Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
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Energy Section
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DATE: April 6, 2004

SUBJECT: Home Electric Lifeline Program, Year 3 Report

In accordance with the Commission's order in Docket No. 99-035-10 and the subsequent Joint Stipulation developed by various interested parties and adopted by the Commission in Docket No. 00-035-T07, the Division of Public Utilities hereby submits its Year 3 report of the Home Electric Lifeline Program (HELP). It contains the Division's Year 3 audit of the program, evaluation of the measures adopted by the Division for the three years, and the Division's conclusions and recommendations.

The HELP Report

<u>H</u>OME <u>E</u>LECTRIC <u>L</u>ifeline <u>P</u>ROGRAM

YEAR 3 ANNUAL REPORT

TO THE

UTAH PUBLIC SERVICE COMMISSION

FROM THE

UTAH DIVISION OF PUBLIC UTILITIES

April 6, 2004

HELP
YEAR 3 REPORT

EXCECUTIVE SUMMARY

The HELP program was implemented to achieve certain goals, namely, to provide benefits to the low-income program recipients, PacifiCorp, and utility customers in general while not overly burdening non-recipient customers. Furthermore, the benefits that the HELP program provides should offset the negative impacts of the program, be administratively simple and comply with Commission ordered procedures on tariffs, certification and administrative charges.

The evaluation of the measures adopted by the Division indicates that the HELP program has been managed properly. The three measures that the Division used to determine whether or not the program was managed properly; namely, process of granting credits, process of collecting surcharge from ratepayers, and administrative costs, met their respective standards. However, the eight measures that the Division used to evaluate the performance goals of the program showed mixed results.

The amount of money collected under Schedule 91 and the ending account balance have been increasing from one year to the next and were higher than the program cap and ending account balance standards. On the other hand the penetration rate appears to have met its standard. The rest of the eight measures used to evaluate the performance goals of the HELP program were inconclusive. Because of the difficulty associated with trying to separate the impacts of the HELP program on these measures from the impact of the economic situation of the nation and the state on these measures, any change in these measures cannot be reliably attributed to the HELP program. For instance if the national and the state economy are bad and the arrears went up, can we say that the HELP program has performed poorly? No. Because we cannot tell how much of the change in

the arrears is due to the HELP program and how much of the change is due to the general economic situation.

Because of the problem of attribution, it is difficult to clearly identify whether the HELP program benefited the non-participating ratepayers, the utility or the system in general. For one to be able to objectively evaluate the real impact of the program, one must be able to establish attribution. Since the Division did not have the data necessary to establish attribution, the Division cannot determine whether the HELP program was a success or not.

However, Quantec, an energy efficiency-consulting firm that does the economic evaluations for the DSM programs for PacifiCorp, has reviewed similar programs in other states where they had a comparison group and were able to attribute benefits enjoyed by non-participants and utilities to the respective programs (see attachment A). Because of the results of these programs, the Division believes that the Utah HELP program may have provided benefits to the utility as well as the non-participants. The DPU requests that the company provide a study that establishes a comparison group as a way to properly attribute any benefits that accrue before making any final determination of the success or lack of success of the program. Therefore, the Division believes that the program should continue for another three years and include an evaluation program provided by Quantec. This will allow the Division to compile the necessary data to properly evaluate the program before making final recommendation regarding the HELP program.

INTRODUCTION

In Docket No. 99-035-10, the Utah Commission of Public Services (Commission) ordered the implementation of the Home Electric Lifeline Program (HELP). In a subsequent order, the Commission adopted a “Joint Stipulation on PacifiCorp’s Lifeline

Rate" which detailed the implementation of the program. The Joint Stipulation charged the Division of Public Utilities with,

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 with a comprehensive review after the end of Year 3.

To perform its task, the Division reviewed the Commission's orders in Dockets 97-035-01, 99-035-10, and 00-035-T07. Based upon this review, the Division concludes that the Commission's intended goals are as follows:

Administrative goals;

A. Comply with ordered procedures on Tariffs, Certification and Administrative charges.

B. Cap collections at or near $1,850,000 per year; and

C. Be administratively simple and inexpensive to administer;

Performance goals;

A. Provide benefits to utility customers in general;

B. Provide benefits to the low-income program recipients;

C. Not overly burden other customers;

D. Provide benefits that offset negative impacts; and

E. Provide benefits to PacifiCorp in the form of lower overhead costs:

This Year 3 report of the HELP program evaluated whether or not the program has achieved its intended goals. It contains the evaluation findings of up to and including Year 3 of the HELP program. The evaluation of Year 3 report is based on the same measures and standards the Division used for the Year 1 and Year 2 reports[1]. However, in this report, these measures were regrouped into two categories: those that determine the attainment of administrative goals and those that determine the attainment of performance goals.

The Division's analysis concluded that changes in those measures used to determine the attainment of the performance goal cannot be easily attributed to the HELP program. Given the HELP program's small size relative to the state and national economy, the impact that the HELP program may have on those measures are dwarfed by the impact the general macroeconomic conditions of the state and the nation (recession) have on those measures.

PacifiCorp engaged Quantec in the evaluation of the HELP program. Quantec reviewed the evaluations of some other programs throughout the country that are similar to the HELP program and where attribution was achieved. Quantec's report is attached here as Attachment 1. The evaluation method adopted in all these programs was to compare the participants with a comparison group that has similar characteristics. According to Quantec, the comparison group provided the data necessary to establish attribution.

PacifiCorp indicated that it is willing to work with Quantec to establish similar comparison group to try to achieve attribution. The cost of this endeavor will be part of the PacifiCorp's administrative cost and is not expected to exceed the cap.

SUMMARY OF LIFELINE ACTIVITIES

The Utah Commission of Public Utilities set a cap of $1,850,000 for the amount of money collected under Schedule 91. The standard for the program cap is that actual collections should be within five percent of the program's cap.

[1] Details of these measures and standards can be found in Year 1 annual report of HELP.

The amount of money collected monthly under Schedule 91 increased gradually throughout the life of the program except during the first month of the program where it increased sharply (Figure 1). The total amounts of money collected under Schedule 91 in Years 1, 2, and 3 were $1,887,233, $1,920,691, $1,976,828, respectively. This indicates that the total amounts of money collected in Years 1 and 2 were within the Commission approved bounds, while the total amount collected in Year 3 exceeded the cap by more than five percent (about 7%). However, the amount of total money collected has been increasing at an increasing rate from year to year.

Ignoring the ramp up period (September 2000 through March 2001), the total monthly credit given to recipients has been steadily increasing from year to year as evidenced by Figure 2. The average monthly credit has been $131,145, $148,549, and $148,639 in Years 1, 2, and 3, respectively (Figure 2). This indicated that the total monthly credit given to recipients is stabilizing as time progresses.

The total amounts of money paid out to the recipients were $1,044,260 in Year 1, $1,782,585 in Year 2, and $1,783,671 in Year 3. In all three years, the amount of money collected exceeded the amount of money paid out in that year by an amount more than the Commission approved ending account balance. This problem is exacerbated by the fact that the interest that accrued in each year except year 1 ($44,988, $71,254, and $86,585 for Years 1, 2, and 3, respectively) far exceeded the administrative costs for the program ($67,667, $21,694, and $7,076 for Years 1,2, and 3, respectively). This resulted in an ending account balance that exceeded the Commission approved amount and is increasing.

As would be expected the number of monthly recipients followed the same pattern as the total monthly credits paid to the recipients. The number of recipients per month in Years 2 and 3 were relatively the same and were more than that of Year 1 (Figure 3), implying that the number of recipients have stabilized going forward.

Figure 1. Total Monthly Collections from Other Ratepayers

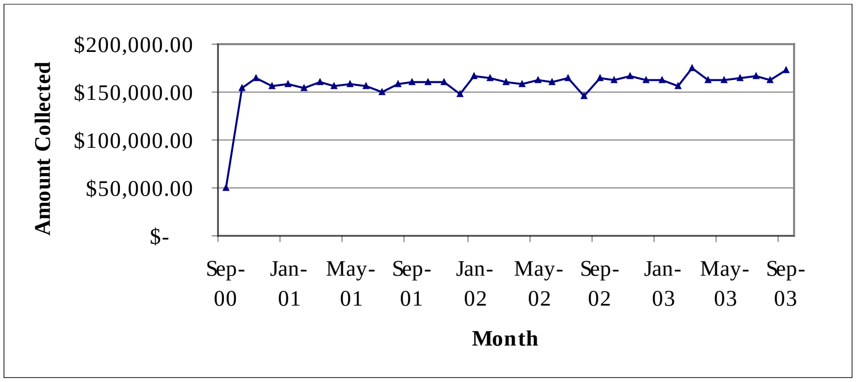


Figure 2. Total Monthly Credits Granted to Recipients by Month

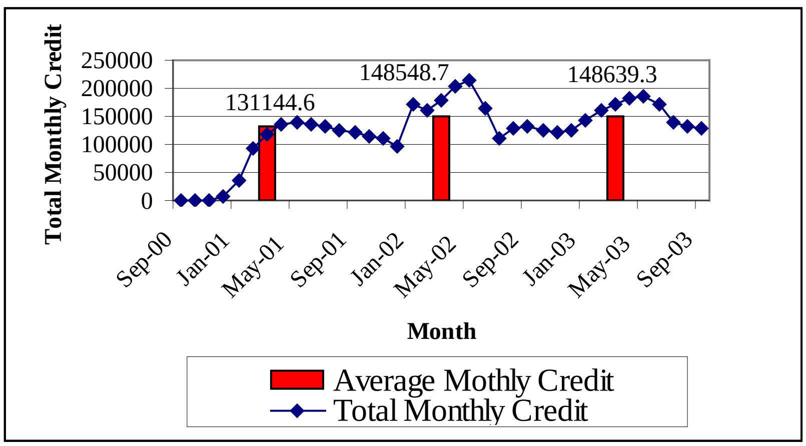
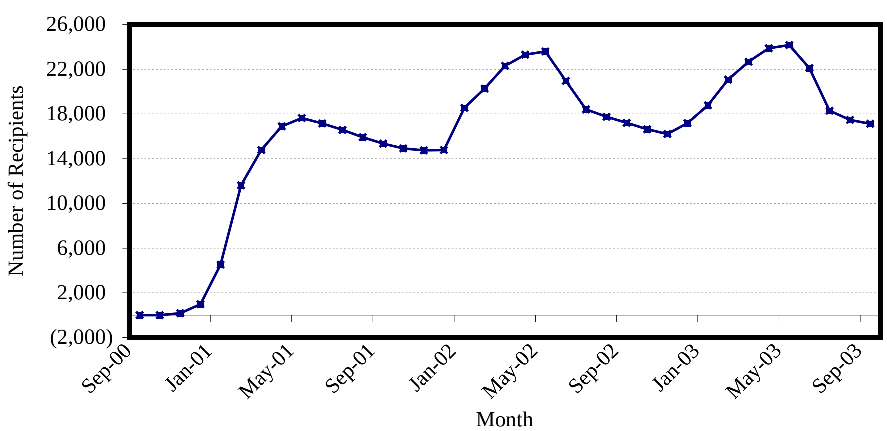


Figure 3. HELP Recipients by Month



DIVISION AUDIT REPORT OF HELP

There have been two administrative audits of the HELP program conducted thus far. The first was made on April 2002, and the second was made on June 2003. Both audit reports concluded that the program was administered in accordance with Utah Public Service Commission order (Docket No. 00-035-T07)[2].

EVALUATION OF HELP

The evaluation of Year 3 report is based on the same measures and standards the Division used for the Year 1 and Year 2 reports[3]. However, in this report, these measures were regrouped into two categories: one that was used to determine the attainment of administrative goals and one that was used to determine the attainment of performance goals. The measures that the Division used to determine whether or not the program was properly administered included, Process of Granting Credit to the Recipients, Process of Collecting Surcharge from the Ratepayers, and the Administrative Costs. The measures the Division used to determine whether or not the program has met its performance goals included the Program Cap, Ending Account Balance, Balance in Arrears, Terminations per Customer, Accounts Sent to Collection Agencies, Write-Offs per Customer, Recoveries per Customer, Penetration, Benefits to Recipients, and Benefit to PacifiCorp. PacifiCorp provided all the data used by the Division to develop this report.

However, because of the difficulty associated with trying to separate the impacts of the HELP program and the economic situation of the nation and the state on the performance measures, any change in these measures cannot be reliably attributed to the HELP program.

[2] The two audit reports can be found in Year 1 and Year 2 annual reports.
[3] Details of these measures and standards can be found in Year 1 annual report of HELP.

Measures for Evaluating Administrative Goals

1. Administrative Costs

The Commission allowed DECD and PacifiCorp to charge their ongoing direct administrative costs of up to $40,000 and $10,000, respectively. The Department of Economic and Community Development has charged $65,000, $19,120, and $4,165 in years 1, 2, and 3, respectively, and PacifiCorp has charged $2,667, $2,573, and 2,911 in years 1, 2, and 3, respectively. Each of these charges was well below the amount authorized by the Commission for administrative cost in each year. An exception is the amount charged by DECD in year 1 which was well above the authorized charge. However, only the amount the Commission authorized for DECD was paid.

2. Process Granting Credit

The Division's Auditor determined that, in each of the three years, PacifiCorp gave HELP recipients the appropriate monthly credit on a timely basis and that participants who were not re-certified were promptly removed from the HELP program. The Auditor also determined that the Low Income Lifeline Credit (Schedule 3) of $8.00 appeared on the bills of eligible customers as a separate line item. The Division's Auditor also verified that the Low Income Funding Surcharge (Schedule 91) was properly excluded from the bills of eligible customers for the lifeline rate. No exceptions were noted.

3. Process Collecting Surcharge from Ratepayers

The Division of Public Utilities' Auditor has verified that the Low Income Funding Surcharge (Schedule 91) was appropriately included on Utah Power bills in each of the three years.

Measures for Evaluating Performance Goals

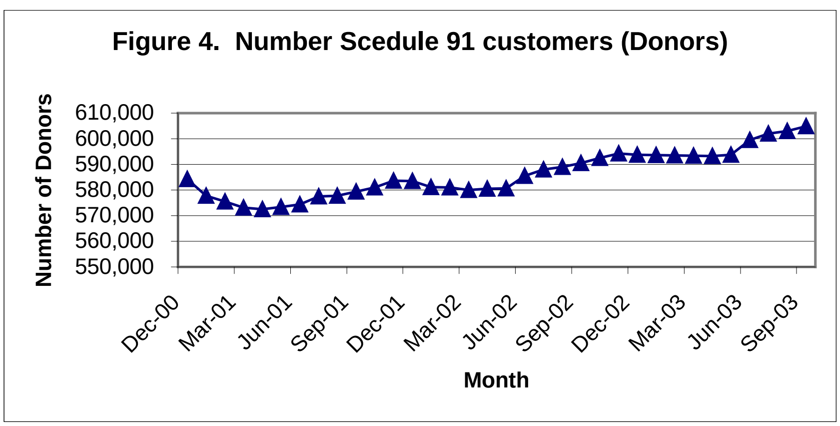
4. Program Cap

The cap that the Commission set for the amount of money collected under Schedule 91 is $1,850,000. The standard for this measure is that the actual amount of money collected under Schedule 91 should be within five percent of the Program's cap. The actual amounts of money collected under Schedule 91 in years 1, 2, and 3 were $1,887,233, $1,920,691, and $1,976,828, respectively. The amounts of money collected in Years 1 and 2 were within the established bounds while the amount collected in Year 3 exceeded the cap by more than five percent (about 7%). In addition, the amount of money collected annually has been increasing at an increasing rate from year to year. It increased by 1.8% from Year 1 to Year 2 and 2.9% from Year 2 to Year 3. On the other hand, the trend of the amount of money collected (Figure 1) and the number of customers in Schedule 9 (Figure 4) are increasing from year to year.

5. Ending Account Balance

This measure is the amount in the account at the end of each year. The standard for this measure is that the ending account balance at the end of each year should be within five percent of the program cap. That is, the ending account balance should not exceed

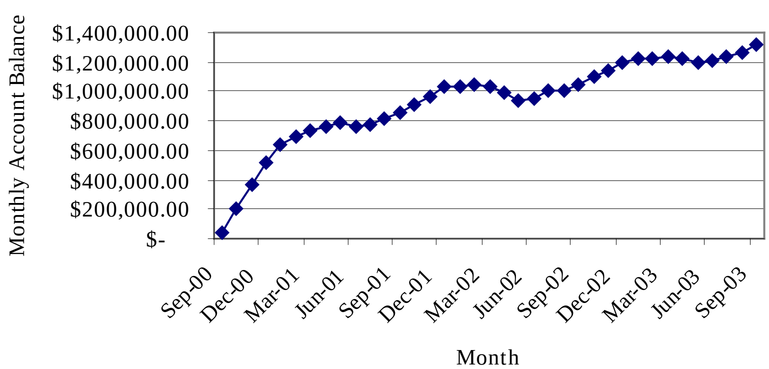
Figure 4. Number of Non-Recipient Customers by Month.



$92,500. The monthly account balance has been increasing throughout the life of the program (Figure 5). The ending account balance was $41,943, $862,237, $1,049,903, and $1,322,568, respectively for the Base Year, Year 1, Year 2, and Year 3. This shows that the ending account balance has been increasing over time. The ending account balance has increased by 27.1% between Year 1 and Year 2 and 26% between Year 2 and Year 3.

If you define the year ending account balance as the difference between the amount of money collected in a given year through Schedule 91 plus the interest that accrued in that year less the sum of the amount paid to the recipients and the administrative costs, then the ending account balance is $820,294 for Year 1, $187,666 for Year 2, and $272,665 for Year 3. The relatively high ending account balance in Year 1 is due to the fact that the first part of Year 1 was a program ramp up period where the number of recipients was small. The ending account balance exceeded its standard in each of the three years.

Figure 5. Ending Account Balance



6. Penetration Rate

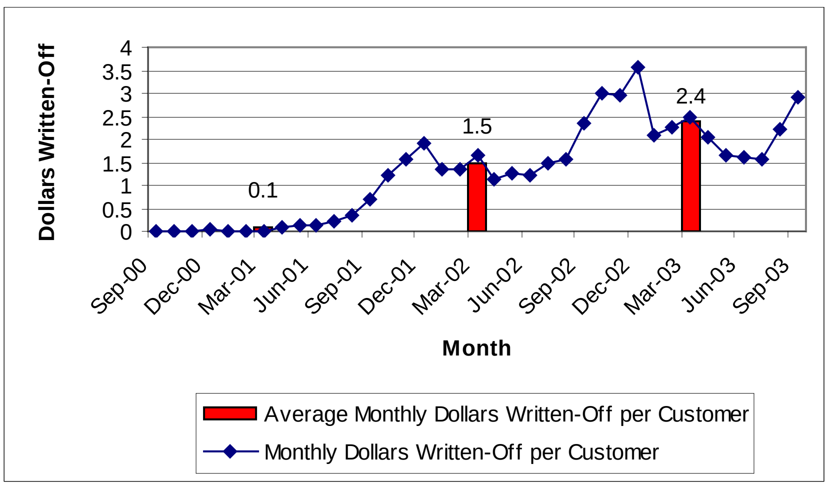
The measure is the proportion of eligible households receiving a credit under HELP.

The standard for this measure is 42% of the eligible households[4]. The average number of households participating in this program was 10,970 per month in Year 1, 18,903 per month in Year 2, and 19,634 per month in Year 3. If there were 45,000 eligible households in Utah, a figure estimated by Salt Lake CAP, then the penetration rate would be approximately 24.4%, 42%, and 43.6%, in year 1, Year 2, and Year 3, respectively.

7. Write-Offs

The measure is the number of recipient (Schedule 3) accounts written-off and the associated dollar amount per customer. While the standard is a reduction in these two figures, for Schedule 3, the dollar amount written-off per customer in Year 1 went up from a low of $0.03 in December 2000 to a high of $0.70 in September 2001. In Year 2, the dollar amount written-off per customer increased from $1.24 in October 2001 to $2.33 in September 2002. In Year 3, the dollar amount written-off decreased from $2.98 in October 2002 to $2.90 in September 2003 (Figure 6). However, Figure 6 shows that the average monthly dollar amounts of write-offs per customer for Schedule 3 customers ($0.1, $1.5, and $2.4 per customer, respectively for Year 1, Year 2, and Year 3) increased from one year to the next.

Figure 6. Dollar Amounts Per Customer Written Off for Schedule 3 Customers

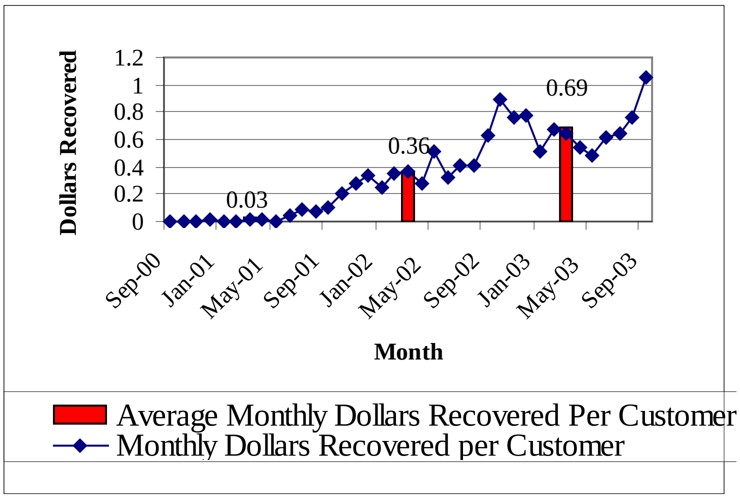


[4] For the reasons why the Division adopted this standard, refer to page 24 of the Division's Year 1 report of the HELP program

8. Recoveries Per Customer

The measure is the dollar amount per customer being recovered from Schedule 3 customers whose arrearages have been sent to a collection agency. The associated standard is an increase in the amount recovered per customer. Recoveries per customer have been generally increasing over the entire life of the program. The average monthly recoveries per customer were $0.03, $0.36, and $0.69 for Years 1, 2, and 3, respectively Figure (7).

Figure 7. Recoveries ($ per Customer)



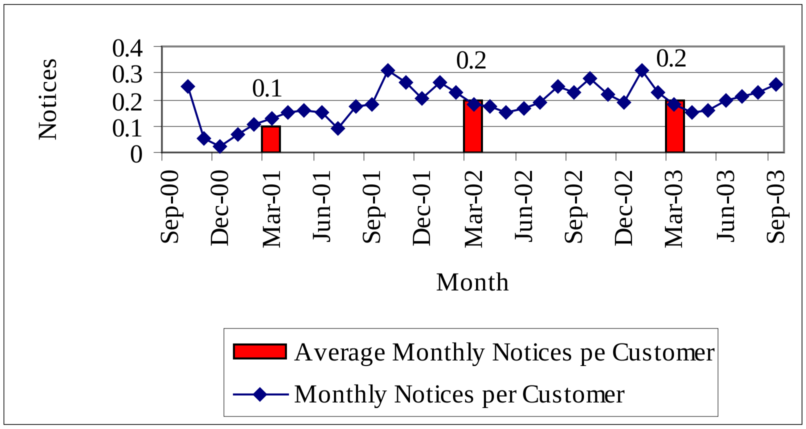
9. Terminations

The standard for this measure is a reduction in a) the number of monthly termination notices and b) service terminations per customer.

a) <u>Termination Notices Per Customer</u>

The number of notices per customer has been steadily increasing during the first year of the program after which it stabilized (Figure 8). Figure 8 also shows that the average number of monthly notices per customer was 0.1, 0.2, and 0.2 notices per customer, respectively for Years 1, 2, and 3. This indicated that the number of notices per customer has remained relatively unchanged from year to year. The lower average in Year 1 can be attributed to the fact that the first part of Year 1 (September 2000 to March 2001) was a ramp up period.

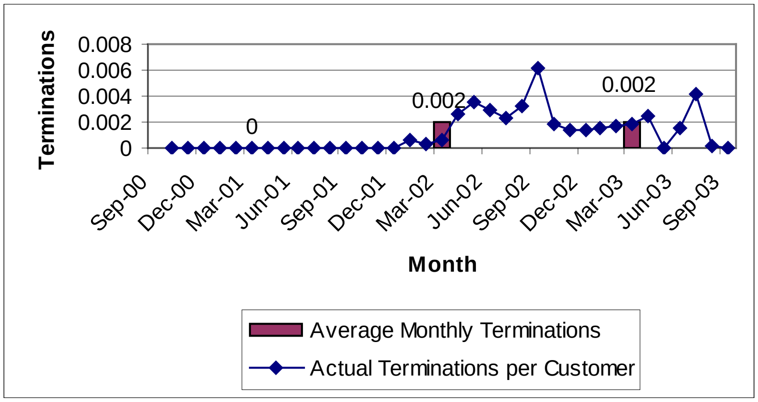
Figure 8. Number of Termination Notices Per Customer



b) <u>Actual Terminations Per Customer</u>

The number of actual terminations per customer for Schedule 3 customers has increased ten fold over Year 2 of the program from a low of 0.0006 terminations per customer in January 2002 to a high of 0.0061 terminations per customer in September 2002 with a monthly average of 0.002 terminations per customer (Figure 9). Figure 9 also shows that in Year 3, the number of actual notices has fluctuated but essentially dropped to a low of 0.0001 terminations per customer with a monthly average of 0.002 terminations per customer. This result indicates a worsening position in Year 2 and an improved position in Year 3 for Schedule 3 customers.

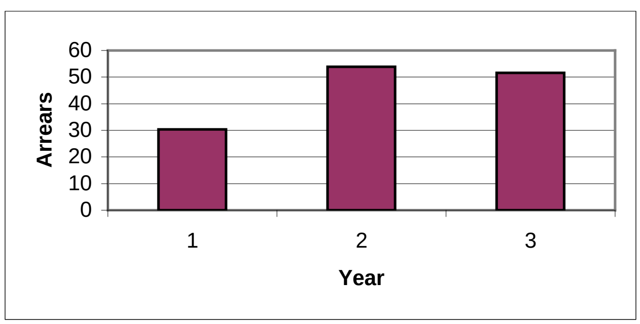
Figure 9. Actual Terminations Per Customer



10. Balance in Arrears

The standard for this measure is a reduction in the balance in arrears. The arrears per customer for Schedule 3 have been increasing steadily throughout Years 1 and 2 and then dropped at the beginning of Year 3 after which it increased. However, the arrears per customer for Schedule 3 averaged 30.4, 53.9, and 51.6 arrears per customer in Years 1, 2, and 3, respectively (Figure 10). The low average in Year 1 is due to the ramp up period.

Figure 10. Balance in Arrears



11. Accounts sent to Collection Agencies

The standard for this measure is a reduction in the number of the recipient accounts and account balances sent to collection agencies. In Year 1 the number of recipient accounts and the account balance per customer sent to collection increased from a low of 2 customer accounts and $0.02 per customer in February 2001 to a high of 260 customer accounts and $2.51 per customer in September 2001, respectively (Figures 11 and 12). However, since the first part of the year was a ramp up period, the low starting level of the number of customer accounts sent to collection was expected. Both the number of recipient accounts and the account balance per customer continued to increase in Years 2 and 3 with some fluctuations. The average number of recipient accounts and the average account balance per customer sent to collection agencies were 72 customers and $0.8 for Year 1, 206 customers and $1.19 for Year 2 and 251 customers and $2.3 for year 3, respectively (Figures 11 and 12).

Figure 11. Schedule 3 Customer Accounts Sent to Collection

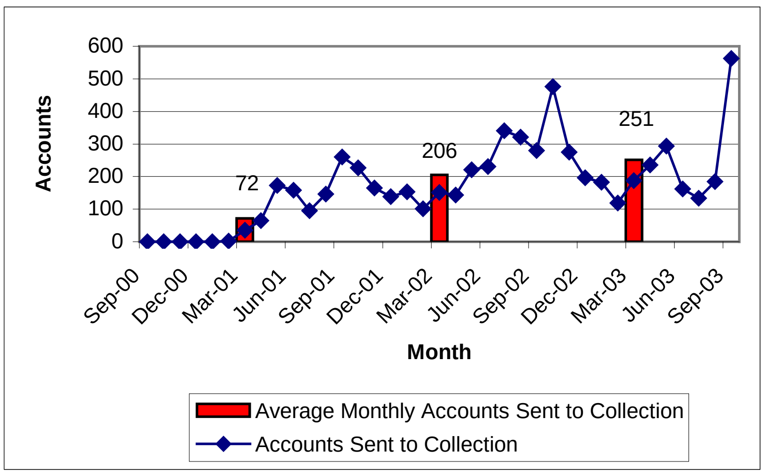
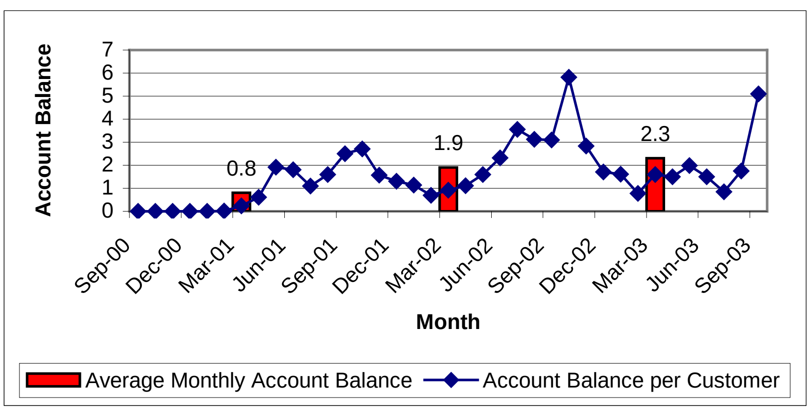


Figure 12. Balance per Customer of the Accounts Sent to Collection



CONCLUSION AND RECOMMENDATIONS

The HELP program was implemented to achieve certain goals, namely, to provide benefits to the low-income program recipients, PacifiCorp, and utility customers in general while not overly burdening non-recipient customers. Furthermore, the benefits that the HELP program provides should offset the negative impacts of the program, be administratively simple and comply with Commission ordered procedures on tariffs, certification and administrative charges.

The evaluation of the measures adopted by the Division indicates that the HELP program has been managed properly. The three measures that the Division used to determine whether or not the program was managed properly; namely, process of granting credits, process of collecting surcharge from ratepayers, and administrative costs, met their respective standards. However, the eight measures that the Division used to evaluate the performance goals of the program showed mixed results.

The amount of money collected under Schedule 91 and the ending account balance have been increasing from one year to the next and were higher than the program cap and ending account balance standards. On the other hand the penetration rate appears to have met its standard.

The rest of the eight measures used to evaluate the performance goals of the HELP program were inconclusive. Because of the difficulty associated with trying to separate the impacts of the HELP program and the economic situation of the nation and the state on these measures, any change in these measures cannot be reliably attributed to the HELP program

Over the three years of the program, HELP provided benefits to the recipients in the amount of $1,044,260, $1,782,585, and $1,783,671 for Years 1, 2, and 3, respectively. However, the Division has been unable to find demonstrable benefits accruing to either

PacifiCorp or ratepayers in general. The Division was also unable to establish whether the positive impacts of the HELP program outweighed its negative impacts. Without stronger evidence, the Division must conclude that the evaluation of the above listed goals is inconclusive.

Though HELP collected $1,887,233 in Year 1, $1,920,691 in Year 2, and $1,976,828 in Year 3 from non-recipients, the average monthly residential bill is $47.7 per month and the monthly residential customer charge under Schedule 91 is $0.12. This indicates that the non-recipient monthly customer charge represents 0.25% of the average monthly residential bill. Based on this it appears that the amount of money collected from the non-recipient customers under Schedule 91 is not, in of itself, overly burdensome.

The Ending Account Balance at the end of Year 1, Year 2, and Year 3 of the program were $862,237, $1,049,903, and $1,322,568, respectively. This shows that the ending account balance is increasing over time. This increasing Ending Account Balance is of concern. Hence the Division recommends that the Commission adjust the surcharge. In the Division's first and second annual reports to the Commission, the Division recommended that the Commission reduce collections by one-third. If the Commission were to adopt this recommendation then, starting at the end balance of $1,322,568, the end account balance would decline to approximately $930,000 after twelve months, $500,000 after 24 months, and 63,000 after 36 months.

Because of the problem of attribution, it is difficult to clearly identify whether the HELP program benefited the non-participating ratepayers, the utility or the system in general. For one to be able to objectively evaluate the real impact of the program, one must be able to establish attribution. Since the Division did not have the data necessary to establish attribution, the Division cannot determine whether the HELP program was a success or not.

However, Quantec has reviewed similar programs in other states where they had a comparison group and were able to attribute benefits enjoyed by non-participants and utilities to the respective programs (see attachment A). Because of the experience in these programs, the Division believes that the Utah HELP program may have provided benefits to the utility as well as the non-participants. The DPU requests that the company provide a study that establishes a comparison group as a way to properly attribute any benefits that accrue before making any final determination of the success or lack of success of the program. Therefore, the Division is recommending that the Commission let the program continue for another three years with an evaluation program provided by Quantec. This will allow the Division to compile the necessary data to properly evaluate the program before making final recommendation regarding the HELP program.