



1 This is an extract of order 97-035-01 which created a Task Force to study a
2 possible HELP program. The full text of the order is available at
3 <http://www.psc.utah.gov/elec/99orders/mar/9703501r.htm>
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7 - BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -
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11 In the Matter of the Investigation) DOCKET NO. **97-035-01**
12 Into the Reasonableness of Rates)
13 and Charges of PacifiCorp, dba)
14 Utah Power & Light Company) REPORT AND ORDER
15
16

17 ISSUED: March 4, 1999

SHORT TITLE
PacifiCorp 1998 General Rate Case

SYNOPSIS

19 The Commission reduces annual revenue requirement by \$85.36 million, based on an
20 adjusted 1997 test year and an allowed rate of return on equity of 10.5 percent. Rates are based
21 on fully distributed, embedded cost of service. This occurs by eliminating the merger fairness
22 adjustment, a lump-sum addition to Utah jurisdictional revenue requirement previously needed to
23 ensure fair apportionment of total system revenue requirement among the states. The present
24 value of remaining merger fairness payments is netted against a refund owed customers for 1997
25 and 1998. The refund is a result of legislative action which suspended this Docket making
26 existing rates interim and subject to refund. The refund net of the fairness adjustment is \$40.26
27 million, an amount spread to classes of service on the basis of relative revenues and distributed to
28 customers on the basis of service usage during the 1997 - 1998 refund period. Four task forces
29 are established to examine issues important in view of industry restructuring and the proposed
30 merger of PacifiCorp and Scottish Power: cost allocation, special industrial contracts, low-
31 income customer issues, and energy efficiency and renewable resources.
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IV. PRICING OF TARIFFED RATE SCHEDULES

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36 **C. DESIGN OF RATES**

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38 We also note that this Docket provides the first opportunity for the Commission to consider a
39 lifeline rate for low-income residential customers in many years. We turn to that subject first.

40 **1. Lifeline Rate**

41 Salt Lake Community Action Program and Crossroads Urban Center propose a new lifeline rate
42 to assist low-income households to purchase electricity. It would use an income criterion to target an
43 \$8.00 per month reduction in a qualifying household=s monthly electricity bill. The program is
44 intended to be easy to administer. As discussed in detail below, it is clear that many could benefit
45 from a lifeline program but we will not institute one until we have an opportunity to review and
46 approve a more detailed proposal focused on actual implementation.

47 **The members of the Committee of Consumer Services have voted to support the proposal. The**
48 **Division is neutral on the proposal but believes it raises a matter better left to the state legislature.**

49 PacifiCorp supports a lifeline program if administrative burdens and costs to other customers are
50 small, but wants separate line items on customer bills showing low-income charges and credits.

51 The Commission last reviewed the lifeline rate concept for electric utilities in Docket No. 81-
52 999-06, In the Matter of the Consideration of Paragraph 114, Lifeline Rates, of the Public Utility
53 Regulatory Policies Act of 1978 (PURPA), Report and Order issued May 13, 1982. A lifeline rate
54 was not adopted but the Commission did not rule out such a rate in the future, if circumstances were
55 appropriate.

56 In that Docket, the Commission found that a lifeline rate as proposed was not the best way to
57 assist those in need because the correlation between income and energy use is imperfect. High-
58 income, low-energy consumers could benefit undeservedly while low-income, high-energy users
59 would be harmed. Many low-income families live in rental units, and those whose bill for electricity
60 is included in the rental payment would not benefit from the lifeline rate. Low-income persons
61 residing in institutions could not benefit. The Commission also expressed concern that lifeline
62 assistance might be too little to warrant burdening other customers who would have to pay more to
63 make up the revenue deficit created by the lifeline rate. Testimony suggested that such a rate might
64 be inconsistent with the rate making objectives of conservation, efficiency and equity since cost-
65 based rates are the means by which these objectives are attained. Though the Commission concluded



66 it had authority to adopt a lifeline rate, it expressed reluctance to do so unless these negative effects
67 were properly addressed and other benefits would result.

68 A program offering direct payment for energy consumed was found preferable to lifeline rates on
69 both practical and economic efficiency grounds. The record in that Docket, however, showed the
70 inadequacy of the existing direct assistance program, the federally funded low-income energy
71 assistance program.

72 In Docket No. 85-999-13 (establishing telephone lifeline rates for regulated local exchange
73 carriers in Utah), Order issued January 3, 1986, we concluded that proposed lifeline recipients could
74 be distinguished as a class and that a rational basis for the rate existed. We also concluded that the
75 definition of just and reasonable rates was broad enough to permit us to establish such a rate. (Utah
76 Code Annotated 54-3-1 includes the economic impact of charges on each category of customer@ in
77 the definition of just and reasonable rates.) This conclusion followed the decision in *Mountain*
78 *States Legal Foundation v. Utah Public Service Commission*, 636 P.2d 1047 (Utah 1981), a case in
79 which a lifeline rate for senior citizens failed not because the Commission lacked authority to set the
80 rate but because findings of fact were insufficient to justify and delineate the class of beneficiaries.
81 We conclude that we have the authority to adopt a lifeline rate.

82 Next, we must determine if a lifeline rate, as proposed in this case, is in the public interest. As
83 discussed below, we believe that the proposal appears to meet this test in general, but believe that
84 more detailed information, developed by the task force, will enable us to definitively find that the
85 program, if and as implemented, will be in the public interest.

86 From reviewing the foregoing Commission orders and the *Mountain States* case, we draw a set
87 of criteria by which to judge the merits of the current proposal. First, the need should be both real
88 and unmet by direct-payments programs, which are the preferred means. Second, to avoid the
89 problems found in Docket No. 81-999-06, the program must target only low-income households and
90 it should not raise rates for low-income households that consume above-average amounts of
91 electricity. Third, the benefits of the program should offset negative impacts on rate making
92 objectives and should be sufficient to overcome the Commission's reluctance to effectuate social
93 policy by means of altered electricity rates. Fourth, a concern expressed in the present Docket, the
94 program should be easy and inexpensive to administer. As there are no challenges to these criteria,
95 we find them to be appropriate.



96 **The need is real and is not being met by direct-payments programs.** Without dispute,
97 electricity is a necessity of modern life. But the lower is household income the more difficult is
98 electricity to obtain. SLCAP/Crossroads, the party proposing a lifeline rate, defines this relationship
99 between energy cost and household income as the Aenergy burden.@ It testifies that the average gas
100 bill for residential customer is \$651.75 per year, and for electricity, \$579.84. Combined, the annual
101 energy cost for the average household is \$1,231.59. In 1996, the latest year which is consistent with
102 the statistics of this presentation, Utah median household income was \$36,480. The energy burden at
103 this income level (energy cost divided by income) is 3 percent. The annual poverty-level income for
104 a family of three is \$13,644. For this family, the energy burden is 12 percent. If a family is
105 dependent upon Utah=s family Employment Program, the energy burden is 23 percent; if dependent
106 upon Supplemental Social Security (SSI), the energy burden is 21 percent. The un rebutted evidence
107 developed on the record by SLCAP/Crossroads shows that the number of families or households in
108 each category is significant. We find that the cost of energy is disproportionately large for low-
109 income households and that there are many such households in Utah Power=s service territory.

110 In 1996, 8.1 percent of Utah households had an income at or below the Apoverty rate,@ a concept
111 defined by income and number of persons in a household. SLCAP/Crossroads testifies that the
112 concept was originally developed as a measure of the income required by an acceptable though
113 minimum standard of living, an amount assumed to be three times the cost of an adequate food
114 allowance. Though the Consumer Price Index is used to update it annually, changes over the years in
115 the relative composition of household expenditure may have rendered the measure out-of-date. On
116 the Wasatch Front, for example, rapid increases in housing costs (Salt Lake, SLCAP/Crossroads
117 testifies, is now among the 25 least affordable areas in the U. S.) outstrip food cost increases so that
118 the assumption of a budget three times more than required for food no longer indicates a poverty
119 level, but, states SLCAP/Crossroads, subsistence.

120 Citing the dramatic increase in housing costs, SLCAP/Crossroads testifies that wage growth has
121 not kept pace with the increasing cost of living. The cost of a two-bedroom apartment on the
122 Wasatch Front has risen 89 percent in 10 years and average home prices are rising fast. As a result,
123 housing and energy costs combine to overwhelm household budgets for the disabled, elderly and
124 other poor. Finally, SLCAP/Crossroads states that housing and utility costs are the top concern of
125 low-income persons because paying utility bills is key to maintaining a residence. Failure to pay is



126 often grounds for eviction from rental units.

127 In sum, even though utility bills have been stable or declining in recent years, thus easing the
128 energy burden, and unemployment has been low, the record indicates that in 1996, 159,000 persons
129 were living at or below the poverty level. The record shows that at 8.1 percent of Utah households,
130 the number of poverty-level, low-income households is relatively small. Utah=s rapid population
131 growth prevents the absolute number of households in this category from falling.
132 SLCAP/Crossroads calculates that about 12 percent, or 65,000, of Utah Power=s customers have
133 incomes at or below 125 percent of poverty, the target it proposes as a qualification to receive a
134 lifeline credit. We conclude that the need for assistance is both real and significant for those near the
135 poverty line.

136 The Low Income Home Energy Assistance Program (LIHEAP), known in Utah as the HEAT
137 program, has faced funding cuts in recent years and is now funded at a level less than half that of its
138 peak years, 1983 to 1985. LIHEAP, a direct assistance program of the type favored by the
139 Commission in Docket No. 81-999-06, provides cash assistance for low-income households to meet
140 energy bills. In Congress, SLCAP/Crossroads states, funding is always questionable and Congress
141 only at the last minute, after threats of further cuts, funded the program for the next fiscal year. The
142 American Red Cross closed the A Lend a Hand@ assistance program on January 24, 1998. The record
143 allows us to conclude that direct assistance is inadequate to the need.

144 **The program is successfully targeted and would not overly burden other customers.**
145 SLCAP/Crossroads proposes a lifeline discount in the form of a monthly credit on the bills of
146 qualifying low-income customers. To qualify, household income must be at or below 125 percent of
147 the official federal poverty rate. This poverty rate was selected to target the program because it is
148 also the qualification for participation in Utah=s HEAT program. SLCAP/Crossroads acknowledges
149 that rates for all classes would be slightly higher to pay for the program.

150 The Committee urges us to conclude that the proposed program will meet the requirements of the
151 *Mountain States* opinion because the class of proposed beneficiaries is discretely defined by the 125
152 percent of poverty criterion and bears a proportionately higher energy burden than the rest of society.
153 **The record does allow us to conclude that the lifeline rate is adequately targeted** to customers whose
154 energy burden is disproportionately high. Others, who do not face this burden, cannot qualify. The
155 program is adequately targeted **and thus overcomes the concerns expressed by the Commission in**



156 **Docket No. 81-999-06.**

157 Evidence does not allow us to conclude that low income correlates with low energy consumption.
158 Indeed, there is reason to suspect that some low-income households, such as renters of poorly
159 insulated, electrically heated units, consume more than average amounts of electricity.
160 SLCAP/Crossroads acknowledges that definite statements about the energy consumption levels of
161 low-income households cannot be made, though the evidence at its disposal leads it to suspect that
162 low income is positively correlated with consumption. In its opinion, the subject should be
163 examined further. In spite of this, the Committee assures us that the proposed lifeline program will
164 pose little burden for other customers and classes. It cites unrebutted testimony that the lifeline rate
165 would cost about \$1.7 million annually. This is the conclusion derived by SLCAP/Crossroads on the
166 basis of participation in LIHEAP, the direct assistance program, in which the number of eligible
167 households averaged 73,365 during the years 1994 through 1996 but the average participation rate
168 was only 41.95 percent.

169 On a per kWh basis, SLCAP/Crossroads calculates a charge of \$0.0001 to produce benefits of
170 \$1,768,862. It proposes a slight reduction in the refund to customers expected to result from this
171 Docket as the best way to pay for the program. Depending on the revenue requirement ultimately
172 determined in this Docket, the Committee testifies that a \$1.7 million program cost roughly
173 translates to ten cents on an average monthly residential electricity bill, an amount in line with
174 today=s approved telephone lifeline rate charges. As expressed by both SLCAP/Crossroads and the
175 Committee, electric service is the more vital utility service.

176 Though SLCAP/Crossroads proposes to deduct first year program costs from the refund which
177 will be granted in this Docket, we conclude otherwise. If or when it is instituted, the lifeline program
178 ought to be set up on an ongoing basis. We see no particular advantage to reducing the refund
179 customers will receive just as a convenient way to ensure that the costs are recovered for a finite
180 length of time.

181 **We conclude that if the assumptions are correct, then the benefits** of an approximate 17 percent
182 reduction in the average monthly utility bill for a residential customer (\$8.00 off the \$48.32 average
183 bill) **would exceed the detrimental effect of a very small increase in the bills of other customers.**

184 **The benefits offset negative impacts on objectives. SLCAP/Crossroads expects the**
185 **benefits of the program to include a reduction in uncollectible accounts, returned checks, and service**



186 shutoffs; spreading the recovery of fixed costs over more customers and therefore reducing the
187 impact on each customer; and an increase in sales of electric appliances. Though un rebutted, we
188 recognize the speculative nature of this assertion. It may not, however, be an unreasonable
189 indication of a tendency if more customers are able to retain electric service than otherwise.
190 SLCAP/Crossroads testifies that it chose an \$8.00 credit rather than a percentage of the bill in order
191 to avoid an adverse impact on energy conservation. We find this reasonable. The amount does not
192 vary with the level of consumption since the price per kWh does not vary. The proposed \$8.00 credit
193 would not apply to previous balances and would not carry forward to succeeding month=s bills. The
194 proposed credit would be about 17 percent of a \$48.32 monthly average bill, an amount
195 SLCAP/Crossroads believes would be enough to help persons retain electric service and therefore
196 housing. In its view, this is an important aid to persons attempting to move from poverty to
197 contributing membership in society.

198 **The program is easy and inexpensive to administer.** SLCAP/Crossroads recommends
199 administration of the proposed program similar to that of the existing telephone lifeline program.
200 The Division would administer the program. The Department of Community and Economic
201 Development (DCED) would verify eligibility by administering the income test. The utility, as in the
202 telephone lifeline case, would forward a list of names to DCED for verification. In the telephone
203 lifeline case, that results in a cost to DCED of about \$10,000 per year. Utah Power would contract
204 with DCED for this service and would recover the cost in utility rates. A separate rate category
205 would be established for qualifying households. Since, at 8.1 percent of Utah=s households, the
206 number of poverty-level, low-income households in Utah is relatively small, SLCAP/Crossroads
207 testifies that expenses of the proposed lifeline program will be small.

208 **Conclusion.** As set forth above, we conclude that a lifeline rate may be in the public interest.
209 However, beyond the issues of legal authority and public interest are the practical concerns. **We are**
210 **left with enough unanswered questions that, rather than order the lifeline rate established**
211 **immediately, we direct the low-income task force to further consider, and recommend, exactly how**
212 **this will be implemented.** At such time as this task force can address these issues, the Commission
213 will consider actually approving and implementing a lifeline program, with or without a rate case.
214 We offer direction to the task force as it works out the details. The following discussion addresses
215 some of the concerns raised in the hearings, and others we add. We would like to see the task force



216 answer these questions as clearly and specifically as possible.

217 **Amount of Credit.** The proposal as presented assumes an \$8.00 monthly credit and an
218 annual cost of approximately \$1.7 million. We wish to see proposals which would assure a cap on
219 the total amount the program would raise and spend annually. We wish to see how to implement the
220 program if the assistance were set at a lesser amount, for example \$5.00 per month, and/or an annual
221 cost of \$1 million.

222 **Calculation of Charges** The Company requests that both the credit on some bills and the
223 charge on the remainder appear as separate line items. SLCAP/Crossroads objects to this proposal
224 on grounds that the cost-of-service studies presented in this Docket are too inaccurate to permit a
225 conclusion about who is being subsidized, the clear, contrary implication to that drawn if the credit
226 and the charge is shown on customer bills. We believe, however, that the information would be
227 useful to customers and note that the credit and charge appear on telephone bills for the telephone
228 lifeline program. We conclude that the credit and the charge should be line items on customer bills.

229 We wish the task force to consider whether to levy the charge on all users, or only on the
230 residential class. Is a per-customer charge appropriate? If assessed per kWh on large users, is a cap
231 appropriate? How would the surcharge be re-evaluated and changed periodically to ensure that the
232 proper amount is collected?

233 **Eligible Customers.** Though we have expressed satisfaction that the program is adequately
234 targeted, we state here that only those customers are eligible who actually receive a bill for service.
235 A renter, who receives no bill because the utility cost is included in the rental payment, or a person
236 residing in an institution, will not be eligible. We remain interested in whether there are ways to
237 target the benefits even more closely -- for example, by allowing even otherwise eligible renters to
238 receive utility assistance.

239 **Experience of Other States.** We believe it would be helpful to our evaluation to understand
240 which states have similar programs, how they are constructed, whether there are benefits to non-
241 participants, and the experience in these states.

242 **Measurements / Standards.** Finally, we charge this task force with proposing as detailed as
243 possible a set of standards, measurements and criteria against which, if we approve implementation,
244 we could judge whether the program were functioning as intended. We further ask it to consider
245 whether a pilot-test period may be appropriate, or a sunset date, or criteria upon which to determine



246 that the program ought to be modified or abandoned.

247 **Future Studies.** As noted above, SLCAP/Crossroads recommends further studies of certain
248 subjects. We agree and order the task force to advise us on how to make sure that these studies are
249 done if we implement the program. These studies include: whether low income is positively
250 correlated with consumption; whether the program actually results in measurable benefits such as a
251 reduction in uncollectible accounts, returned checks, and service shutoffs; spreading the recovery of
252 fixed costs over more customers and therefore reducing the impact on each customer; and an
253 increase in sales of electric appliances.

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256 V. ESTABLISHMENT OF TASK FORCES FOR ADDITIONAL STUDIES

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258 C. LOW-INCOME PROGRAMS

259 Salt Lake Community Action Program and Crossroads Urban Center request a task force to
260 examine issues of the energy requirements, either or both electricity and natural gas, of low-income
261 customers. These parties testify that little is known about low-income energy consumption and less
262 attention is being paid than in the past to problems because utility rates have been stable while
263 economic conditions -- prices and employment -- have been favorable. Nevertheless, they contend,
264 the number of poor who face problems acquiring energy remains large. They propose to survey
265 useful programs from other jurisdictions, to assess the need for legislation, and to define an income
266 criterion. Areas of inquiry would include rate discounts, medical and life support discounts,
267 customer service improvements, measures to reduce energy requirements, a refrigerator replacement
268 program, and energy education. Because a thorough review of this sort has not been conducted in
269 this jurisdiction for a number of years, we agree to
270 establish a task force for the purpose.

271 We also direct the low-income task force to evaluate, in concert with the Company and the
272 Division, a lifeline program addressing the issues discussed in this Order.

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VI. ORDER



276 Wherefore, pursuant to our previous discussion, findings and conclusions made herein, we order:

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278 9. Four Commission task forces are established to examine issues associated with cost
279 allocation, special industrial customer contracts, low-income customer service, and energy efficiency
280 and renewable resources. Task force organization and scheduling will be undertaken by the
281 Commission with initial notice to the parties in this docket. Other interested persons may contact the
282 Commission Secretary for future information concerning the task forces and their activities.