment opportunity" is not easily quantifiable. The Committee also believes that the amount - 12 cents a month or $1.44 annually to most customers - is so small that individual customers would be most unlikely to invest the funds.

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[8] The denominator used to determine this percentage was based on LIHEAP data collected from census information used to determine poverty rates.

19 Donors' After-Tax Contribution Compared to Pre-Tax

As in comments made under "Donors' Missed Investment Opportunity," the Committee also agrees that this would be extremely difficult to quantify and, therefore, not very useful in evaluating HELP due to the small amounts of money being charged to non-recipients.

20 Constitutional Measures

The Committee agrees with the Division that this would require legal assessment and interpretation beyond the scope of HELP. UCA 54-3-1 authorizes the Commission to act on behalf of "the well-being of the state of Utah." The Commission has maintained that it has the authority to create programs such as HELP. Also, as noted in the Division's report, programs like HELP have been put into place in other states by nearly as many commissions as legislatures[9].

21 Broad-based Macro-Economic Benefits

The Committee agrees that macroeconomic benefits and detriments are likely to prove so difficult to quantify that this measure ought not to be pursued.

22 Accrued Interest

The Committee believes that, as with the levels of Benefits to Recipients and Cost to Ratepayers in General, this data should continue to be recorded and reported.

23 Recipient and Donor Perspectives and Attitudes

The Committee agrees with the Division that surveys would not be an effective tool to measure the program. A more useful tool on the recipient side may be to acquire anecdotal information from those who receive the credit (through SLCAP, DCED, etc) and how they believe their lives are impacted by the credit.

24 Program Stability

The Committee believes this information should still be tracked. It also recommends that the Division, Working Group members and PacifiCorp discuss the eligibility problem recipients have when they move (low-income customers are more transient than other customer classes due to financial constraints) so that they can get back on the program more quickly.

25 Returned Checks

As in 9 through 13, the Committee believes the number of returned checks is useful information that should be recorded and reported.

26 Average Electricity Energy Burden

The average portion of household income spent on energy (electricity and/or natural gas) is much greater for recipients than for non-recipients. According to testimony

[9] Report, Page 6, second and third bullets.

filed by the Utah Ratepayers Alliance in the recent Questar Gas Company rate case (02-057-02), "currently these energy burdens are 10 percent for a family of three at the Federal poverty level with average energy usage, and 22 percent for a typical low-income senior citizen or disabled person receiving SSI." The energy burden for a household with median income in Utah is about 1.6 percent. It is clear that the $8 credit reduces the energy burden for recipients. The Committee believes that the $8 credit does make an impact on energy burden, and that, although other factors also contribute to it, efforts should continue to be made to develop a standard and that relevant data should be recorded and reported.

Measures and Standards the Division Will Use to Evaluate HELP

First, the Committee does not agree that it is for the Division unilaterally to decide what measures and standards will be used to evaluate HELP. The Division's evaluation is informative, and its recommendations helpful, but the views of at least those who were party to 99-035-10 should be taken into consideration in determining how the program will be evaluated. And, in the last analysis, it is for the Commission to decide which measures and standards should be used to evaluate HELP.

The Committee believes that the 11 Measures and Standards recommended by the Division are reasonable, and will be useful tools to evaluate the HELP program. However, we believe that a further 9 issues should also be recorded and reported:

Benefits to Recipients (2)

Benefits to PacifiCorp (4)

Costs to Ratepayers in General (6)

Reconnections (10)

Energy Consumption Trend (17)

Accrued Interest (22)

Program Stability (24)

Returned Checks (25)

Average Electricity Energy Burden (26)

The Committee further believes that the use of these 20 should be balanced by recording and reporting other factors, like the state of the economy, unemployment, seasonally high electricity costs, etc, which will also impact non-recipients. The Commission should be able to take such things into consideration before making any changes regarding the HELP program.

Evaluation of HELP

The Committee suggests that it is premature to attempt an evaluation of HELP – to judge whether standards have been met or exceeded, or goals achieved – at this stage.

It recommends that, for now, the Commission should confine its attention to considering which standards and measures to adopt.

3 Recommendations

The Committee recommends that:

- comparative measures and standards be developed to complement the monetary and quantitative ones recommended by the Division;
- Schedule 91 remain unchanged; and
- the following Measures and Standards be added to those recommended by the Division:
  - Benefits to Recipients (2)
  - Benefits to PacifiCorp (4)
  - Costs to Ratepayers in General (6)
  - Reconnections (10)
  - Energy Consumption Trend (17)
  - Accrued Interest (22)
  - Program Stability (24)
  - Returned Checks (25)
  - Average Electricity Energy Burden (26).