# OLR RESEARCH REPORT

August 9, 2013 2013-R-0304

## UTILITY RATE DISCOUNT REPORT

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You asked for a summary of the Department of Energy and Environmental Protection's (DEEP) report to the legislature on discounted electric and gas rates for low-income customers.


## SUMMARY

PA 11-80 required DEEP to study the feasibility of establishing discounted electric and gas rates for low-income customers by reallocating existing supports for these customers. It required DEEP to report its findings and recommendations to the Energy and Technology Committee.

The report begins by describing the state's existing energy assistance and rate discount programs, notably the matching payment program (MPP), which helps ratepayers with their utility arrearages. It (1) estimates the amount of funds that would be available for a rate discount program in Connecticut if the existing funding were reallocated for this program and (2) describes discount programs in other states. It then presents its analysis and recommendations.

The report does not present a recommendation as to whether a discount rate program should be established. It states that the MPP program may be "underperforming" in terms of reducing uncollectible expenses and improving customer payment habits. It also states that the MPP and other existing programs, which are targeted to low-income



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customers, meets or exceeds the legislation's goal of reducing energy costs by 10%. The report also offers weatherization as an effective approach to reducing energy consumption and expenditures and consumption for low-income households. It observes that, unlike a utility rate discount program, weatherization also serves households that heat their homes with oil and other non-utility fuels.

The report also has five appendices providing information on:

1. the eligibility guidelines for the Connecticut Energy Assistance Program (CEAP),

2. projected number of households using CEAP and related programs in federal fiscal year 2012,

3. low income discount rates in other jurisdictions,

4. 2010 household income distribution in Connecticut, and

5. comments received on the draft report.

**CHARGE**

PA 11-80 (§ 112) required DEEP to conduct a proceeding to develop discounted rates for electric and gas company customers whose household income is up to 60% of the state median. The proceeding had to review the current and future availability of rate discounts for individuals who receive state or federal means-tested assistance, through:

1. discounts through the electricity purchasing pool authorized to operate under the law,

2. Connecticut Energy Assistance Program benefits,

3. assistance funded or administered by the Department of Social Services (DSS) or DEEP,

4. other state-funded or state-administered programs,

5. conservation program assistance, or

6. MPP benefits to help customers pay off their arrearages.

DEEP had to:

1. coordinate resources and programs, to the extent practicable;

2. develop rates that take into account indigency and allow these households to meet the costs of essential energy needs;

3. require single family households to have a home energy audit as a prerequisite to qualifying, with the cost for low-income homeowners subsidized from the Energy Efficiency Fund;

4. analyze the benefits and anticipated costs of the discounted rates; and

5. review utility rate discount policies or programs in other states.

DEEP had to determine which, if any, of its programs should be terminated, modified, or have their funding reduced because program recipients would benefit more from a low-income rate. It had to establish a rate reduction equal to the anticipated funds transferred from the programs it terminates, modifies, or reduces and the reduced cost of serving low-income households participating in the program, and other sources. DEEP could issue recommendations regarding energy assistance and weatherization programs administered by DSS.

DEEP had to order (1) each electric company to file proposed rates consistent with its decision within 60 days after issuing the decision and (2) appropriate modifications to existing low-income programs.

The cost of discounted rates and related outreach activities would be required to be paid (1) from normal rate-making procedures and (2) on a semi-annual basis through the systems benefits charge. The discounts had to be funded solely from (1) the savings from the programs that DEEP terminates, modifies, or reduces, plus the reduced cost of providing service to those eligible for the discounted or low-income rates; (2) any available energy assistance; and (3) other sources of coverage for these rates, such as generation available through the electricity purchasing pool operated by DEEP.

DEEP was required to report to the Energy and Technology Committee on the benefits and costs of the discounted rates and any recommended modifications to existing programs. If the low-income rate was not at least 10% below the rate charged for customers who have not chosen an electric supplier, DEEP's report had to include steps to reach this goal.

## PROCEEDINGS

DEEP's Bureau of Energy and Technology prepared the report, not only in conformance to PA 11-80, but also to inform a related proceeding at the Public Utilities Regulatory Authority (PURA) on the development and implementation of low income discounted rates. The DEEP report provides preliminary data for PURA to consider on such issues as the benefits and costs of a low-income discounted rate and whether households should be required to have an energy audit as a condition of receiving the discount.

The bureau issued a draft report to stakeholders in March 2012. Advocacy groups such as AARP and the Connecticut Association for Community Action submitted comments. They recommended establishing a "no harm" approach where any rate modification would not decrease existing funding levels or result in fewer households being eligible for energy assistance. The utilities also submitted comments arguing that the 10% discount goal articulated by PA 11-80 is being met by the MPP and other existing programs. They cautioned against setting up a rate discount program unless (1) it was shown that it would be more effective than current options, (2) the administrative burdens of the discount program were further examined, and (3) underlying costs were better understood.

DEEP issued its final report on July 5, 2013.

## EXISTING ENERGY ASSISTANCE AND RATE DISCOUNT PROGRAMS

The report notes that the federally funded CEAP is the only energy assistance program operating in the state. Depending on a household's characteristics, the maximum income eligibility criterion for CEAP ranges from 200% of the federal poverty level (FPL) to 60% of the state median income.

Under CGS § 16-262c, low-income and other hardship customers are protected from electric and gas service termination during the heating season. Low-income for this purpose is usually 125% of the FPL.

Under the MPP, the electric and gas companies will forgive part of the arrearage of a customer who applies for energy assistance and enters into a reasonable amortization agreement with the company, which must take into account the anticipated energy assistance benefit. If the customer has made all of the payments required under the agreement as of May 1st, the company will deduct from the customer's arrearage an amount equal to what the customer paid plus the energy assistance benefit he or she received. If the customer complies with the agreement from May 1st to the following October 31st, the company will match the customer's payments and any amount paid on the customer's behalf, and apply this match to the arrearage. The matching payments are funded by other ratepayers.

The electric and gas companies also operate other arrearage forgiveness programs on a voluntary basis. They also administer weatherization assistance programs, which have special provisions for low-income households.

In addition to these utility programs, PA 11-80 contemplated funding the discount program using the DEEP energy purchasing pool. DEEP aggregates state agency electricity and natural gas accounts to achieve volume discounts. While the law (CGS § 16a-14e) requires DEEP to provide an opportunity for households receiving state or federal means-tested assistance to participate in the electricity purchasing pool, this has not happened to date. The report states that this is due to "administrative constraints," including state procurement policies and practices. The report notes that there may be some opportunity for the state to leverage its purchasing power to support low-income households through the purchasing pool.

## AVAILABILITY OF CURRENT PROGRAM FUNDS FOR DISCOUNTS

The report states that the funds that currently support CEAP could not be repurposed for a discount rate program due to provisions of federal law. Nonetheless, the report compares the existing funding under the energy assistance and utility-administered programs to the amount needed to provide a 10% discount for low-income households, defined for this purpose as those with incomes up to 125% of FPL. This level is substantially below the 60% of state median income contemplated by PA 11-80, and providing a discount to households earning up to the latter amount would cost more.

The report finds that the current amount of assistance provided to gas company hardship customers is above that needed to provide a 10% rate discount for them. In contrast, the current amount of assistance provided to electric company hardship customers is slightly less than the amount needed to provide a 10% discount to these customers. However, if the existing funding were targeted to the smaller number of customers who receive energy assistance, it could provide a discount well above the 10% level for both the electric and gas companies.

## DISCOUNT PROGRAMS IN OTHER JURISDICTIONS

Appendix C describes discount programs in the other New England states, Arizona, California, the District of Columbia, Georgia, Minnesota, New York, and Pennsylvania. It finds a multitude of approaches to achieve affordable rates, each with its own trade-offs. According to the report, no particular approach provides a clear solution.

## ANALYSIS AND RECOMMENDATIONS

The report finds that several of the potential funding sources for a discount rate program contemplated by PA 11-80 are unavailable. It appears that federal grant requirements preclude using the Low Income Home Energy Assistance Program (which funds CEAP) to subsidize a discounted rate. The same holds true for state-administered federal funds for weatherization programs. While state law requires DEEP to operate a purchasing pool to allow low-income residents to participate in the state's electricity purchasing pool, this has proved to be unworkable.

The major remaining potential funding source identified by PA 11-80 for the rate discount program is the MPP. According to the report, legislation would probably be needed to curtail or repurpose the MPP in order to fund a discount rate program.

DEEP raises several concerns with the idea of substituting a discount rate program for the MPP and other ratepayer funded assistance benefits. The report notes that for many customers, the net potential benefit of the current MPP and other assistance benefits far exceed the benefits these customers would receive with a 10% rate discount. Dropping the MPP would reduce the interaction between the utility and the customer, which elicits information from the customer that is designed to maximize participation in assistance programs the customer may be unaware of. The MPP also includes educational and counseling components that take into account the customer's specific circumstances, such as serious or life-threatening illnesses, income-related issues, and household composition.

On the other hand, the report finds that the MPP is not meeting its goals of improving customer payment habits and reducing the utilities' uncollectible expenses. The report finds that the number of agreements that were breached by customers from November 2011 through October 2012 was 50% or more the number of agreements entered into during this period. MPP customers who breach their agreements lose the debt forgiveness and matching payments provided under the MPP.

Among other things, DEEP also recommends that the PURA review address the existing moratorium on service terminations during the heating season and serious illness criteria for eligibility for this protection.

The report also notes that the 10% discount goal in PA 11-80 would not apply to households served by municipal utilities (who are not subject to PURA's ratemaking jurisdiction).

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