BEFORE THE
CONNECTICUT HOUSE OF REPRESENTATIVES
APPROPRIATIONS, ENERGY & TECHNOLOGY AND HUMAN SERVICES COMMITTEES

TESTIMONY OF ROGER D. COLTON

On Behalf Of:
Operation Fuel, Bloomfield Connecticut

January 10, 2011

* *

Good afternoon. My name is Roger Colton. I am an attorney and economist living in Belmont, Massachusetts appearing today on behalf of Operation Fuel of Bloomfield, Connecticut. I specialize in assessing the energy affordability needs of low-income customers and developing fiscally responsible programs that can be implemented by both the public and private sectors.

While the capacity of low-income Connecticut households to pay their home energy bills improved in 2010, the federal energy assistance program designed to help pay those bills still fell far short in its ability to address the problems presented by home energy unaffordability. State action is needed.

THE HOME ENERGY AFFORDABILITY GAP IN CONNECTICUT

The State of Connecticut has a large Home Energy Affordability Gap facing its low-income households, with available resources grossly insufficient to meet the need. As a result of this mismatch between energy bills and the resources needed to pay them, many low-income households incur unpaid bills and experience the termination of service associated with those arrears. In addition, the paid-but-unaffordable bill is a real phenomenon in Connecticut.

Energy prices have placed a substantial burden on the public and private energy assistance agencies in Connecticut. Current home heating, cooling and electric bills in Connecticut have driven the average *per-household* Home Energy Affordability Gap for households living with incomes at or below 185% of the Federal Poverty Level (FPL) to crushing levels. The average annual shortfall between actual and affordable home energy bills for households at or below 185% of FPL now reaches nearly $2,100 per household. The aggregate Home Energy Affordability Gap in Connecticut now reaches more than $480 million statewide.

This $480 million is *not* the total low-income home energy bill in Connecticut. Rather, the $480 million is the Affordability Gap, the dollar amount by which actual home energy bills exceed affordable home energy bills.

While the Home Energy Affordability Gap varies somewhat based on geography within the state of Connecticut, there can be no question but that the Affordability Gap is a statewide phenomenon. This can be seen by comparing the aggregate Affordability Gap in each

Congressional District in Connecticut. The annual statewide Affordability Gap of $480 million is split nearly evenly over each of Connecticut's Congressional Districts.

HOME ENERGY AFFORDABILITY GAP REACHES INTO MODERATE INCOME

The *total* Home Energy Affordability Gap (for all households) is not the only concern presented in Connecticut. One additional cause for particular concern is the fact that the Affordability Gap is reaching increasingly into more moderate income households. Home energy burdens (bills as a percentage of income)[1] now exceed the affordable level for households with income between 150% and 185% of the Federal Poverty Level in *every* Connecticut state House legislative district. In fourteen House districts, the home energy burdens exceed twice the affordable level.

This growth in the Affordability Gap in the more moderate income ranges has significant policy ramifications for fuel assistance funding. As the Home Energy Affordability Gap expands "upwards" (to more moderate income households), the need to provide assistance expands "upwards" as well. The significance of this is two-fold:

- First, if funding remains constant, when the numbers of households that must be served increases, fewer dollars are available on a per-household basis.

- Second, the number of households in each range of Federal Poverty Level is not equal. Indeed, the number of households in each Poverty Level range increases as incomes increase.[2] As the need for energy assistance expands into higher income households, in other words, there is a need to provide proportionately more energy assistance simply to remain even.

HOME ENERGY BURDENS

The affordability of energy bills is measured by what is called a household's "energy burden." Energy burdens are simply the household energy bill as a percent of household income. The Affordability Gap is the dollar amount by which *actual* low-income home energy bills exceed *affordable* home energy bills, as measured by an affordable home energy burden.

Home energy is a crippling financial burden for low-income Connecticut households. Connecticut households with incomes below 50% of the Federal Poverty Level pay more than 70% of their annual income for their home energy bill in every Connecticut House district. Households living between 50% and 100% of the Federal Poverty Level pay, on average, between one-fifth and one-third of their annual income for their home energy bills. Households with income between 150% and 185% of Federal Poverty Level pay nearly 12%of their income for home energy. A 6% energy burden is considered "affordable."

---

[1] A "home energy burden" is simply the ratio of the home energy bill to gross household income. A household with an annual income of $8,000 and a total home energy bill of $2,000, for example, has a home energy burden of 25% ($2,000 / $8,000 = 0.25).

[2] There are, in other words, more households between 100% and 125% of Poverty in Connecticut than there are between 75% and 100%; there are more households between 125% and 150% of Poverty than there are between 100% and 125%; and so forth.

The trend in energy affordability in Connecticut over the years 2005 through 2010 is clear. While there was a dip in home energy burdens in 2010 relative to 2009, home energy burdens are 25% higher in 2010 than they were in 2005, even after taking into account increases in income.

Federal LIHEAP Coverage

Federal fuel assistance –called LIHEAP for the Low-Income Home Energy Assistance Program-- continues to be severely inadequate in Connecticut. LIHEAP covers a fraction of the Home Energy Affordability Gap for a fraction of income-eligible households. A common misperception is that the dramatic increase in LIHEAP funding in Fiscal Year 2009 placed low-income households in much better position than they had experienced in previous years. In fact, however, the increase in 2009 LIHEAP funding just barely returned Connecticut households to the inadequate position they had experienced in 2002. While LIHEAP covered 17.5% of the Home Energy Affordability Gap in 2002, providing $35 million of energy assistance against an Affordability Gap of $200 million, even with increased funding, LIHEAP covered only 20% of the Home Energy Affordability Gap in 2010, providing $96 million against an Affordability Gap of $480 million.

Even this "LIHEAP coverage ratio" overstates the effectiveness of LIHEAP in keeping up with increasing home energy bills. In fact, while the LIHEAP Coverage Ratio has somewhat increased relative to the Coverage Ratio in 2002 on a percentage basis, the *dollar level* of the Affordability Gap not covered by LIHEAP has dramatically increased. While the Connecticut Home Energy Affordability Gap increased by nearly $280 million from 2002 to 2010, the LIHEAP allocation to Connecticut increased by only $62 million. From 2002 to 2010, in other words, Connecticut's low-income households experienced an increased Affordability Gap of nearly $220 million not offset by increased LIHEAP allocations.

The Particular Needs of the Working Poor

The inability to meet basic needs in Connecticut is no longer the province of households traditionally considered to be low-income. The increasing movement of home energy unaffordability into the middle class is reflective of the growing mismatch between working incomes and the income a household requires to meet its basic family needs.

In looking at the average wage and salary per job as reported by the U.S. Department of Commerce for various regions throughout Connecticut, we can see that with the exception of Fairfield, the average wage per job is inadequate to cover a Basic Family Needs Budget in Connecticut. Virtually across-the-board, a working household with a single income would not be able to provide adequately for basic household needs such as housing, food, energy and clothing.

Moreover, only in Tolland has the growth in wages keep pace with inflation in Connecticut. In each of the other geographic areas reported in Connecticut, the actual 2008 average wage per job was lower than it would have been had the 2006 average wage been escalated at the rate of inflation.

The recession that hit the entire United States did not spare the state of Connecticut. According to one annual analysis,[3] between March 2008 and December 2009, Connecticut lost 103,400 jobs, a rate of close to 5,000 jobs per month. The report notes that while the state has been adding jobs back since that time, "at the present rate of job growth since last December [2009--ms], it would take almost four and a half years to return to the level of jobs that existed before the recession began."

HOUSEHOLD RESPONSES TO ENERGY UNAFFORDABILITY

The implications of the unaffordability of home energy in Connecticut are sobering. The unaffordability of energy manifests itself in more than simply unpaid bills. According to the National Energy Assistance (NEA) survey published by the National Energy Assistance Directors Association (NEADA),[4] despite significant residential energy expenses, most low-income households pay their energy bills regularly. The NEADA study documents, however, "the choices that low-income households make when faced with unaffordable energy bills." The survey found that LIHEAP recipients faced life-threatening challenges.

- 12% of the national respondents had their natural gas or electricity service disconnected because of an inability to pay.
- 35% received a notice or threat to disconnect or discontinue their home heating service.
- 41% went without medical or dental care in order to have money to pay their home energy bill.
- 33% went without filling a prescription or taking the full dose of a prescribed medicine.
- 30% went without food for at least one day.

NEADA reported that all of these problems had significantly increased since the first national energy assistance survey in 2003.

Low-income customers frequently have little incentive, and even fewer choices, to pursue constructive responses to their energy poverty. Enrolling in an energy efficiency program to reduce high bills on a going-forward basis, for example, does not help pay an existing arrearage unless coupled with a reasonable long-term deferred payment plan. Conversely, agreeing to a deferred payment arrangement does not address affordability on a going-forward basis unless some adjustment can be made that either affects the level of the current bill or the level of household resources available to pay the current bill going forward.

---

[3] Joachim Heron, et al. (September 2010). ***State of Working Connecticut, 2010***, Connecticut Voices for Children: New Haven (CT) (annual publication).

[4] Apprise, Inc. (April 2010). ***2009 National Energy Assistance Survey Report***, National Energy Assistance Directors Association: Washington D.C.

All too frequently, the customer is faced with an immediate need (*e.g.*, bill payment by a date certain) with the available constructive responses to an inability-to-pay unable to deliver assistance either in the form, the time period, or the magnitude necessary to meet that need.

INCREASING FUNDING FOR BILL PAYMENT ASSISTANCE PROGRAMS

Non-federal funding for bill payment assistance programs may come from the following major sources:

- The state government, through utility-funded universal service or public benefits programs; and

- The private sector, through private charitable crisis-intervention funds, known as fuel funds.

Each will be separately discussed below.

State Public Benefits Programs

One of the most effective low-income fuel assistance program structures outside LIHEAP involves the delivery of rate affordability assistance through public utilities. While clearly not all low-income households use utility fuels such as natural gas and electricity as their primary heating source, nonetheless, the existence of electricity is nearly universal and the combination of gas and electric heating covers a substantial proportion of low-income households in Connecticut. A variety of program designs, target populations, and justifications exist for the utility programs that operate around the nation. The experience from these programs merits their emulation in Connecticut.[5]

The Pennsylvania Customer Assistance Program (CAP) represents an exemplary comprehensive statewide effort on the part of utilities to address the payment problems of their low-income households. Under the 1990 Pennsylvania Public Utility Commission (PUC) order directing the establishment of CAPs by both electric and gas utilities, affordable rate programs were to be directed toward income-eligible payment-troubled customers.

The Pennsylvania CAP programs were directed to be implemented by a 1992 Pennsylvania Public Utility Commission order. That order, titled *Policy Statement on Customer Assistance Program (CAP)*,[6] found that "CAPs provide alternatives to traditional collection methods for low-income, payment troubled customers. Generally, customers enrolled in a CAP agree to make monthly payments based on household family size and gross income. These regular monthly payments, which may be for an amount that is less than the current bill, are made in exchange for continued provision of utility service." The PUC concluded: "as a result of our investigation, the Commission believes that an appropriately designed and well implemented CAP, as an integrated part of a company's rate structure, is in the public interest. These guidelines prescribe a model CAP which is

[5] A comprehensive multi-state, multi-sponsor review of ratepayer-funded home energy affordability programs can be obtained at www.appriseinc.org (click on "multi-sponsor study—July 2007").
[6] Docket M-00920345 (July 2, 1992).

designed to be a more cost effective approach for dealing with issues of customer inability to pay than are traditional collection methods."

Other state universal service programs include:

- New Hampshire's Electric Assistance Program (EAP), operating as a "tiered discount" program;
- New Jersey's Universal Service Fund (USF), operating as a "fixed credit" program;
- Maryland's Electric Universal Service Program (EUSP), operating as a LIHEAP supplement program; and
- Indiana's Universal service Programs (USPs), operating as a tiered rate discount program.

Fuel Fund Funding

Connecticut fuel funds are among the most successful in the country. Operation Fuel is a nationally-recognized leader in the provision of charitable crisis energy assistance.

Public utilities should recognize the benefits of engaging in aggressive fundraising efforts to assist local fuel funds. Fuel funds are local agencies that provide charitable energy assistance, generally to prevent the disconnection of service for nonpayment. Aggressive fundraising can occur in at least the following ways:

- Utilities can engage in direct outreach to their customers on a periodic basis. Many utilities provide fuel fund solicitations no fewer than four times a year, at least one of which is not a bill insert.
- Utilities can solicit customers to donate refunds or other rebates provided by the utility. This refund might involve excess earnings sharing of a utility operating under an earnings cap, refunds of interim base rate increases collected under bond subject to refund, gas pipeline refunds, or other money directed back to the customer. Donations of customer capital distribution by Rural Electric Cooperatives (RECs) can be sought.
- Utilities can adopt fuel fund contribution mechanisms to be used during on-line payment. As an increasing number of customers move to on-line payment of bills, the proportion of contributions decreases in the absence of a specific on-line contribution mechanism. A mandatory fuel fund contribution screen, requiring a person to make an affirmative choice about whether or not to contribute, is a useful mechanism.

Direct state appropriations for energy assistance are also not uncommon. In 2009, for example, Maryland appropriated $21.7 million dollars in supplemental fuel assistance. Supplemental state funds in FY 2009 were used to increase LIHEAP benefits in Massachusetts by about $85 per households. The New Jersey legislature approved a $10 million direct appropriation to New

Jersey SHARES, the statewide fuel fund. In the State of Washington, state general funds go to the "Energy Matchmaker" program and are matched by local, utility and other funds

Finally, regulatory protections through processes such as payment plans, extreme weather protections (e.g., hot and cold weather shutoff moratoriums), as well as protections against the impacts of current efforts to impose miscellaneous fees (such as field collection charges and service connect charges) and non-cost-based late fees are critical to consider in addition to the financial assistance.

Thank you for this opportunity to address you today. And on behalf of Operation Fuel, I thank you for taking the actions needed to ensure the provision of affordable home energy as an essential household service.

For more information about the
Home Energy Affordability Gap, visit:

http://www.HomeEnergyAffordabilityGap.com

on the World Wide Web.