Significant concerns are currently being expressed regarding EIA estimates. These concerns include beliefs that the EIA's supply forecast is too optimistic. Recent reports on high rig counts and continuing sluggish growth in supplies despite this extraordinary exploration and production effort are pointing to an issue that will continue to be of great concern to those interest in natural gas supplies and prices. Even if $3.50/Mcf is accepted as a near term average, it is anticipated that well before 2020, as available reserves are smaller, more difficult to develop, and harder to transport to demand centers, prices will steadily rise.

Economic Factors

The implications of last winter's high natural gas prices on household incomes and large energy-consumer budgets are not completely known at this time, but obviously reduced consumer's disposable income and may have contributed to a slumping economy. The U.S. is currently in an economically uncertain period and this uncertainty contributes to a broad forecast range for natural gas prices. Both electric and natural gas project announcements have risen in light of the current emphasis on potential blackouts and a widespread energy crisis, but how many of these projects will actually reach operation remains to be seen. Higher average natural gas prices in the future cast some uncertainty on the prudence of total reliance on natural gas fueled electrical generation and other sources of electrical generation must continue to be part of every utility's planning effort to meet the needs of its customers. On the other hand, future higher average natural gas prices will be a powerful incentive for further exploration and production of natural gas, which will tend to help moderate prices. In the near-term, lower market prices could limit investment to fund high-capital natural gas projects. Also, low economic growth could create uncertainty about actual demand. If these factors are significant, they could lead to postponements of projects. Overall though, industry reports anticipate slow project development into 2002, but picking up thereafter to reflect forecasted growth.

Long-term economic growth is projected to increase natural gas demand and in turn increase future average wellhead natural gas prices; by how much will vary. The EIA reports projected wellhead prices to increase on average between 1.2 and 2.8 percent per year for the next 20 years under low and high economic growth scenarios, respectively. Discovery efforts and production operations will directly affect this upward trend in prices but technological advances and cost-savings in these areas will hopefully suppress dramatic long-term price spikes. Generally speaking, increased costs will likely be reflected in a gradual long-term increase of average end-consumer costs for natural gas, given current and rising future demand.

Electrical Generation

There is a growing inter-dependency between the gas and electric industries. Electric generation is projected to grow in the short-term and long-term projections remain optimistic about continued market growth. Natural gas consumption for electric generation in 2000 was less than half the amount of the industrial sector, the current leader in natural gas consumption. However, electric generation is projected to lead all sectors in natural gas consumption within 15 to 17 years. Growth in projected total domestic consumption of natural gas, therefore, will be greatly influenced and lead by electric energy demands in the western, particularly the California market, and eastern regions.

Comparably lower initial set-up costs, environmental advantages, shorter ground-breaking-to-operational time periods, and significant efficiency improvements have popularized the use of gas-fired turbines and combined-cycle facilities for electric generation in both the regulated and non-regulated sides of the electric industry. The current advantages of natural gas have heavily influenced the use of these generation facilities to meet growth in electrical demand. Until newer pipeline facilities are built, increased use of natural gas for electric generation may place utilization levels on existing facilities that have never been experienced before. If forecasted growth materializes, additional pipelines will be necessary or capacity constraints, bottlenecks, and end-consumer supply shortages may become a real possibility.

Missourians are seeing first hand the Nation's emphasis on energy production growth. As noted earlier, ten electric generation plants utilizing natural gas as a major fuel source have been announced, with some nearing construction, while others are already operating. Depending on plant locations, pipeline expansions may be required to deliver services with adequate capacity. This capacity will be essential as a large electric generation facility can require a level of natural gas capacity equivalent to a city the size of Columbia at peak load.

As a non-gas-production state, Missouri relies on interstate pipelines for delivery of natural gas from gas production states such as Texas, Oklahoma, Louisiana, and Kansas. Production excess in the Central Region has been reported but exporting pipeline capacity has limited the availability of the commodity to end-consumer markets. Other states, like Missouri, will also be bidding for these gas supplies to serve their increasing electric generation needs and dependency upon current natural gas pipeline capacities could become even more strained unless expansions develop. A number of potential expansion projects are currently being looked at by different interstate pipelines, and the Staff of the MoPSC will continue to watch these projects with great interest. It is essential that Missouri's LDCs continue to regularly assess their projected peak demands and determine which expansions they must participate in to meet the needs of their customers.

Natural Gas Storage

As noted earlier, commodity price drops through July 2001 have led to heavy volume purchases of natural gas during this year's storage injection season and reflect an inverted market from the same time last year when prices were on the rise. As of mid 2001 working gas storage totals trailed only 1998 and 1999 storage totals for the same given time periods, when comparing the past six-year averages. The volumetric rate of gas injections during the 2001 injection season, however, exceeds both 1998 and 1999.

Sluggish economic growth and mild summer-weather energy demand have contributed to the market's downward trend and have provided better than expected buying opportunities for replenishing storage levels. Although unpredictable weather-related-demands can allure market volatility, a continuation of the current market through the end of the injection season will hopefully play a major role in stabilizing end-consumer natural gas costs during the 2001-02 winter.

Increased Natural Gas Imports

To balance the nation's natural gas consumption dependency with domestic production, commodity imports from Canada and Mexico are expected to grow. The EIA reports "net natural gas imports are expected to grow ... from 15.8 percent of total gas consumption in 1999 to 16.7 percent in 2020." Availability of imports is expected to add to the supply factor, especially in the eastern region of the United States, but insufficient pipeline facility development could be a constraint to expanding markets in need. Sufficient pipeline capacity will be a key component for imports to keep pace with expected national demand and bringing to the energy-fuel market a supply level that's effective to moderate prices. Increased imports into the western and eastern regions add gas supplies that ultimately can aid in minimizing nation-wide commodity price spikes.

6. How Missouri Compared to Other Parts of the Country – PGA Rates &Typical Heating Bills

Last winter's rise in natural gas prices in Missouri was a reflection of market variables that affected the price of energy nationwide. The increase in natural gas prices that occurred over the 2000-01 winter was the result of several critical factors within the industry. The wellhead price of natural gas is a deregulated commodity and largely driven by supply and demand. The supply situation involved relatively flat growth in supplies since about 1995 with storage levels, at the beginning of the winter, that were somewhat below average. Relatively low demand and prices in the natural gas market did not make it attractive for exploration and production in the years immediately preceding the 2000-01 winter. The demand situation included extraordinarily cold winter weather throughout a large part of the US, a significant growth in demand for natural gas for electrical generation, and higher than normal demand for residential, commercial and industrial customers. Market speculation on natural gas prices may have also played a role. These factors combined to create a "seller's market" by mid-winter as prices climbed to near $10/MMBtu in late December and early January of the 2000-01 winter. It should be noted that national supplies for natural gas were not the problem, the EIA continues to indicate that domestic proven and speculated reserves of natural gas will meet most of our needs for several more decades. If international supplies transported as LNG are included, reserves may well last for over a century. The price spikes of the 2000-01 winter were more closely associated with tightness of supply deliverability to demand centers than natural gas reserves. Pipeline constraints presented significant challenges in some parts of the country. Missouri was not significantly impacted by pipeline constraints but areas like California were impacted by transmission constraints. During a number of market price jumps in the 2000-01 winter the Southern California market exceeded $50/MMBtu when Henry Hub was near $10/MMBtu. Some of this difference was due to transmission constraints on the El Paso line. A number of investigations are ongoing regarding this difference in pricing.

While nationally 53% of U.S. households use natural gas for heating, it is estimated that 60% of Missouri households utilize natural gas as their primary heating source (1990 census data). In an effort to examine how Missouri residential customers fared this past winter regarding natural gas prices in comparison to other Midwest states, a survey of neighboring states regulating natural gas was performed. The results of this review are shown in Table 6.1. Findings indicate that while Missouri residents experienced similar spikes in natural gas prices as the rest of the country, prices in mid-winter were not as elevated as in some other areas of the Midwest. In comparing the prices for Missouri's two largest LDCs to LDCs in other states, average prices effective January 1, 2001 were less than most other states surveyed. Although this comparison is of interest, it must be noted that estimated January 2001 natural gas bills cannot necessarily be directly compared to Missouri's natural gas bills as usage calculated in the monthly billing varies from state to state due to geographic location and temperatures experienced. Also, some of the observed differences in rates are the result of differences in when PGA rates can change and how much under recovery in gas costs the noted LDCs were willing to accept before filing for changes in rates.

Table 6.1, Comparison of Midwest Regulated PGAs and Bills

State	LDC & Effective Rate on 1/1/01 ($s/Mcf)		Average	Estimated Jan. 2001 Bill
Arkansas	Arkla	$7.60	$5.60	$143
	AWG	$3.59		$100
Illinois	Peoples Gas	$9.77	$9.64	$327
	NIGas	$9.50		
Iowa	Mid-American	$10.51	$10.00	$224
	IES	$9.49		$206
Kansas	Kansas Gas Service	$8.68	$8.68	$178
Kentucky	Louisville G & E	$6.44	$7.28	$147
	Columbia Gas	$7.67		$209
	Western Ky Gas	$7.74		$163
Missouri	Laclede Gas Company	$6.45	$6.63	$200
	Missouri Gas Energy	$6.80		$196
Oklahoma	Oklahoma Natural Gas	$7.89	$7.89	$192
	$7.89			
South Dakota	MidAmerican Energy	$10.50	$8.65	$247
	Montana - Dakota Util.	$6.80		$171
Tennessee	Nashville Gas	$7.03	$7.17	$229
	United Cities Gas	$7.31		

A number of other reasons may have also contributed to these differences in rates between states. In fact, significant differences in rates exist between different LDCs within the state of Missouri. These differences can include, but are not limited to a) overall system size and mix of the LDCs customer base, b) availability and use of storage capacity, c) how LDCs choose to participate in index priced, fixed priced, and transportation contracts, and d) the LDCs hedging strategies as well as the different percentages of supplies from these sources. Changes in PGA rates can also be a result of differences in regulatory practices in states and how much under or over recovery an LDC is able, and/or willing, to incur before requesting changes in rates. In comparing bills it is also necessary to recognize that distribution charges vary among different LDCs.

7. Other Options for Changing How Consumers Pay for Natural Gas Service

During the deliberations of the task force, groups briefly discussed a number of non-gas cost issues and options. The task force group as a whole did not deliberate on these "other" options because these other issues and options did not specifically deal with gas commodity costs, which were the focus of this task force. The task force group briefly discussed how to address these other issues and options and decided that they should be noted in the final report of the task force for the benefit of decision makers who may wish to consider options that were not considered by this task force. These "other" options were as follows:

- Reduce, cap or eliminate gross receipts taxes (GRT)
- Weather Normalization Adjustment Clause
- Base (margin) revenue distribution charge rate design revision

Each of these options and their associated pros and cons are noted in more detail below. It is important to note that utility and OPC interests were very different in this section. This resulted in a number of pro and con statements that one party or the other strongly disagreed with. In fact, some argued that this section should not be included in the task force report. No effort was made to resolve these differences in opinion, as this was not the focus of the task force. The summary statements and associated pros and cons below are the result of editing of comments received from utility, OPC, and other representatives by the chair of the task force and do not necessarily represent the opinions of Staff, the utilities, OPC, or others but do include most of the pro and con statements provided by interested parties.

Reduce, cap or eliminate gross receipts taxes

Description: Under this option, gross receipts taxes would be reduced or capped during the winter months. Alternately it could be converted to another form, such as a flat monthly $/customer charge, or eliminated entirely. To the extent that a viable option might be consumer choice of gas suppliers, GRT becomes a complicating factor. At least one state, Pennsylvania, has recently eliminated GRT on gas sales/distribution.

Pros

- Reduction to customer's total bill.
- If capped, a partial reduction of the bill will result from the portion of the bill that is not taxed.
- Could eliminate negative aspects of tax windfall to municipalities during colder than normal weather.
- Possible savings by LDCs of costs associated with processing GRT.

Cons

- Does not reduce the volatility of gas costs, only reduces the total bill by the amount of reduced taxes on the gas plus distribution charges.
- If GRT are eliminated, loss of revenue source to municipalities may force them to reduce services or make-up for the tax revenue loss through increases in other taxes. If capped, loss of tax windfall revenues during abnormally cold weather could result in less available funds for associated increases in snow removal, road salt, and increased municipal operating costs during colder than normal weather.
- The Commission lacks authority to reduce or cap GRT and this would need to be addressed by state and local governments.

Weather Normalization Adjustment Clause

Description: A Weather Normalization Adjustment clause allows a utility to true-up for weather, the recovery of non-gas distribution costs on an annual on-going basis. On a regular basis (usually with some lag or via deferral) a customer's bill is adjusted so that the revenue generated for base rate (margin) revenue is trued up to normal weather. Forty-four LDCs in 22 states have implemented them.

Pros

- Slight to moderate reduction in both the volatility and financial impact of weather variations upon the recovery of non-gas (distribution) costs for both consumers and LDCs.
- Identified by NARUC as an option that public service commissions "may want to consider".
- May decrease the frequency of rate case filings.
- Would have been beneficial, in terms of reduced natural gas bills, in the 2000-01 winter when there was a coincidental price spike for commodity gas at the same time as extremely cold weather. Would result in higher bills for consumers during warmer than normal winters with associated recovery of distribution costs by LDCs that they would not have received otherwise.
- Reduced weather risk for utility may bring about lower costs.

Cons

- Applicable to approximately 20 to 35 percent of total gas bill so potential impact on volatility of overall bill is limited.
- The MoPSC has previously rejected a weather adjustment clause, stating it was "single-issue ratemaking." See: In Re: Missouri Gas Energy GT-95-429 October 27, 1995.
- Customers will have a wide range of opinions on this type of methodology. Some will like it and others will not.
- Consumers may not benefit from any cost reductions associated with reduced weather risk to LDCs.
- Decreased incentive to conserve energy since charges on distribution costs would be adjusted based on actual weather. Price signal incentive for conservation from PGA portion of costs would still be in place.
- Customer education necessary to address confusion/questions on adjustment charges.

- Utility may incur one-time costs due to additional programming if billing system needs to be upgraded to accommodate changes.
- Obtaining uniformity in developing and applying a standardized weather measure may be difficult.

Base (margin) revenue distribution charge rate design revision

Description: Redesign of base rates for fixed (non-commodity related) distribution charges, placing more or all costs in the monthly service charge and less or none in the commodity charge. Carried to full implementation, such a rate design may be a full fixed variable design (like Georgia) or complete elimination of the commodity related portion for recovery of distribution costs so the service, or distribution charge, is a flat monthly fee considered as a system access fee. Under the access fee structure, rate class revenues are divided by annual number of bills and the customer pays that flat monthly fee each and every month. Distribution costs recovery is currently about 20 to 35 percent of a customer's average monthly bill for natural gas service.

Pros

- Less seasonal volatility of customer's bill (winter bill reductions of approximately $9 to $18/month with corresponding increases in summer bills, based on normal weather – lower when warmer, higher when colder).
- Distribution charge component of customer's bill is more predictable the closer the rate becomes to an access fee.
- Less risk and more stable revenue stream for utility with possible lower costs.
- Recommended as one of six areas to "review for possible long-term solutions" in Attorney General Jay Nixon's Report on natural gas price spikes to Governor Bob Holden, dated February 26, 2001.
- Some have argued (utility) that distribution costs do not vary significantly with customer usage but, rather, are based on the number of customers served, and should be recovered on a customer related access fee basis. Some have also argued that monthly service charges, or access fees, are commonly accepted in today's consumer market.

Cons

- Applicable to approximately 20 to 35 percent of total gas bill (non-gas or distribution portion) so potential impact on volatility of overall bill is limited.
- Slight to moderate reduction of price signal since the non-gas or distribution portion of the total natural gas bill may no longer be a function of the quantity consumed.
- Some have argued (OPC) that this type of rate design helps insulate the utility from (1) competition with electric utilities for space heating loads and (2) competition from distributed generation resources such as photovoltaics.
- Small users (in terms of consumption) may be subsidizing large users.
- Low load factor customers may be subsidizing high load factor customers.
- The utility has an incentive to add customers rather than load. Depending on line extension policy, this may be less beneficial to existing customers.

8. Appendices

Appendix A: Transcripts from Public Meetings

The transcripts from the task force's public meetings are available on the Internet at http://www.psc.state.mo.us/publications.asp under "Natural Gas" with the following titles:

Task Force April 26th Public Meeting Transcript
Task Force May 4th Public Meeting Transcript
Task Force May 10th Public Meeting Transcript
Task Force May 24th Public Meeting Transcript.

The task force's 5th and 6th public meetings, held in Sikeston and Joplin respectively, were not well attended and no transcripts were taken in these meetings.

Appendix B: Glossary of Natural Gas Industry Terms

ACA – Actual Cost Adjustment - The annual proceeding before the Missouri Public Service Commission in which a gas utility's actual gas costs are reconciled against the amounts it has collected from customers through its PGA charges during the year.

Base Gas – The portion of gas in a storage basin that is typically not considered for withdrawal, as it is important that some base gas be left in certain types of storage facilities for reliable operation of the storage basin.

Baseload contract – A gas supply contract that requires the buyer to purchase and receive a levelized volume of gas throughout a specified time period.

Benchmark – A standard against which a local distribution company's performance in utilizing its gas supply assets in meeting the requirements of its customers can be measured.

Bcf – Billion Cubic Feet – A unit of measure for large natural gas users or storage facilities.

Btu – British Thermal Unit - A measure of the heat content of natural gas. One cubic foot of natural gas is typically equivalent to about 1,000 Btu.

Capacity release – The sale and assignment of firm transportation capacity by a primary capacity holder such as a gas utility to a third party.

Call option - A financial instrument which permits the owner the right but not the obligation to purchase a specified quantity of gas at a specified strike price in a future period. It can be used to establish a ceiling price for natural gas purchasers but does require that the owner pay a price equivalent to an insurance premium to have the right.

Ccf – One hundred cubic feet, which is a standard measure of the quantity of natural gas. See also Mcf, therm, dekatherm, and MMBtu.

City gate – The point at which an interstate or intrastate delivery pipeline is interconnected to and delivers gas to the local distribution company.

Commodity charge – A per unit charge for gas purchased or transported during a month.

Contract Demand – The maximum amount of gas deliverable by a natural gas producer or pipeline to a utility, as specified by contract during any gas day, i.e. during any 24-hour period commencing at 9:00 a.m., prevailing Central Time.

Costless collar – A cost-free financial instrument which creates a ceiling price for a specified quantity of natural gas, in exchange for a floor price for the same quantity. It stabilizes the price for the specified quantity of gas between the floor and ceiling prices.

Dekatherm – Equivalent to one million Btu.

Demand charge – A fixed monthly charge to reserve and assure the availability of firm gas supplies. This charge does not vary based on the actual volume of gas purchased, within contract demand limits, during the month.

Demand Side Management (DSM) – A program typically designed to reduce natural gas usage (or electrical demand for an electric utility) as part of an effort to minimize need for growth in supplies (or electrical generation) with delivered costs objectives and/or to achieve particular energy efficiency goals.

FERC – Federal Energy Regulatory Commission, which is the federal agency charged with the responsibility of regulating the rates and terms of service for interstate natural gas pipelines.

Futures Contract - A supply contract between a buyer and seller, whereby the buyer is obligated to take delivery and the seller is obligated to provide delivery of a fixed amount of a commodity at a predetermined price at a specified location. Futures contracts are traded exclusively on regulated exchanges and are settled daily based on their current value in the marketplace.

Gas producers – Owners of gas producing wells and reserves who explore for, drill, develop, produce and sell gas at unregulated prices.

Gas storage – Underground reservoirs used to store natural gas for withdrawals in future periods. Typically used for daily and monthly balancing, seasonal load shaping, and price arbitrage. Can be constructed as underground salt domes in deep salt deposits or in aquifers with an impermeable dome rock structure or depleted oil and/or gas fields. Can also be stored as liquefied natural gas but this is much less common.

GSIP – Gas Supply Incentive Plan, which is a Missouri Public Service Commission-approved plan, whereby a gas utility is provided financial incentives to encourage it to devote additional resources to optimize the use of various gas supply options for its customers.

HDD – Heating Degree Day – A measure of the "coldness" of a given time period. Usually defined as the difference between the average temperature in a day and 65 degrees Fahrenheit. If a day had an average temperature of 25 F, the day could be referred to as having had 40 HDDs. Weekly, monthly, and annual HDD numbers are typically just the sum of the daily HDDs recorded in the period of interest.

Hedge – A mechanism which can be used to mitigate the volatility of gas prices, such as gas storage or the purchase of various financial instruments or fixed-price contracts.

Index Price – The daily or monthly price of natural gas in a particular location set forth in industry publications such as Gas Daily and Inside FERC.

Interstate pipeline – Any FERC-regulated pipeline that transports gas from production fields to local distribution companies and end users in different states.

LDC – Local Distribution Company - Is the local gas utility that distributes gas from the interstate or intrastate pipeline to end use consumers of natural gas. Rates and services of Missouri's regulated LDCs are regulated by the Missouri Public Service Commission.

Mcf – One thousand cubic feet, which is a standard measure of the quantity of natural gas. See also Ccf, therm, dekatherm, and MMBtu.

Missouri Public Service Commission – The State agency charged with the responsibility of regulating the rates and terms of service of the local regulated gas utility.

MMBtu – One Million Btu - Is a standard measure of the quantity of natural gas approximately equivalent to a Mcf. See also Ccf, therm, dekatherm, Mcf.

MMcf – One Million Cubic Feet – a common unit of measure for large customers.

Office of the Public Counsel – The State agency charged with the responsibility of representing consumers in proceedings before the Missouri Public Service Commission.

Off-system sales – The sale of gas by a gas utility to customers outside its service territory in Missouri.

Peak Design Day – The coldest possible day anticipated for a specified gas supply planning period.

PGA Clause – Purchased Gas Adjustment Clause, which is the provision in each local distribution company's tariff that permits it to recover gas supply, transportation and storage costs, on a dollar-for-dollar basis, from customers.

Pipeline discounts – Reductions in the maximum transportation or storage rates established by the FERC or the Missouri Public Service Commission negotiated between gas pipelines and their utility customers based upon competitive factors.

Put – A financial instrument that permits the seller to sell a specified quantity of gas at a specified price. It can be used to establish a floor price for natural gas sales.

Reservation charge – A fixed monthly charge to reserve firm pipeline transportation or storage capacity.

Strike price – The price at which a call option permits the owner to purchase gas.

Swing contract – A gas supply or transportation contract which permits the flexibility to purchase or transport amounts of gas between zero and a maximum amount specified in the contract.

Therm – Equivalent to 100,000 Btu. This is also approximately equivalent to 1 Ccf. See also Mcf, MMBtu and dekatherm.

Throughput – The amount of gas transported through specified facilities over a specified period of time.

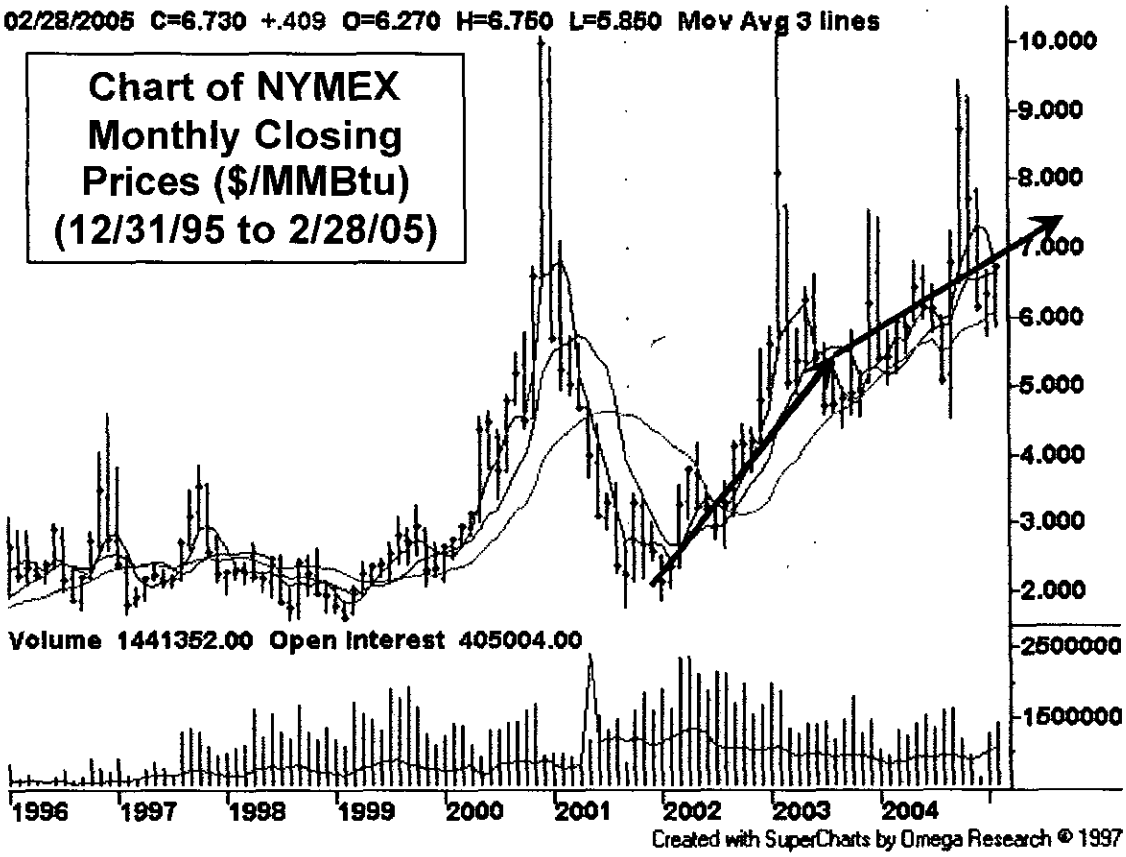
WACOG – Weighted Average Cost of Gas, which is a method used to calculate an average price of a portfolio of gas supplies including the cost of gas inventory held in gas storage reservoirs.

Working Gas – The amount of natural gas in a storage basin that can be removed and replaced in each injection/withdrawal cycle.

Appendix C: List of Natural Gas Commodity Price Task Force Members

Natural Gas Commodity Price Task Force Members			
Name	**Organization**	**Name**	**Organization**
Robert J. Amdor	UtiliCorp United/Energy One	Jan Marcason	Mid-America Assistance Coalition
David Beier	Fidelity Natural Gas	Mary K. Matalone	Interested Consumer
Jim Browning	Palmyra City Mayor	Tim Maupin	Interested Consumer
Pat Childers	Atmos Energy Corporation	Rep. Carol Jean Mays	Representative - District 50
Stuart W. Conrad	Finnegan, Conrad & Peterson	Anne McGregor	MC^2 Consultants
Charles H. Day	Interested Consumer	Cathleen Meyer	City Utilities of Springfield
Mark Drazen	Drazen Consulting Group	Michael C. Pendergast	Laclede Gas Company
Jeremiah D. Finnegan	County of Jackson - Counsel	Anita C. Randolph	DNR Energy Center
Jim Fischer	Fischer & Dority, P.C.	Joseph Schulte	Gas Workers Union Local 5-6
Bill Guinther	Interested Consumer	Tim Schwarz	MOPSC
Robert J. Hack	Missouri Gas Energy	Amy Sheridan	
Martha S. Hogerty	Office of the Public Counsel	David Sommerer	MOPSC
Rep. Rod Jetton	Representative - District 156	Sen. Sarah Steelman	Senator - District 16
Chris Kaitson	Kansas Pipeline - Counsel	Rich L. Taylor	Interested Consumer
Robert E. Kindle	Interested Consumer	Diana M. Vuylsteke	MO Indust. Energy Consumers
Richard J. Kovach	Ameren Services	Vicki Walker	Interested Consumer
Charles D. Laderoute	Independent Consultant	Joyce White	Interested Consumer
Joyce Lucas	Interested Consumer	Gary W. Wood	Bethany Muni. Gas
		Warren Wood	MOPSC
Peope Who Attended on Behalf of Others or As Interested Parties:			
Tom Byrne	Ameren Corp.	Brenda Wilbers	DNR Energy Center
Scott Glaeser	Ameren Corp.	Lesa Jenkins	MOPSC
Phil Lock	MOPSC	Shawn Gillespie	UtiliCorp United Inc.
Mark Martin	Atmos Energy	Barbara Meisenheimer	Office of the Public Counsel
Doug Micheel	Office of the Public Counsel	Jim Busch	Office of the Public Counsel

Final Report of the Missouri Public Service Commission's Cold Weather Rule & Long Term Energy Affordability Task Force



Issued: March 31, 2005

In the Matter of a Commission Inquiry into Affordable Heating Energy for Customers of Regulated Missouri Utilities and Possible Changes to the Cold Weather Rule	))))))	Case No. GW-2004-0452

Table of Contents

I. Executive Summary

The task force members are thankful for the opportunity to provide the Commission with this report. Further, the task force wishes to thank the Commission for its interest in this important subject and for establishing a task force to address possible approaches for dealing with it.

Over the past year, the members of this task force, as well as about fifteen other interested people, have met in twenty five all day meetings. Outside of the structured meetings of the task force, many individual meetings took place and much research was conducted by the involved parties. In total, the efforts of those participating on this task force spent at least ten percent of their productive work related hours over the last thirteen months.

As the Commission is already well aware, natural gas prices are higher now than was the normal range of natural gas prices only a few years ago. With the supply and demand situation the nation now faces a hot topic in government and industry circles, some hope for reductions in these prices is on the horizon but there is no certainty of lower and/or less volatile prices any time soon. Technology developments to advance methane hydrates production capability, increased import capability from Alaska and Canada, better access to the world liquefied natural gas (LNG) market through new ports, and efforts to reduce usage through energy efficiency all may represent portions of the total solution to this problem but none of them offer an immediate solution.

Many of the natural gas customers in our state have seen their bills double over the last few years. This has obviously impacted the budgets of many Missourians, especially those with limited financial means. Many households that were able to pay their full energy bills in the past can no longer do so without making decisions between paying for heat, food or medicine. These higher bills also impact the utilities that sell these services as they see their bad debts increase and the number of customers disconnected for nonpayment grows. Higher bad debts eventually contribute to higher rates for all customers.

This report provides summaries of the programs and concepts considered, the funding mechanisms considered, recommendations for changes in legislation and ideas for regulatory approaches in the future to assist in long-term energy affordability. Much of this information is provided in a relatively summarized form to avoid making this report

too long and burdensome to read. Where appropriate, information has been referenced and provided in the appendices.

This report also provides some technical information for those wishing to look closely at the facts and figures. The task force recognizes that these facts and figures often tell real stories about the struggles people are experiencing in keeping up with their utility bills and all of their other expenses and that is why these facts and figures have been included. For those wishing to look even closer at the issues touched on in this report, the reference materials in Appendix A provide numerous internet links.

The task force members note that the recommendations in this report were supported by all of its members (with the exception of one that is noted in the legislative recommendations section). Many other recommendations were strongly supported by one group but just as strongly opposed by another group. These recommendations, where possible, were revised through negotiations to a point where the concerns of all parties were addressed. If middle ground could not be found on a recommendation, it did not become a recommendation of the task force. The Additional Recommendations & Concurrences of Various Parties section near the end of this report provides a space for parties who wish to speak individually to the Commission on these issues to do so.

Although the task force members recognize that this task force's efforts may be concluded with the issuance of this report, we also recognize that this group may be called upon again to resume discussion of these issues in the very near future. A amendment to Senate Bill 179 requires that "the public service commission shall appoint a task force, consisting of all interested parties, to study and make recommendations on the cost recovery and implementation of conservation and weatherization programs for electrical and gas corporations". If the Commission wishes this group to address this issue, the task force stands ready to provide whatever assistance the Commission request.

II. Why Missouri Needs to Address Long Term Energy Affordability

The Commission established the long-term energy affordability task force in order to examine "possible programs to improve long-term energy affordability for persons who need help with their utility bills." The task force, composed of representatives from utility companies and consumer groups, the Missouri Department of Natural Resources, the Committee to Keep Missourians Warm, the Community Action Agencies, the PSC Staff and the Office of the Public Counsel, considered innovative ways to finance weatherization and energy efficiency measures for homes and buildings, and ways to provide financial assistance to customers facing mounting energy bills on low and fixed incomes.

One of the crucial hurdles that the task force was able to overcome early in its discussions was the recognition that many customers, due to their income level, are unable to pay their increasing household energy burden. By recognizing that most low-income households in Missouri who fail to pay their full energy bills on time each month are unable to pay, rather than are unwilling to pay, the task force was able to move to a discussion regarding possible solutions. The persons in this category include low income disabled and elderly Missourians, and families with young children on public assistance. In addition, the utility customers who find themselves unable to pay their energy bills include those who are known as the "working poor." These customers live in households where one or more members work at least 1000 hours per year, yet find themselves living under the federal poverty level, or only slightly above it. These customers increasingly find that their household energy burden exceeds their resources.

The Household Energy Burden is the percentage of household income necessary to fully pay household energy bills including ordinary use of lighting and appliances as well as heating and cooling. The task force considered various ways of measuring energy burden, all of which eventually relied, to some degree, on the federal government's poverty guidelines. These guidelines attempt to define the "poverty level" in the United States based on a calculation that includes income and family size. These guidelines are currently relied on for allocating LIHEAP assistance, which in Missouri, is available to persons with incomes below 125% of the poverty level. Even with income at 125% of the guideline level, it is difficult for today's households to make ends meet, due in part to soaring energy prices and in part from the way in which the guidelines are calculated.

Back in the 1960s, when low-income families spent approximately 1/3 of their income on food, the government determined who lived in poverty by calculating the cost of a "thrifty monthly food basket" and multiplying that number by 3. The government assumed the remaining 2/3s of the income allowance was sufficient to provide for basic shelter, clothing and transportation needs. Over time, costs of other basic needs rose faster than food costs, to the point that the thrifty food basket now equals only 1/6 of the amount required to live. Income self-sufficiency begins for today's families at about 200% of the federal guideline amount.

At 100% of the federal poverty guideline, a single person with no dependents can earn no more than $9,576 per year. Under guidelines recommended by Roger D. Colton, a national expert on long-term energy affordability, 3% of household income represents a fair energy burden for very low income households. That person, then, can afford to pay about $287 per year for energy costs. Yet today, due to rising energy costs, the monthly energy bill for that person during just the winter heating months is likely to exceed that level for a single utility. Therefore, it comes as no surprise that low income customers are facing rising arrearages when they most need reliable sources of energy.

Households at or near the federal poverty level spend nearly 20 percent of their annual income on home energy costs - four times as much as those at the median-income level, according to Dr. Meg Power, the executive director of Economic Opportunity Studies.

A recent study conducted in Missouri by Roger D. Colton found that 46 percent of households living within 25 percent of the federal poverty level skipped meals "sometimes" or "often" to pay for their energy bills and that 45 percent did not take medications prescribed by their doctors for the same reason. Another troubling finding of the study, commissioned by the National Low Income Energy Consortium, was that 54 percent of the respondents used their kitchen ovens as space heaters - a health and safety hazard.

Today's high cost of energy is "driving many low-income families to desperate measures when it comes to how they spend the very limited amount of money they have," said Skip Arnold, executive director of Energy Outreach Colorado, a privately funded not-for-profit group. Although LIHEAP distributed nearly $1.9 billion in 2004 to state and local agencies, that was roughly the same amount available in 1981, when the program was founded.

The Poor Cannot Pay Their Bills Now

Without developing some way to make energy more affordable, utility bill increases will lead to more sacrifices of medication, nutrition, and other necessities. As bills grow beyond the customer's ability to pay, arrearages and eventually uncollectibles grow too. The costs to the system in growing arrearages and collection costs, and to the low-income community in human suffering must be considered in designing affordability programs. However, these considerations do not occur in a vacuum; making energy affordable for the poor must not occur at the expense of making energy unaffordable for persons in the higher income tiers. The task force recognized that careful balancing of interests would be necessary in designing programs so that all customers could benefit.

Benefits to All Customers

In order to ensure that energy remains affordable for all customers, energy efficiency measures, including weatherization and conservation education, create ways for all customers to consume less energy. Customers who use less energy will see a drop in their utility bill. If enough customers from all customer classes take steps to use less energy, demand should decrease, and a drop in the price of fuels, such as natural gas, will follow. Therefore, the benefits to all customers of providing ways to increase energy efficiency can be realized over the long term, provided that care is given to ensure that residential customers with few resources are not forced to bear all of the costs for these programs.

One way that customers in general benefit from affordability programs is through the possible reduction in collection costs and bad debt expense. As more low-income households are able to pay their full utility bills, utilities should see some reduction in these types of operating costs. While the task force found no study that suggests that there would be a one-to-one correlation between increasing affordability and reduction in bad debt expense, there are reasons to believe that a large percentage of customers who currently are not able to pay they bills can and will do so under a program that makes their utility service affordable.

Benefits to the State

The State as a whole benefits from affordable energy policies. By keeping utility rates low, the State attracts businesses, which in turn provide jobs to Missouri citizens. By increasing employment opportunities, more utility customers will be able to afford to pay their energy bills. In addition, affordable energy policies reduce the need for government assistance programs to provide low income customers with help paying bills.

The savings to the state from providing the means for low income customers to keep their heating utilities on may result in savings in other areas as well. Families who can keep the heat on in the winter, and have a means for cooling in summer are less likely to engage in forced moves. Social workers who may feel an obligation to remove children from homes where the utilities are shut off can better assess whether children need to be in foster care, or whether less expensive alternatives exist for helping poor families in crisis.

Benefits to Low Income Customers

When energy is unaffordable, low income households report missing meals, avoiding doctor visits, and leaving prescriptions for vital medication unfilled. The result can be more trips by uninsured Missouri residents to emergency rooms. By recommending that the Commission seek clarity regarding its jurisdiction to approve low income assistance programs, the task force believes that the Commission will have more tools available to craft appropriate and effective programs to assist low income customers in paying their energy bills. Therefore, the long-term effect will be to assist low-income customers with a means to pay their energy bills, as well as provide for their family's other needs.

Benefits to the Environment

The same tools that will assist the Commission in establishing low income programs can also be used to require public utilities to offer weatherization and other energy efficiency programs. These types of programs reduce the demand for energy, and over the long term have the potential to enhance the environment if efficiency reduces the demand for production of energy.

III. Commission Order Creating Task Force & Objectives

Given the persistent high prices of natural gas, the significant increase in customers' bills, the increased number of customers applying for assistance, and knowing that the Commission's Cold Weather Rule (rule or 4 CSR 240-13.055) had not changed on a permanent basis for over a decade, the Commission created a task force in Case No. GW-2004-0452 on March 3, 2004 to analyze these issues. Related to establishment of this case was the establishment of rulemaking Case No. GX-2004-0496. In its order creating this task force the Commission stated, "the Commission believes it is imperative that the rule be closely examined again to determine if it continues to adequately address consumer needs."

The Commission appointed members to this task force from a broad array of organizations to assure that it included the expertise necessary to address the issues and provide a balance of perspectives on these issues. The individuals appointed to this task force and their organizations:

Legislators: Senator David Klindt
Senator Rita Days
Representative Lanie Black
Representative Vicki Walker

PSC Staff: Gay Fred, Warren Wood

OPC: John Coffman

Department of Natural Resources:
Anita Randolph

Utilities: Ben McReynolds (Laclede), Jeanie Cathy (Aquila),
Laurie Karman (UE & Committee to Keep Missourians Warm),
Kim Lambert (MGE)

Low-Income Advocates/Action Agencies:
Harold Crumpton (Heat-Up St. Louis), Jackie Hutchinson (HDC & Committee to Keep Missourians Warm), Bob Jackson (City of KC), and Robin Sherrod (Low-Income Advocate)

Others Who Attended Task Force Meetings & Provided Input:

Leigh Taylor and Ivan Eames with Central MO Counties HDC, Mike Noack (MGE), Jeanna Machon (DFS), Brenda Wilbers (DNR), Mike Pendergast (Laclede), Bob Sullivan & Lori Shaffer (KCPL), Ruth O'Neill (OPC), Roland Maliwat and Cindy Sagastume with Aquila, Dan Danahy, Mark Mueller and Jon Carls with AmerenUE, and Lisa Kremer, Anne Ross, Henry Warren, and Greg Meyer with PSC Staff

The task force held its first working meeting on March 25, 2004. Public hearings were held on April 20th in Kansas City, on May 4th in Columbia and on May 11th in St. Louis. The task force held working meetings on March 25th, May 4th, 19th, 25th and 26th, and June 3rd, 10th, 15th and 30th to discuss the application of the rule and the proposed changes the different members of the task force wanted to have incorporated into the rule. The initial efforts of the task force focused on the proposed changes in a December 29, 2003 letter from the Office of the Public Counsel (OPC) to PSC Staff. After addressing each of the eleven items identified in OPC's letter, the task force discussed other items that the members of the task force requested be addressed.

Commission Staff actively participated in all of the public and working meetings of the task force. These meetings were open and all interested parties were welcome to attend, have input, and discuss with the task force members any issues that they thought should be addressed. Staff found that these discussions often resulted in a better understanding of the issues low-income customers face in paying their bills and the issues utilities face in their efforts to collect amounts that are past due. These discussions also resulted in agreement among the parties on several changes to the cold weather rule consistent with the needs of all parties.

The task force submitted proposed rule changes to the Commission that it supported unanimously. Staff participated in these negotiations and fully supported incorporation of the changes to the rule recommended by the task force. Additional negotiations shortly before the Commission agenda session approving the Final Order of Rulemaking resulted in further substantive changes to the rule that became effective on November 1, 2004. The changes to the rule approved by the Commission significantly increase the rule's protections to the customers most at risk of being disconnected during the winter as well as limiting the applicability of the financial provisions of the rule to those that most likely truly need the assistance. The current provisions of the rule represent a careful balancing of the needs of low-income customers, the utilities, and all the other customers that the utilities serve.

The submittal of the Final Order of Rulemaking with an effective date of November 1, 2004 to the Secretary of State represented the conclusion of the cold weather rule portion of this task force's efforts. The remaining efforts of this task force, which is now informally referring to itself as the Long Term Energy Affordability Task Force, were to achieve the following objectives laid out in the Commission's March 3, 2004, ORDER ESTABLISHING CASE AND CREATING TASK FORCE:

> "...the Missouri Public Service Commission will open an investigatory case to examine possible programs for improving long term energy affordability to those in need of assistance..."

and

> "The task force is to explore measures and programs that could have a long-term impact on the affordability of heat related bills, such as energy efficient appliances and weatherization in homes that currently are not energy efficient. This inquiry should include an evaluation of possible funding sources and mechanisms that can be used effectively by those struggling with energy bills."

The task force has been actively discussing long-term energy affordability issues since the conclusion of its efforts related to the cold weather rule. The task force met on June 10th, 15th, and 30th, July 27th, August 10th and 30th, September 7th and 21st, October 14th and 27th, November 10th, December 15th, January 6th and 19th, February 3rd, 10th and 25th, and March 11th and 23rd to discuss priority issues and recommendations to assist in long-term energy affordability as well as possible legislation and funding mechanisms to support these recommendations. The long-term energy affordability focus of this task force was kicked off on June 10th when Roger Colton spoke to the task force in St. Louis on affordability program structures, the need for low-income customers to have access to energy assistance, and the consequences of not having this assistance.

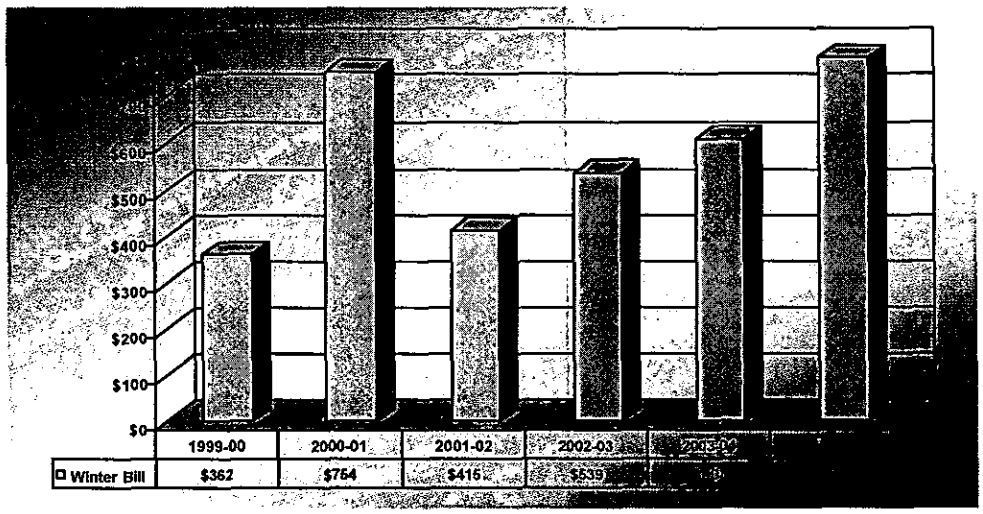
The initial meetings of the task force focusing on long-term energy affordability issues involved lengthy discussions on purposes and objectives as well as brainstorming on all the types of programs and policies that could potentially assist in long-term energy affordability. After finishing a long list of possible options the task force focused on discussing each of the possibilities and revising, consolidating or deleting each of the options as appropriate. The list of programs and concepts considered that is provided later in this report resulted from the early brainstorming discussions of the task force members.

The task force discussed, on several occasions, the fact that many of these recommendations cannot be implemented without changes in legislation, statutory or Commission authorized funding, or both. The task force is hopeful that decision makers will find the basis for some of these recommendations compelling and determine they are appropriate for implementation on an experimental basis before potential large-scale adoption. The task force members greatly appreciate the Commission's interest in this important topic and sincerely hope that the efforts of this task force will result in some level of assistance to the customers who are struggling to keep up with the increasing cost of their energy bills and the utilities that provide these customers with service.

IV. Energy Utility Bill Increases & Their Impacts on Missouri's Utilities & Consumers

As Missouri reaches the end of its third straight winter of significantly higher natural gas bills for residential, commercial and industrial customers, it is appropriate that this section of the report start with information on what higher energy utility bills mean for a significant percentage of Missouri's citizens. To begin to understand this subject you only have to look at the New York Mercantile Exchange (NYMEX) strip of monthly natural gas prices shown on the cover of this report.

In looking at what these higher natural gas prices have meant to residential customers, it is clear that this situation is causing an increasingly more difficult burden on household incomes. As part of its regular education effort for Missouri's energy utility consumers, the Staff looked at average customer natural gas bills since the winter of 1999-2000 and, not surprisingly, found that natural gas bills have increased dramatically. As an example of the kind of information Staff found, the following Laclede Gas Company natural gas bill trend was observed (5 month winter bill before taxes):



Many consumers recall the winter of 2000-01 as the winter their natural gas bills doubled from the previous winter. Unfortunately for many consumers this winter's natural gas bills will exceed those observed during the 2000-01 winter. It should be noted that this happened without abnormally cold weather as was observed in the 2000-01 winter, which illustrates how high natural gas prices have climbed in the last few years.

As might be expected, these increases in energy utility bills are increasing bad debt levels and the number of customers who are eventually disconnected from service for lack of payment. In the most recent 12-month accounting period of Missouri's largest three gas utilities, the companies incurred a total bad debt level of over **$19,000,000**. During the same time frame these three utilities also had approximately **48,000** customers disconnected from service for non-payment. This creates a very difficult situation for these customers who are without their primary heating source during the winter and for the utilities that are providing them with service. These circumstances increase the costs of service to all customers and can eventually contribute to higher utility rates.

A good place to begin the discussion of the characteristics of Missouri's low-income households is by discussing the Federal Poverty Guideline (FPG) measure. The FPG, published annually by the Department of Health and Human Services, is a benchmark measure used to standardize eligibility determination for state and federal programs. It should be noted that, as discussed in Section II, achieving an income that is greater than 100% of the FPG does not indicate that a household's financial needs are met. The table below shows the **monthly** income of households at various FPG's. For example, a household of one person with a gross monthly income at 100% of the FPG is receiving $798 per month. A three person household with a gross income at 100% of the FPG is receiving $1,341 per month. That monthly income will have to cover food, shelter, transportation, health care, clothing, childcare and all other expenses.

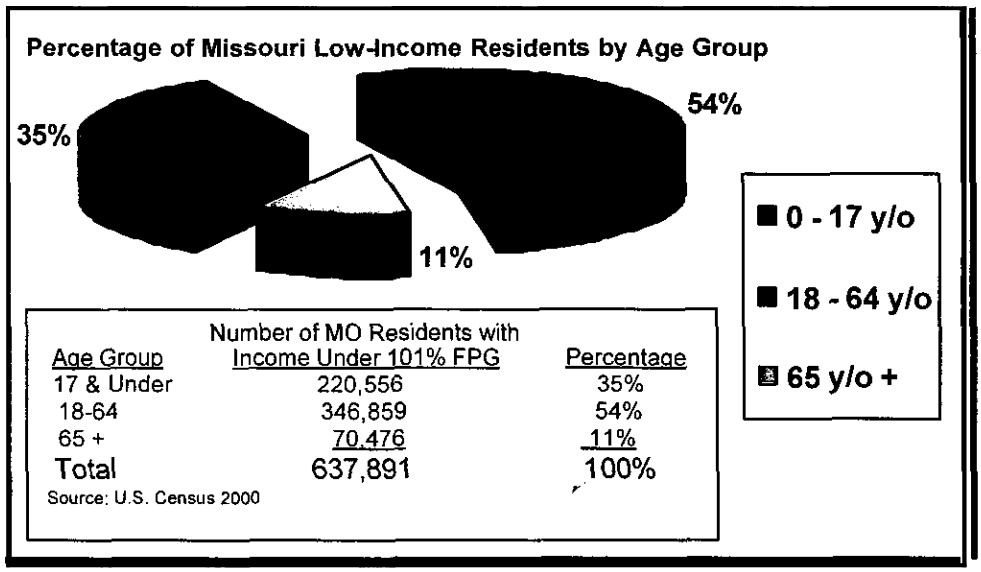
2005 Federal Poverty Monthly Income Guidelines
U.S. Department of Health and Human Services

Number in Household	25%	50%	100% FPG	125%	150%	185%
1	$199	$399	$798	$997	$1,196	$1,475
2	$267	$535	1,069	$1,336	$1,604	$1,978
3	$335	$670	1,341	$1,676	$2,011	$2,481
4	$403	$806	1,613	$2,016	$2,419	$2,983
5	$471	$942	1,884	$2,355	$2,826	$3,486
6	$539	$1,078	2,156	$2,695	$3,234	$3,988

SOURCE: Federal Register, Vol. 70, No. 33, February 18, 2005, pp. 8373-8375.

FPG = Federal Poverty Guideline - multiples of the 100% FPG income level are used as a benchmark to standardize the determination of benefits for various state & federal programs.

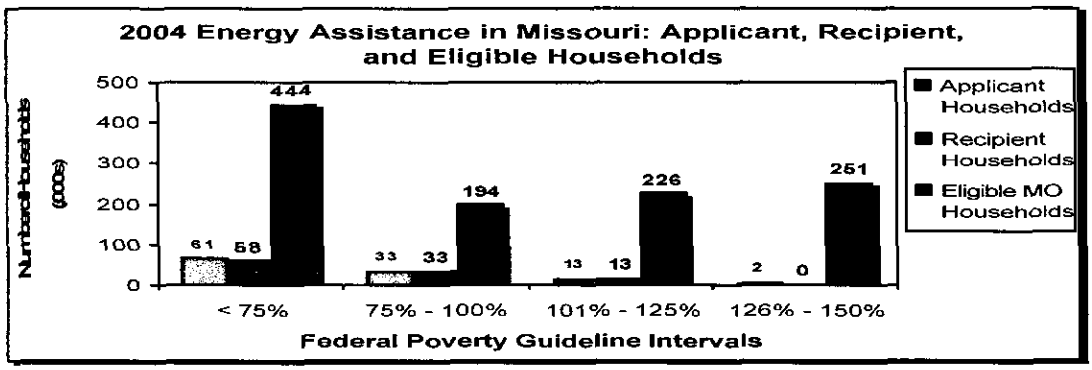
Approximately 12% of Missouri's population lives at or below 100% of the FPG. The following chart illustrates the number of Missourians living below the poverty line and their distribution by age group:



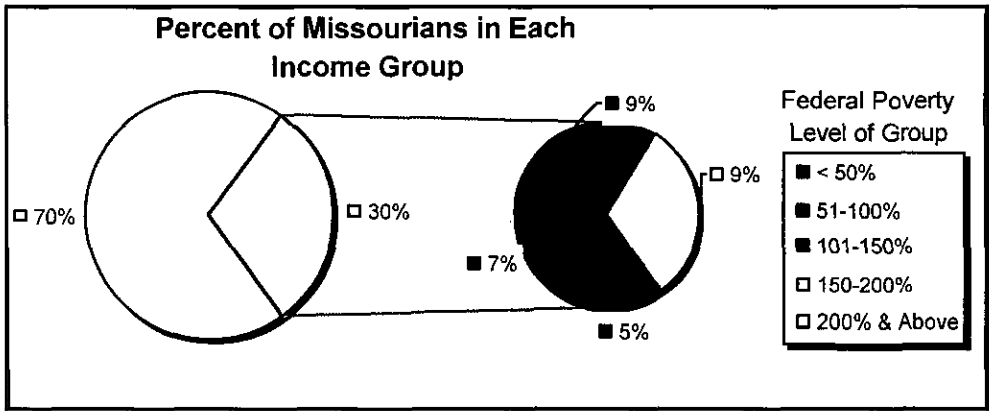
Age Group	Number of MO Residents with Income Under 101% FPG	Percentage
17 & Under	220,556	35%
18-64	346,859	54%
65 +	70,476	11%
Total	637,891	100%

Source: U.S. Census 2000

As this table shows, over 600,000 residents in our state live at or below 100% of the FPG. Households with incomes less than 125% of the FPG potentially qualify for Federal Low Income Home Energy Assistance Program (LIHEAP) assistance. LIHEAP funding provides both energy and crisis assistance but the current funding level of this program has not changed materially from that provided in 1981, when the program was initiated, while the number of customers needing assistance has dramatically increased. The funding that is provided is quickly exhausted each year before many people receive any assistance. The chart below is a comparison of the number of low-income households that apply for and receive LIHEAP, and the number that meet the eligibility guidelines. It is obvious that only a small percentage of eligible households receive LIHEAP benefits.



The following diagram illustrates the percentage of Missouri residents living at various levels of the FPG:



This table provides the information in a different format, using actual numbers for the state of Missouri:

Percent of FPG in 2000	Missouri Residents in FPG Range	2005 Gross Monthly Income 1 Person Household	2005 Gross Monthly Income 4 Person Household
0 - 50%	276,248	$199	$403
51 - 100%	361,643	$599	$1,210
101 - 150%	476,828	$997	$2,016
151 - 200%	512,874	$1,396	$2,823
201% & above	3,805,700	n/a	n/a

Approximately 1 in 5 MO residents have income at or below 150% FPG
Approximately 1 in 3 MO residents have income at or below 200% FPG

Note: FPG = Federal Poverty Guideline

Source: Federal Register, Vol. 70, No. 33, Feb 18, 2005.

Source: US Census 2000, US Census Bureau. Table P87

Several other facts about Missouri's low-income population are important to recognize:

- Half of the elderly citizens living below 100% FPG are women living alone.
- A quarter of the people living below 100% FPG are disabled. About 30% of that group is elderly.
- If the household income is below 100% FPG, there is a 40% chance that they own the home.
- If the low-income family owns their home, there's a 75% chance that the house is 25 years old or older.
- There is about a 60% chance that at least one person in the household is working.
- There is a 13% chance that there is at least one full time worker in the home.
- The householder might be receiving full social security benefits.

The tables below illustrate the last two facts. They show that a household with a full-time worker, or a household depending on social security, might both have an income at or below 100% of the FPG.

Poverty Level of Household With One Full-time Minimum Wage Worker
(Blue shading denotes households where worker's income is less than the 2005 Federal Poverty Guideline for a Household of that Size)

Household Size	25%	50%	100% FPG	125%	150%	185%
1	$2,393	$4,785	$9,570	$11,963	$14,355	$17,705
2	$3,208	$6,415	$12,830	$16,038	$19,245	$23,736
3	$4,023	$8,045	$16,090	$20,113	$24,135	$29,767
4	$4,838	$9,675	$19,350	$24,188	$29,025	$35,798
5	$5,653	$11,305	$22,610	$28,263	$33,915	$41,829

Annual Income of Full-time, Minimum Wage Worker = $5.15 × 176 hrs/mo × 12 mos/year = $10,877

SOURCE: Federal Register, Vol. 70, No. 33, February 18, 2005, pp. 8373-8375.

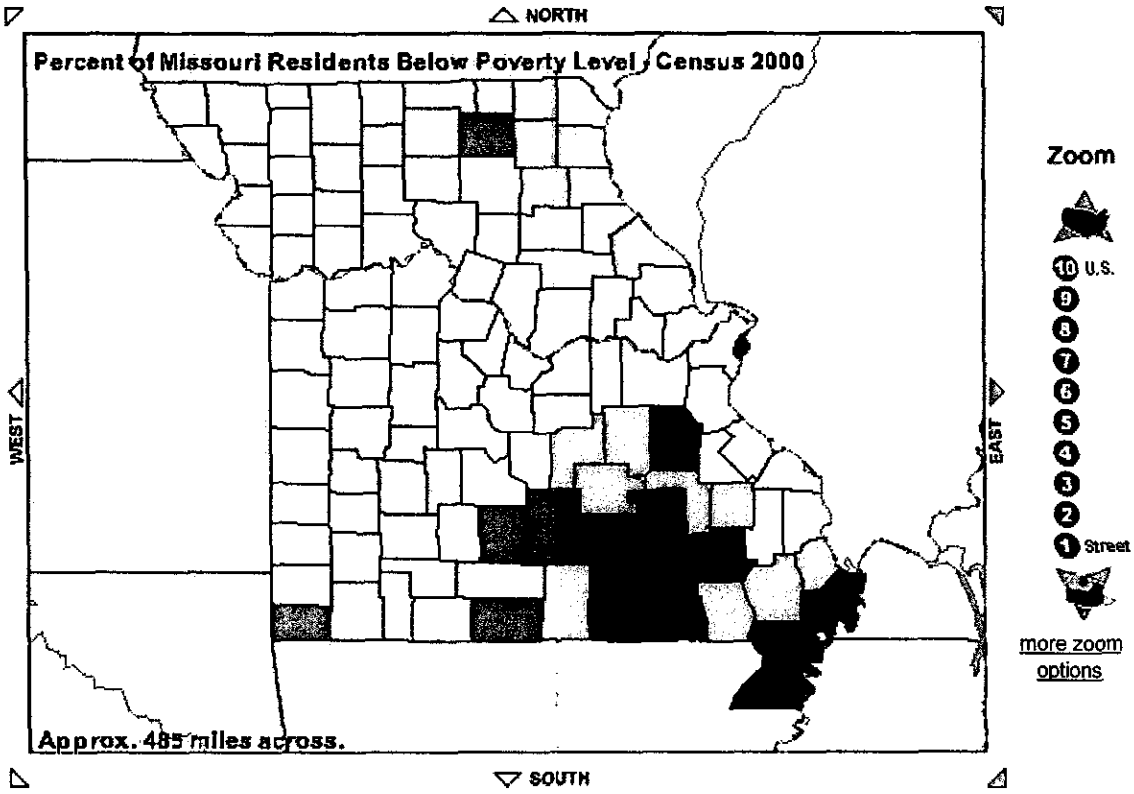
Poverty Level of Household with a Retired, Low-Wage Earner collecting Social Security
(Green shading denotes households where retiree's Social Security income is less than the 2005 Federal Poverty Guideline for a Household of that Size)

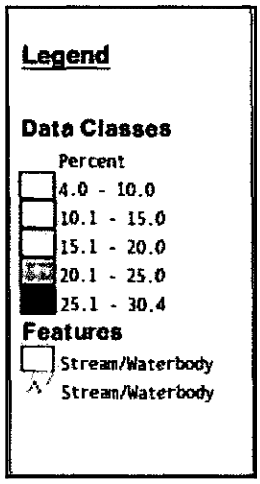
Household Size	25%	50%	100% FPG	125%	150%	185%
1	$2,393	$4,785	$9,570	$11,963	$14,355	$17,705
2	$3,208	$6,415	$12,830	$16,038	$19,245	$23,736
3	$4,023	$8,045	$16,090	$20,113	$24,135	$29,767
4	$4,838	$9,675	$19,350	$24,188	$29,025	$35,798
5	$5,653	$11,305	$22,610	$28,263	$33,915	$41,829

Estimated Annual Benefit for Low-Wage Worker retiring in 2003 = $702/mo × 12 mos = $8,424

SOURCE: AARP Research. The Social Security Benefit Calculator. 2003

Distribution of the residents in Missouri at or below the poverty line*:



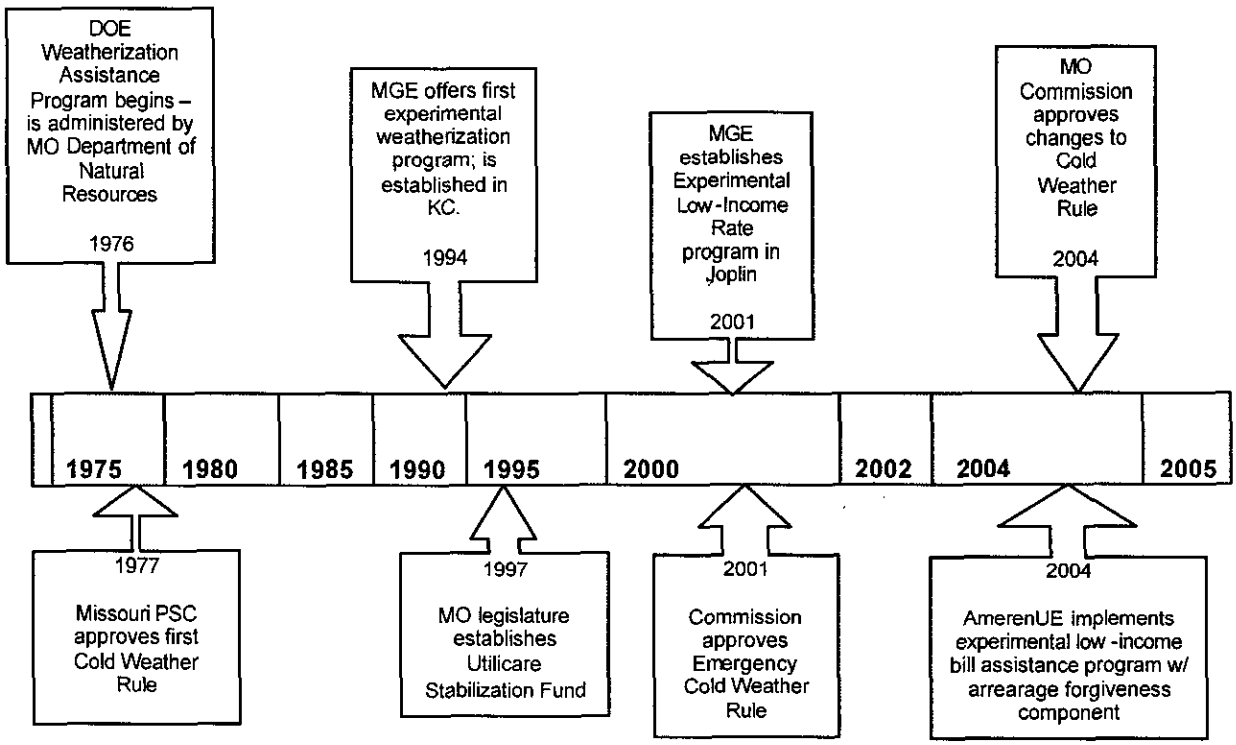


* It is important to note that this information is colored based on percentages of the county's population. The greatest **numbers** of customers that are low-income are located in the metropolitan areas of St. Louis and Kansas City.

This distribution map shows that some of the counties with the greatest percentage of low-income customers are actually in rural areas that are not served by regulated utilities.

V. History of Energy Assistance Programs Offered in Missouri

The Commission has been supportive of experiments proposed by parties in a number of past rate cases. The following timeline shows some of the milestones in the development of low-income energy affordability activities in Missouri:



This timeline shows only a fraction of the events of the past 30 years – Appendix B has a more complete history, and also provides some interesting details. There are three groups, however, that are not in this list, but that have had a major effect on energy affordability for Missouri's low-income population. First, the Missouri network of weatherization agencies perform the energy audits, on-site efficiency education, and weatherization services that are made possible by DOE/DNR or utility funds. Second, Missouri's Community Action Agencies perform outreach activities, education, and

qualification of customers, and are the point of contact for customers applying for energy assistance, crisis funds or weatherization. Finally, numerous charitable, private and civic organizations in Missouri – the Salvation Army, United Way, church groups, and Mid-America Assistance Coalition, to name a few – work tirelessly to raise money for energy assistance and to see that the help goes to the families who need it. Even with these and other sources, for example, the utility fuel funds like Laclede's *Dollar Help*, KCPL's *Dollar-Aide*, AmerenUE's *Dollar More,* and Aquila's *Aquila Cares* programs, there are only enough resources to provide help to a small percentage of the households that need it.

One of the issues the task force discussed was the lessons that have been learned thus far from those experiments. The task force members agreed that the following guidelines are appropriate to note in consideration of the development of future long term energy affordability programs:

1) Arrearage forgiveness programs, coupled with continued on-time payment of regular billing should be considered.

2) Programs should include some aspect of weatherization but assistance should not require that weatherization take place first.

3) Arrearage repayment may need to be on a time-line that exceeds 12-months.

4) Energy efficiency and education should be part of any program.

5) Cost/benefit analyses should be part of any program assessment but the benchmark chosen and how stringent the requirements are for assessing success will greatly influence the extent and impact of the program on those seeking assistance.

VI. List of Programs & Concepts Considered

The task force reviewed a broad range of possible programs and concepts to improve long term energy affordability. In some of the task force's early meetings on long term energy affordability it brainstormed as many options as the group could think of without establishing immediately whether or not they were good or bad ideas. This effort resulted in the following list. Where an (L) or (FL) is identified, this is believed to be a state or federal legislative issue. Where an (R) is identified, this action is believed to be within the Commission's, or other agencies', current regulatory authority.

I. IDENTIFY WAYS TO IMPROVE EFFICIENCY OF LOW-EFFICIENCY HOUSEHOLDS

1. Energy Codes/Ratings
    a. (L) Require Code Development and Enforcement
    b. (L) Increase Accountability of Landlords to Provide Energy Efficient Housing Through Required Bill Disclosures & Possibly Through Home Energy Ratings
    c. (L) Implement a Minimum Statewide Energy Building Code
2. Weatherization
    a. (R) Investigate Pay As You Save (PAYS®) Type Programs
    b. (R) Consider Granting Variances for Master Metering and Utility Payments with Rent Inclusion if Property Owner Weatherizes to an Appropriate Energy Standard
    c. (R) Explore Habitant For Humanity Type Programs
    d. (R) Solicit Donations To Community Action Programs /Other Agencies For Weatherization
    e. (R) Provide Incentives to Lenders That Provide Low-Cost Loans For Weatherization
    f. (R) Procure Lower Cost Supplies For Weatherization Through Bulk Purchases

3. Efficiency
    a. (R) Standardize Energy & Efficiency Education (Web Portal, Video, Pamphlets?)
    b. (L) Develop Efficiency Incentives (Tax Credits, State Tax Credit, Efficient Appliance Rebates, etc...)
    c. (R) Encourage Utility Rate Design that Promotes the Offering and Use of Customer Efficiency Measures
    d. (R) Expand the Availability of Time-of-Use Meters For Recognizing Peak Usage Rate Periods
4. Communications
    a. (R) Encourage the Sharing of Information Between Energy Providers, Efficiency Agencies and Assistance Agencies

II. IDENTIFY WAYS OF REDUCING/CONTROLLING/AVOIDING ARREAGES AND STRUCTURING ARREAGE REPAYMENT OVER TIME

1. (R) Develop Methods to Aid in Earlier Identification of Developing Arrearage Problems, and Design Appropriate Collection/Assistance Measures
2. (FL) Require $ From HUD Go Directly To Utility (Utility Allowance)
3. (R) Require Means Testing for Access to Special Payment Arrangements
4. (R) Continue to Work Toward the Elimination of Estimated Bills

III. DEVELOP STRATEGIES TO CHANGE PAYMENT BEHAVIOR WHERE CUSTOMERS HAVE A HISTORY OF PAYING LITTLE OR NOTHING (REDUCE UNREALISTIC PAYMENT AGREEMENTS)

1. Budget Billing/Payment Plans
    a. (R) Design Flexible Payment Plans – Customer Participates in Development/Plan Correlated With Income
    b. (R) Design Flexible Payment Plans – Plan Correlated To Seasonal Need for Product/Bill Peaks
    c. (R) Require Budget Billing for Low-Income Households
2. Affordability/Special Rates
    a. (L) Investigate Special Rates/Afford To Pay Percentage of Income Plans /Energy Affordability Certificate
    b. (R) Develop Alternate PGA Rate Design for Low-Income Customers
    c. (R) Take Advantage of Savings Resulting From Price/Weather Hedging for Customers
    d. (R) Consider Utility Rate De-Averaging

3. Incentives for Good Pay Behavior
    a. (R) Provide Incentives for Customers Who Participate in Affordability Programs for On-Time Monthly Payments
    b. (R) Offer Coordinated Multi-Utility Electric/Gas Low-Income Measures
    c. (R) Examine Seasonal Penalty/Reconnect Fee/Late Payment Charges for Low-Income Customers
    d. (R) Provide Incentives for Automatic Bank Withdrawal/E-Billing for Low-Income Customers
    e. (FL) Escrow Utility In Home Purchases – Through Earned Income Tax Credit(EITC)
4. Education
    a. (R) Design Network Of State-Wide, Standardized Education
    b. (R) Provide Proactive Educational Effort for Customers Who Appear to be Headed for Disconnection for the First Time
    c. (R) Educate Customers in Importance of Calling Utility In Advance Of Crisis
5. (R) Explore Prepayment/Prepaid Meters

VII. Funding Sources & Mechanisms Considered

As previously noted, the task force recognizes that without appropriate funding mechanisms it will not be possible for many of the recommendations of this task force to be implemented in any meaningful way. During the deliberations of the task force, efforts were made at quantifying the dollar amount of assistance needed to achieve energy affordability in Missouri. In the final analysis, the level of financial assistance needed varies depending on the income level of the households that the program is structured to reach, and the design of program benefits. Different members of the task force had strong views as to how this amount should be calculated. One methodology used by Roger Colton, if interpolated to customers of regulated Missouri utilities, yields the financial assistance need data provided in Appendix C.

The task force deliberated at length about possible mechanisms for funding of programs targeted at long-term energy affordability. As the breakdown below shows, the task force considered funding from legislative action, Commission case decisions, and shareholder contributions. Customer-funded programs generally fall under Commission case funding mechanisms.

Legislative Funding

- Utilicare Check Off Box on the Missouri Income Tax Forms for Donations
- Universal Service Fund (USF) for Energy or Society Benefit Charge (SBC)
- Producers and Suppliers to Contribute to Low-Income Programs
- Corporation Tax Breaks That Would go to Low-Income Programs
- Incentives for High Efficiency Appliances to be Purchased, e.g., Vouchers
- Dollars From HUD Go Directly To Utility (Utility Allowance)

Commission Case Funding (from ratepayers and/or shareholders)

- Investigate a Pay As You Save (PAYS®) Type Program
- Develop a Forgiveness Program for Non-Gas Costs
- Encourage Incentive Based Regulation Programs for Low-Income/Weatherization Programs from Off-System Sales Revenues
- Cost Savings for Consumers Who Make Payments Using Automatic Draft, Debit Card, etc.
- Percentage of Late-Payment Fees Toward Low-Income Programs

Shareholder Direct Funded

- Match Percentage of Funds from Charitable Contributions
- Use a Portion of Company Over Earnings to Fund Low-Income Programs

VIII. Recommendations

As a result of the lengthy deliberations between the task force members and others who attended the meetings, a number of recommendations are provided below for the Commission's consideration. Although some detail is provided regarding each of these recommendations, the task force members recognize that as with any comprehensive program, the devil can be in the details. To the extent any of these recommendations are supported by the Commission, the task force welcomes the Commission to request that further details regarding any particular recommendations be provided.

In one of the early meetings of the task force, it was decided that a mission statement might help to focus the discussions of the group. The mission statement that was unanimously supported by the task force reads as follows:

"Develop recommendations for effective, consistent and
suitably funded energy programs that provide consumers
with greater access to affordable service."

Some of the first recommendations of the task force dealt with changes to current statutes. These are detailed in the legislative recommendations section below. The other recommendations section that follows the legislative section focuses on possible approaches for improving long term energy affordability that the Commission might consider in future cases. Finally, the recommendations section of this report ends with a summary of the task force's conclusions regarding the need for a hot weather rule.

VIII.a Legislative Recommendations

The task force's legislative recommendations are as follows. Recommendation nos. 1, 2, 3, 5, 6, and 7 were unanimously supported by all the task force members and others in attendance at the task force meetings. The 4th recommendation below was supported by all the task force members except AmerenUE and represents the only recommendation of the task force that was not unanimous.

1. Pursue increased governmental funding for low-income energy assistance and weatherization programs.

Strategies:

? *Support efforts to obtain increased federal funding for Low Income Home Energy Assistance Program (LIHEAP) and Low Income Weatherization Assistance Program (LIWAP) in coordination with other regulatory, consumer and industry groups;*

? *Seek appropriation for UtiliCare Program to match or supplement federal LIHEAP and LIWAP allocations and add statutory language (RSMo 660.135.1) to provide costs of living adjustment to increase maximum available funding beyond the five million dollar cap or to eliminate cap;*

? *Seek other sources of governmental revenue to fund energy assistance and weatherization programs.*

2. Develop a Utilicare check off box on Missouri income tax forms for donations.

3. Whenever residential property is offered for rent or lease, the owner or leasing agent shall provide, in writing, all prospective tenants with the actual annual costs of heating and cooling utilities for the property for each of the previous three years.

4. Authorize the Commission to implement low-income customer bill-assistance programs and energy efficiency programs which may provide long-term benefits to all customers, and to fund such programs through charges on residential customers not to initially exceed $0.25 per month per residential customer. However, nothing herein shall preclude the Commission from exercising its existing authority to additionally fund such programs through revenues or savings received by the utility from incentive plans, late payment charges or funding sources agreed upon in a stipulation and agreement approved by the Commission. The funding levels associated with this approach are given in Appendix D at the end of this report.

5. Require dollars from HUD go directly to utility (the utility allowance) (federal legislation).

6. Develop an incentive for high efficiency appliances and other energy efficiency measures that are purchased, e.g., tax credit.

7. Implement statewide energy efficiency standards for new building construction and major building rehabilitations.

VIII.b Other Recommendations

In addition to the legislative recommendations, the task force discussed at great length possible programs the Commission could consider implementing and activities it could participate in that could improve long-term energy affordability. The recommendations that follow came out of these discussions and are believed to be within the Commission's jurisdiction to accomplish without changes in legislation if they wish to do so. All of these recommendations were unanimously supported by the task force members in attendance.

1. Develop Education Programs on Efficient Energy Usage (flyers, videos, web portals, toll free phone number, etc...). DNR has a significant amount of information on their current website related to energy efficiency and weatherization and has indicated that they may be able to revise this site to provide more of the educational information discussed by the task force. The task force does however believe that a site devoted strictly to energy cost issues, long term energy affordability, where to find assistance, and how to improve the energy efficiency of a home with a highly searchable title would be somewhat more beneficial. As part of this educational effort, methods to aid in earlier identification of developing arrearage problems, and designing appropriate collection/assistance measures should be developed.

2. Pursue an active role in regular Public Service Announcements to advise the public on energy price concerns, where to seek assistance, and how people who wish to make a contribution can do so.

3. Structure assistance programs that vary based on income levels for those seeking assistance (pilot or experimental basis if without legislation).

4. Provide incentives to low-income customers who participate in affordability plans for on time monthly payments.

5. Incorporate rate designs that remove disincentives for utilities to pursue programs aimed at reducing usage.

6. Examine seasonal penalty/reconnect fee/late payment charges.

7. Investigate "Pay As You Save" (PAYS®) type programs for residential and small commercial customers.

8. Examine the feasibility of implementing programs and measures designed to make landlords more accountable for the energy efficiency condition of the properties they rent particularly where the condition of the housing stock is a significant factor in creating costs that have an adverse impact on all utility customers. An example of how this type of a program might be structured is provided in Appendix E of this report.

9. Investigate pilot prepaid meter and other programs as on option for customers.

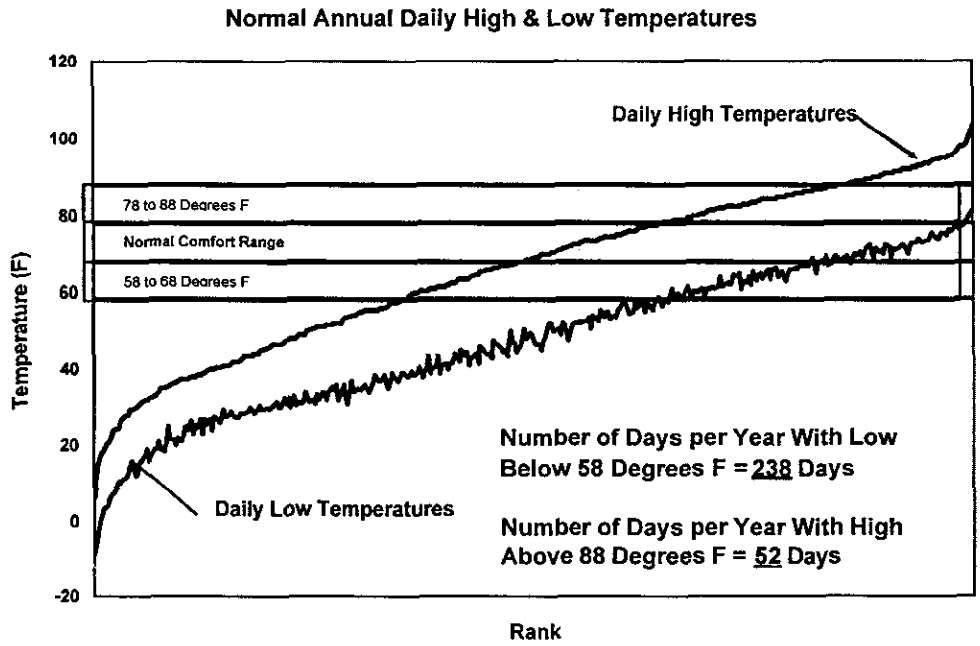
10. Consider granting variances for master metering and utility payments with rent inclusion if property owner weatherizes to an appropriate energy standard.

VIII.c Hot Weather Disconnection Limitations

During its deliberations the task force discussed the importance of helping citizens in need maintain utility service that will protect their health and safety during cold and hot weather. For a more detailed breakdown of the issues related to a possible hot weather rule, please review the compendium of the presentations from the Commission's November 6, 2002 roundtable titled "Cold Weather Rule & Possible Hot Weather Rule".

During its meetings, task force members discussed and acknowledged the health and safety challenges posed by very hot weather. The task force examined the factors that contributed to heat-related deaths in St. Louis and Chicago during prolonged hot-weather episodes that affected these cities in 1980 and 1995 respectively. The task force members explored whether loss of utility service to citizens in need during very hot weather exacerbated the situation.

The following chart illustrates typical daily temperature extremes in the St. Louis area based on a 30 year history. This chart shows the average number of days where temperatures are above or below a comfort range of 58°F to 88°F, where heating or cooling utilities are more urgently needed.



Based on task force discussions and the considerable knowledge of its various members on heat-related health and safety issues among citizens in need, the task force makes the following findings and recommendations:

Findings:

- Factors contributing to heat-related illnesses and deaths center on reluctance of citizens in need to turn on cooling devices such as fans and air conditioners. Citizens in need too frequently fail to use fans and air conditioners because they fear unaffordable utility bills. Thus, the subject of energy affordability is relevant during hot weather as well as cold weather and will continue to be a topic of the task force's examination.

- Actual disconnection of utility service is not a primary contributor to heat-related health and safety issues for citizens in need.

- All investor-owned utility companies that operate in Missouri currently have appropriate and effective company policies that preclude service disconnections during very hot weather.

Hot Weather Rule Recommendations:

- The task force proposes no Hot Weather Rule for Commission consideration at this time.

- The task force recommends that the Commission require that each electric investor-owned utility submit the company's policy governing service disconnection during hot weather to the Staff and OPC on an annual basis.

- The task force recommends that appropriate state agencies including the Department of Health, SEMA and the State's LIHEAP Director initiate an effort to help create and support local approaches to address heat-related issues. While the task force recommends that the state initiate this effort, the goal is to seed and support locally based approaches that use the St. Louis "Operation Weather Survival" as a model. The St. Louis approach has effectively created a network of public and private organizations that coordinates resources and educates the public to prevent illness and death caused by extreme hot or cold weather. The task force recommends that utility companies participate in the state-led and locally based initiatives.

- Heat advisory coordination with company policies.

IX. Programs in Other States

Energy affordability for low-income families is not a Missouri-specific problem – it is nationwide, and many states have grappled with the issues facing Missouri. The task force recognizes that one of the resources it should look to for information as to what might work well in Missouri is the experiences of other states.

The diversity of program designs around the nation reflects the fact that the problem of energy affordability does not have a single cause; it is a product of the interaction between energy usage, energy prices, and household income as well as other factors. Programs designed to affect any or all of these factors can make it more likely that a low-income family will be able to pay its electric and gas bills, in full and on time.

Weatherization is a long-term affordability measure. This approach addresses the amount of energy a household needs in order to meet its basic needs. Low-income families often live in inefficient older homes, manufactured homes, or homes with furnaces, refrigerators or water heaters that use an excessive and wasteful amount of energy. Frequently, these homeowners do not have access to funds that would permit them to insulate their home or buy an energy efficient refrigerator; alternatively they may be renters with little or no control over these factors. Programs that make the housing structure or appliances within it more efficient will increase the probability that the household can pay for the energy it uses. For inefficient housing stock, weatherization measures can decrease the households' heating source usage by up to 25%, with benefits occurring annually for the life of the measure. Even if the household still cannot pay their entire bill because of insufficient income, increasing the home's efficiency will lower the amount of assistance needed.

Another approach to energy affordability does not focus on the household's usage, but on the price of the energy used, and the amount of the bill. Compared to efficiency measures, bill assistance programs can provide a more immediate response to an unaffordable bill, and may be all that is needed to carry a household through a crisis situation such as unemployment or illness. This form of assistance might also be appropriate for households with very low incomes, as they may not have the resources to pay their bill no matter how much their usage can be reduced through efficiency.

In general, the form of payment assistance will involve a discounted rate or bill credit designed to bring the household's bill down to a manageable level. If the household has past due balances, the repayment of these will be an important factor to consider

when an affordable payment is set up. Taking measures to affect the current usage and bill amount will not work if unrealistic arrearage repayment amounts are owed on top of that.

Appendix F provides details about several states' energy affordability programs. Many of these states – for example, Ohio, Pennsylvania, Michigan - have had years of experience in this area. Other states, such as Nevada or New York, have innovative approaches to this issue. Note that these programs are not "one size fits all," and states do not rely upon only one type of program – they generally have a variety of low-income programs, to reflect the variety of reasons that Missouri's low-income households are facing utility bills that they cannot pay.

X. Additional Recommendations & Concurrences of Various Parties

Ameren's Position on Legislative Recommendation No. 4
(Section VIII.a, Legislative Recommendations)

AmerenUE would like to thank the Commission and all Task Force members for the opportunity to participate in the Long Term Energy Affordability Task Force (LTEATF). There were many ideas presented and discussed that could help achieve the basic goal of more affordable energy for low-income customers. However, AmerenUE would like to reiterate its basic concerns that were expressed during the meetings with regards to one recommendation listed in the final report.

The Ameren Corporation has a proven history of providing support for energy assistance funding for its customers in need. Through both corporate funding mechanisms and administration of joint company/customer programs such as Dollar More, Ameren has made ongoing efforts to address the issue of energy affordability for its low-income customers. As a participant in this LTEATF, AmerenUE has concurred on the majority of recommendations put forth by the group. AmerenUE has long held that neither the utility nor its customers should be compelled to fund programs without consideration given to the impact of such funding on shareholders or customers.

AmerenUE has expressed its concern about any proposal that will increase charges to customers in order to provide benefits to a specific subgroup of customers. Consequently, AmerenUE cannot lend its support to Task Force Recommendation No. 4 listed under the Legislative Recommendations of the report. That recommendation contemplates a surcharge to customer bills to fund programs for low-income customers of AmerenUE. AmerenUE believes that issues involving the redistribution of monies for certain groups of customers and/or residents of the state of Missouri should be determined by public policy makers at either the State and/or Federal level. Be assured that AmerenUE will comply with whatever regulations are ultimately placed into effect.

AmerenUE

Comments from Jacqueline A. Hutchinson, Director of Operations,

The Human Development Corporation of Metropolitan St. Louis

929 North Spring, St. Louis MO 63108

Submitted March 28, 2005

Agencies/individuals in concurrence with these comments are:
The low-income advocate, of the Committee to Keep Missourians Warm
The Human Development Corporation of Metropolitan St. Louis
Central Missouri Human Development Corporation
Robin Sherrod, low income individual & Task Force member

I would like to thank the Commission for have the forethought to order this Task Force. Under the leadership of Warren Wood and Gay Fred, the task force brainstormed idea, researched the problems and possible solutions and came to consensus on some important recommendations.

I concur with the recommendations contained in this report for which consensus has been reached, **however I do not believe that the task force fully met the mandate of the commission.**

Much time was spent discussing the language contained in recommendation #4, however, in the final hours, some utility companies would not agree to any legislative language that did not contain the $0.25 cents initial limit. Although low-income advocates agreed to this recommendation, we feel that to impose an initial limit that low, prior to development of a program, could impede the ability to create an efficient and effective program.

While I agree that monetary limits to cost incurred by all residential customers, are necessary, those limits should be determined during the developmental phase of an actual affordability plan. I urge the Commission support a simple version of the legislative language contained in recommendation # 4. This would enable the commission to order low-income rates or programs and determine what reasonable limits should be imposed during program development.

The follow is an example of a simple version:

"The Commission shall be authorized to implement low-income customer bill-assistance programs and energy efficiency programs which may provide long-term benefits to all customers". (other examples exist in previously filed legislation)

The section of this report entitled "Why Missouri Needs to Address Long Term Energy Affordability" and other sections of this report clearly describe the immediate need for action. The rising cost of energy and increases that are predicted to continue into the next winter, coupled with the threat of reductions in available LIHEAP funding; further reiterate the urgency and need for immediate action.

I would like to ask that the commission to consider the following:

- **Immediate action is necessary to develop an implementation plan for those recommendations that had full consensus and do not require legislation. I ask that the Commission provide the leadership to assure that where possible, these recommendations and practices are be in place prior to the next heating season.**

- **I ask the Commission to reconvene interested members of the Task Force to actually develop an affordability plan that could be implemented statewide and would provide similar services from utility to utility.**

Again, I thank you for the opportunity to serve on this task force. We believe that this report will provide an excellent foundation to build upon as we take the next steps to develop an affordability plan that protects low-income Missourians.

ROBIN SHERROD
LOW-INCOME REPRESENTATIVE CENTRAL MISSOURI HUMAN DEVELOPMENT CORPORATION
P.O. Box 106106
Jefferson City, MO 65109

Windy_City_Lady@yahoo.com

3/31/2005

TO WHOM THIS MAY CONCERN:

It has been truly beneficial working on the Long Term Energy Affordability Task Force. I have received a wealth of knowledge and understanding; I believe we have explored good ideas and angles that composed this blue print. In regards to the recent report issued by the Long Term Energy Task Force, I feel that it is a good starting point for discussion on the issues facing low-income residents of the state of Missouri. However I feel very strongly that this report does not go far enough in addressing those problems. Many members of the task force did not feel the need to attend a poverty simulation in which those attending were taught about what it was really like to be in poverty. Thus they never truly got a feel for what the true conditions were facing poor people. Had all members attended this simulation, a more accurate understanding would have been gained.

In relation to issues pertaining to substandard rental housing, these should be tracked by the utility companies through automatic computer programs, which are designed to monitor rental units based on the amount of turnover in service to a specific address. For example if service is procured for a specific address under 3 or more names in a given year, the address is flagged internally in the computer for further analysis. The computer would then analyze the energy usage over the previous 5 years and compare it to the amount of energy, which should be used for a comparable size dwelling. If this shows a usage significantly above those comparable units, a service person is sent to investigate the unit to determine whether it is energy efficient and in a habitable condition. Should they find it does not meet specific criteria for habitation, the property should be placed on a "do not serve" list until the deficiencies are corrected. This list should also be published monthly in the local newspaper to make the landlords accountable to the public for the condition of their property. We do not suggest this monitoring be done by the local municipalities due to repeated instances of local governments being highly influenced by the money of local landlords who donate to the campaigns of local officials, thus beholding them to the landlords influence. Since those

with low income do not have access to this same influence, it makes for an uneven playing field which low-income people have little hope of overcoming.

Another point, which should have been stressed more, was in the area of weatherization and training. The weatherization program, while being an excellent program, needs to be funded and publicized far more than it is now. Many low-income people I have spoken to are not aware of the program until I educate them on its' existence and what it can do for them. Flyers publicizing this program should be enclosed with every utility bill throughout Missouri prior to the start of the winter heating season every year. This, in the long run, will pay for itself by lowering energy costs for low income Missourians, thus allowing them to pay more of their bill. In addition, an increase in funding for this program will also pay for itself and it also will help far more Missouri families pay their utility bill, thus generating more income for the utility company and more income for the state of Missouri through more taxes being collected since more people are able to pay their bill. All bills, which are unpaid, benefit neither the utility company nor the state of Missouri. Also this helps the self-esteem of the people affected in that they no longer have the stress of unpaid bills in their life. They are then more productive in their jobs because they are able to focus on their work rather that continually thinking about unpaid bills. Increased productivity also benefits the state of Missouri by generating more income, which then will be spent mostly within the state, thus producing more tax revenue for the state.

Sincerely,
Robin Sherrod

Concurring Comments of the Office of the Public Counsel

The Office of the Public Counsel (Public Counsel) thanks the Missouri Public Service Commission for the opportunity to participate in the cold weather rule and long term energy affordability task force. In addition to the issues addressed in the main body of the task force's report, Public Counsel provides the following comments for the consideration of the Commission.

1. **Hot Weather Rule.** The Public Counsel entered this task force concerned about the health detriments to vulnerable energy customers that may occur if electricity is discontinued during periods of extreme hot weather. Therefore, Public Counsel proposed that a Hot Weather Rule be implemented in addition to the Cold Weather Rule. Although the task force reached a consensus that existing procedures, currently in place for all investor-owned electric utilities in Missouri, adequately protect vulnerable customers from the consequences of such disconnections, Public Counsel believes that it is vitally important for the Commission to require information from the utilities about their shut off procedures in hot weather on an ongoing basis. Should utilities change from their current procedures, Public Counsel expects that it may again request that the Commission impose a hot weather rule for summer disconnections.

2. **Energy affordability.** Public Counsel believes that, while the consensus recommendations of task force regarding affordability represent an important first step toward long term energy affordability, the way in which those recommendations are implemented should be tailored to ensure that all residential customers be able to afford their energy bill. Public Counsel strongly supports all efforts to obtain increased governmental funding of LIHEAP and reliable funding for Utilicare in order to allow agencies to provide assistance to all applicants who qualify. Public Counsel also supports educational efforts, through a wide variety of media, regarding energy conservation and the availability of financial assistance for those who meet eligibility guidelines. Public Counsel further supports efforts to increase public awareness of, and participation in, non-governmental funding assistance programs, whether those programs are administered by an individual utility or by another entity.

Public Counsel believes that the rate-paying public is willing to work with utility companies to ensure that our most vulnerable citizens continue to receive essential heating service during the winter months. However, Public Counsel does not believe that residential customers should be required to shoulder the entire financial burden of these assistance programs. Utilities should be encouraged to identify savings in their existing operations that can be directed toward funding such programs, including, but not limited to such things as savings related to the expected reduction of bad debt

expense, and should be good citizens that make the same types of sacrifices they expect from their customers. Properly designed programs will provide assistance to customers unable to afford their current bills, and customers who elect to take steps to reduce their energy usage, without creating an undue energy burden on customers whose incomes are slightly above the cut offs for assistance. These programs should be more than a mere conduit for increasing revenues paid to utility companies, and should demonstrate benefits to the customers targeted by the various programs. Simply raising everyone's rates in order to provide a benefit to some customers does little to establish long term energy affordability for all. Public Counsel also believes that utilities should be encouraged to actively participate in creative strategies that will reduce their fuel costs, including natural gas. The pricing problems that stem from the unregulated national natural gas market must be addressed in order to truly make energy affordable to all customers over the long term. Strategies that include greater reliance on other fuels, including affordable renewable energy for the generation of electricity should also be explored. In order for the Commission to ensure that residential customers are not overburdened with the responsibility for funding low income assistance programs, Public Counsel believes that such programs should be implemented in connection with rate cases, so that all relevant factors and funding sources may be considered.

3. **Weatherization.** As with low income assistance programs, Public Counsel believes that properly designed weatherization programs can provide residential customers with the means to reduce their demand for energy. Public Counsel will continue to investigate and support properly designed weatherization programs proposed in rate cases that are cost effective and result in actual energy savings for residential and small business customers who choose to participate in these programs.

XI. Appendices

Appendix A

Appendix A - References

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Appendix B - Development of Low Income Programs in Missouri

1976: The Weatherization Assistance Program is established under the Department of Energy. MO Department of Natural Resources becomes the administrator of those funds in MO. Through year end 2003, over 104,000 MO homes had been weatherized with this program's funds at a cost of $128 million, with cumulative energy savings of $287 million.

1977: A Federal Energy Crisis program – the Special Crisis Intervention Program - is created under the Federal Community Services Administration.

First Cold Weather Rule adopted by the Commission.

1980: Federal Low-Income Home Energy Assistance Program (LIHEAP) begins. The program is administered by the MO Department of Social Services.

1981: Operation Weather Survival formed in St. Louis area in the wake of the 1980 prolonged heat wave. This organization of St. Louis government departments, utilities, and agencies disseminates information and mobilizes assistance in weather emergencies. AmerenUE and Laclede are both members of this organization, and AmerenUE provides funds to purchase air conditioners for the air conditioner loan program. This program is nationally recognized, and used as a model for Chicago's program, instituted after the deadly 1995 heat wave.

Laclede begins offering low-interest loans to qualified customers for insulation.

1982: The Dollar-Help program is incorporated in the State of Missouri. The St. Louis area program, proposed by Reverend Larry Rice of the New Life Evangelistic Center, and organized by Sister Patricia Kelley, has raised around $12 million to date for fuel assistance. Laclede Gas remains actively involved, and provides not only administrative, support and fund-raising assistance, but matches a portion of funds raised, as well. This assistance is provided to low-income households, regardless of fuel supplier or heating fuel source.

1984: Laclede Gas Company works with Sister Patricia Kelley and others to found the National Fuel Funds Network (NFFN.) This organization, a nation-wide system of over 250 utilities, community based groups, and local government agencies, advocates on behalf of low-income utility customers in Congress; in addition, NFFN members raise charitable funds used for energy assistance.

1994: MGE establishes first experimental low-income weatherization program in MO. This program, established as part of a stipulation and agreement in Case No. GR-94-40 and administered by the City of Kansas City, MO, serves the KC area with an annual funding level of $250,000. As of year end 2003, 1,203 properties have been weatherized through this program.

1995: Laclede begins offering low-interest financing through authorized HVAC dealers for the purchase of energy efficient natural gas heating systems and appliances.

1996: Laclede Gas initiates the EnergySmart Program Customer Assistance Program and Customer Education Program. The Customer Assistance Program identifies low-income households that have received energy assistance in the past, but whose gas service is not active at the start of the MO Cold Weather Rule period. When a household is identified, Laclede provides information and aids the household in applying for energy assistance funds. The Customer Education Program makes available Laclede employees to conduct workshops where energy conservation measures are demonstrated, customers are educated as to what to do in case of difficulty paying their bills, and also referred for energy assistance.

WeatherWise program, also initiated by Laclede Gas in 1996, provides free weatherization assistance to low-income elderly and handicapped households. Weatherization materials are furnished, and Laclede employees, family and friends weatherize the homes on Saturdays in October. This program has received national recognition.

AmerenUE kicks off the Residential New Construction Pilot Program. This program is targeted to low-income areas in AmerenUE's electric territory.

1997: Senate Bill 263 establishes Missouri's Utilicare Stabilization Fund. This program is funded for 4 years (1998 – 2001) at just under $1 million per year. It is not currently being funded.

1998: Aquila establishes a low-income program for electric customers in its Missouri Public Service territory. The program, targeted toward single-family site-built and mobile homes, is intended to provide energy savings and reduce bills while increasing the comfort of the home.

AmerenUE establishes an experimental weatherization program for natural gas customers in its service territory as part of a stipulation and agreement in Case No. GR-97-393.

1999: MGE Low-Income Weatherization Pilot program (Program) is evaluated by TecMRKT Works. The analysis shows savings of 3,404 million BTU's of natural gas, and 500 kWh of electricity per household each year. The benefit/cost ratio considering only the present value of the fuel savings is determined to be 1.62.[1]

2000: Aquila establishes the "Aquila Cares" program. This program provides funds to help low-income customers pay energy bill, and also provides funds for crisis situations. Aquila matches 50¢ for every dollar contributed.

2001: As part of a stipulation and agreement in Case No. GR-2001-292, Laclede establishes a $300,000 per year weatherization program for customers in its service territory.

The MGE weatherization program is reclassified from an experimental program to a permanent program. Funding increases to $340,000 per year.

MGE establishes the Joplin-area Experimental Low-Income Rate (ELIR) as part of stipulation and agreement in Case No. GR-2001-292. The program, which provides a $20 or $40 bill monthly bill credit to its low-income customers, is open to households with income below 150% of the FPG, and requires levelized billing. The program is financed through a monthly 8 cent monthly surcharge to Residential customers.

An Emergency Cold Weather Rule is approved by the Commission.

[1] Rerunning the analysis using 2005 gas and electric prices and a 3% discount rate results in a PV of benefits of $4,830 per home. On average, it costs $2,600 to weatherize a home. The updated benefit/cost ratio is $4,830/$2,600 or 1.9.

2003: AmerenUE develops the Dollar More Clean Slate Program for low income residential customers. The program is designed to provide a one-time arrearage balance pay-off, and is a result of the stipulation and agreement in Case No. EC-2002-0001. $3,000,000 in program funds are exhausted in one month; 5,700 households are assisted.

As a result of the settlement of EC-2002-0001, AmerenUE Establishes the Change A Light program and the Voluntary MO Energy Efficiency Refrigerator Bounty.

A preliminary evaluation of the MGE Joplin ELIR program is performed by Roger Colton, an expert in low-income issues. The evaluation finds that participants in the program are

- more likely to make a full payment on their bill than are low-income customers not participating the in the program,
- experience a lower incidence of non-pay shutoffs (which might also reflect the budget billing requirement as the difference between the shutoff rates is the greatest in the months after the Cold Weather Rule period expires), and require less collection activities.

It is noted that attrition has been significant over the 21 months in the evaluation period. The level of participation has dropped from around 900 to around 300 in this time. The reason for this is not discussed in the evaluation. Company and Community Action Agency (who administer the program) personnel believe that it might be due to the budget-billing requirement – that customers disliked paying more in the summer than they had in the past, and dropped off the program. In August, the 8 cent surcharge on MGE Residential customer bills is dropped per the tariff. By the end of 2003 there is more than $500,000 collected but unspent.

Empire District Electric, per the Stipulation and Agreement in Case No. ER-2002-0424, begins offering the Experimental Low Income Program in its Joplin service territory. The program is funded at a monthly level of 10 cents per Residential customer, and 25 cents per non-Residential customer. Empire matches these ratepayer contributions dollar-for-dollar. The program is very similar in structure to the MGE ELIR program.

2004: AmerenUE Clean Slate (2003) Program evaluation performed. Evaluation finds that customers "utility payment habits over the long-run did not materially improve."

As a result of the stipulation and agreement in Case No. GR-2003-0517, AmerenUE, the Office of Public Counsel, and MO PSC Staff establish an experimental low-income bill assistance, arrearage matching, and weatherization program in Scott and Stoddard counties. This program provides bill assistance in the 5 winter months of November-March to customers in the 0 – 200% Federal Poverty Level range; the amount depends on the income level of the household. Budget billing is not required.

Weatherization services are required as a condition of receiving the assistance, and funds for this service are available out of program funds.

As a result of the stipulation and agreement in Case No. GR-2004-0209, Aquila, Office of Public Counsel, and MO PSC staff establish an experimental low-income bill assistance, arrearage matching, and weatherization program in Scott and Stoddard counties. This program provides bill assistance in the 5 winter months of November-March to customers in the 0 – 125% Federal Poverty Level range; the amount depends on the income level of the household. Budget billing is not required. Weatherization services are required as a condition of receiving the assistance, and funds for this service are available out of program funds.

In addition to the experimental low-income bill assistance program, Aquila implements a system-wide low income weatherization program for its natural gas customers.

Aquila establishes a system-wide low weatherization program for customers in its electric service territory.

MGE's request to use $250,000 of the overcollection on the ELIR program for low-income bill assistance is granted by the Commission. Per the agreement, the funds are turned over the Mid-America Assistance Coalition to be used for low-income bill assistance.

A Commission order in Case No. GR-2004-0209 increases the MGE weatherization program funding to $500,000 per year, and directs that the ELIR program will remain in effect until current funding runs out.

MO Public Service Commission approves substantive changes to the Cold Weather Rule. The revised rule goes into effect for the 2004-2005 heating season.

2005: The Community Action Agency which is administering the AmerenUE experimental Scott/Stoddard county program (2004) reports that there are no participants in the bill assistance portion of the program. Approximately 15 households have been weatherized using program funds.

AmerenUE, in collaboration with the Department of Natural Resources, the Office of Public Counsel, and PSC staff, designs an energy efficiency program called the "Energy Efficient Natural Gas Rebate Program"; it begins on February 1, 2005

Appendix C - Extent of Aggregate Need in Missouri

Missouri's Natural Gas and Electric Investor-owned Utility Companies
Extent of Aggregate Need Calculated Using a 6% Energy Burden

Federal Poverty Level	(1) (Calculated) Afford Gap/ Household	(2) (3) Number of MO Households served by Investor-Owned Utilities	Affordability Gap Interpolating From R. Colton study
Below 50%	$1,098	82,838	$90,920,816
50-74%	$805	47,020	$37,862,797
75-100%	$601	53,869	$32,375,192
101-124%	$405	61,838	$25,042,064
125-150%	$199	68,999	$13,764,152
150-185%	$6	100,012	$609,316
TOTAL			$200,574,337

(1) Source: On the Brink: 2004 - The Home Energy Affordability Gap - Missouri - Roger Colton
(2) Source: 2000 U.S. Census, Tables P88, P93, H40
(3) Source: Electric Information Administration, Electric Power Annual 2003, Table 14.

Appendix D

Appendix D - Revenue Collected with Monthly Charge

Annual Revenue Collected with Various Levels of Monthly Charge per Residential Account

Company	Missouri Jurisdictional Number of Residential Customers			Annual Revenue Collected at Monthly Charge of:			
	Electric	Gas	Total	$0.25	$0.50	$0.75	$1.00
Aquila Networks - L&P	56,809	5,256	62,065	$186,195	$372,390	$558,585	$744,780
Aquila Networks - MPS	192,574	40,527	233,101	$699,303	$1,398,606	$2,097,909	$2,797,212
Atmos Energy (Associated)		39,125	39,125	$117,375	$234,750	$352,125	$469,500
Atmos Energy (UC/Greeley)		13,182	13,182	$39,546	$79,092	$118,638	$158,184
Empire District Electric Company	113,473		113,473	$340,419	$680,838	$1,021,257	$1,361,676
Fidelity Natural Gas, Inc.		1,074	1,074	$3,222	$6,444	$9,666	$12,888
Kansas City Power & Light Co.	234,170		234,170	$702,510	$1,405,020	$2,107,530	$2,810,040
Laclede Gas Company		590,785	590,785	$1,772,355	$3,544,710	$5,317,065	$7,089,420
Missouri Gas Energy		440,512	440,512	$1,321,536	$2,643,072	$3,964,608	$5,286,144
Southern Missouri Gas Co., LC.		6,524	6,524	$19,572	$39,144	$58,716	$78,288
Union Electric Co. d/b/a AmerenUE	1,017,109	97,551	1,114,660	$3,343,980	$6,687,960	$10,031,940	$13,375,920
Total	1,614,135	1,234,536	2,848,671	$8,546,013	$17,092,026	$25,638,039	$34,184,052

Source: MPSC 2004 Annual Report (2003 calendar year customer data

Appendix E - Possible Pilot Program for Addressing Extreme Housing Stock Situations and Their Adverse Impact on Utility Customers - Offered by Some of the Task Force Members

Purpose: In communities where landlords are prohibited from renting residential property if it is not eligible for utility service, apply economic pressure to landlords to rehabilitate or forgo renting vacant housing that is so deteriorated and energy inefficient that it imposes unacceptable costs on other customers.

Proposal: Allow a utility to file a tariff that would deny the initiation of new service to residential property that is found to be uninhabitable due to is deteriorated and energy inefficient condition, until such time as the residence has been rehabilitated, if possible, for energy efficiency.

Scope: 100 homes per year in each of the State's largest metropolitan areas.

Selection: Identify housing candidates through a combination of the following: (1) utility usage and payment records, (2) city records where available, (3) energy audits, (4) weatherization investment criteria, (5) physical observation of the property [ie, broken windows, collapsed roof, etc.] or similar criteria as approved by the Commission.

Process: Upon notice that the current residential customer (renter) is requesting service be disconnected because the customer is vacating the premises, a property which has been identified using the tariffed selection criteria may be placed on the utility's list of residences that are uninhabitable due to deteriorated and energy inefficient conditions. The landlord and the city shall be notified of the utility's designation, and will be informed that utility service will no longer be provided at that residence after the existing tenant moves out, unless the housing is repaired. Notification to the landlord shall, where appropriate, include information regarding the availability of low-cost financing or potential weatherization assistance. If improvements are not made, the utility will not provide new service to the location again.

Safeguards: No service will be disconnected while the property is occupied. In appropriate circumstances, financing and weatherization assistance will be offered to the landlord. No utility shall institute such a tariff in any community unless its housing code prohibits the renting of residential property that is uninhabitable, and that includes the ability to obtain utility service as a condition of habitability.

Evaluation: After three years, evaluate results to determine impact on housing stock, usage, bad debt experience, etc.

Appendix F - A Sample of U.S. Energy Affordability Programs

Pennsylvania is a state with an extensive portfolio of programs for its lower income customers. For over 20 years, the electric and natural gas utilities have offered bill assistance and residential conservation programs; during the state electricity market restructuring period, these programs were mandated by legislation. Universal Service program funds are collected through a monthly charge on customer bills. Every three years each utility submits a funding proposal, based on a needs assessment and detailed strategic plan. This plan is subject to the approval of the Commission.

The major components of Pennsylvania's low-income affordability programs are the Customer Assistance and Referral Evaluation Services (CARES) program; the Low-Income Usage Reduction Program (LIURP); Customer Assistance Programs (CAP); and Hardship Funds.

The Pennsylvania CARES program is a case management and referral entity, and administrator of the Pennsylvania LIHEAP program. Customers may start out by being referred to the CARES program; if their payment difficulties are not resolved in a reasonable length of time, they will be transferred to the CAP program.

The LIURP program targets high usage households at 0 – 150% of the Federal Poverty Guideline (FPG) range, with 20% of each utility's funds available to be used for households in the 150 – 200% FPG range. Priority is given to high usage customers with arrearages. All types of housing are eligible – from manufactured homes to multi-unit apartment buildings - and both homeowners and renters can participate.

Most LIURP program measures are required to meet a seven year expected payback period criterion, with measures like furnace replacement and sidewall or attic insulation evaluated using a longer payback period. Participants

in the program receive energy efficiency education as well as energy conservation services.

Each utility in Pennsylvania structures their individual CAP program. Depending on the plan, customers pay either a percentage of their household income (Percentage of Income Payment Plan, or PIPP), or of the bill. In the PIPPs, the percentage of income is determined by the level of household income - a household at a lower income level generally pays a lower percentage of their income - and type of heating fuel. With the exception of Penn Power, all utilities offer an arrearage forgiveness program, where an amount of pre-program arrearage balances is forgiven based on a criterion such as the timely payment of the full amount billed.

Finally, for customers for whom these programs are not adequate, the utilities offer Hardship, or Crisis funds.

Evaluation of the Pennsylvania programs has shown quite a bit of variation between fuels and utilities. Looking at each utility's results separately, the change in the rate of terminations (2002 to 2003) has ranged from -25% to +20%. The change in the percentage of dollars written off in this time period ranges from -37% to +45%, averaging around -8%.

New York state has taken a holistic approach that makes energy efficiency for lower income families an active component of the state's energy policy. Since 1996, funds have been collected through a System Benefits Charge and administered by the New York State Research and Development Authority (NYSERDA). Each participating utility receives a share of the funds. In addition to administering these funds for the state, NYSERDA oversees a portfolio of programs known collectively as the New York Energy Smart^{SM} (Energy Smart) program. The mission of the Energy Smart program is to achieve New York's stated energy policy goals - increased efficiency, improved electrical system reliability, lower energy costs, improved state energy diversity, and responsible economic development - through the promotion of energy

efficiency and peak load reduction. Program participants come from all groups of users, not just residential or low-income customers.

The programs targeted specifically at lower-income customers comprise about 14% of the Energy Smart budget, the largest of these being the Assisted Multifamily Program, introduced in 2002. This program seeks to lower the energy bills of low-income renters by fostering cooperation among landlords, financial institutions, and state/federal government agencies. Financial incentives are offered to encourage the installation of energy efficiency measures in public and publicly-assisted housing. A recent first year evaluation of the program found that landlords cited 'increased tenant comfort' and 'ease of selling the business" as two primary benefits non-energy benefits.

New York Payment Assistance programs are administered by the separate utilities, so there is a wide range of programs and eligibility requirements. One program that is considered a success is the **Niagara Mohawk Power** (Niagara) Low Income Customer Assistance Program, or LICAP. Approximately 1/3 of Niagara Mohawk's customers are low-income.

When a customer is enrolled in the Niagara low-income assistance plan, an affordable payment is negotiated. The difference between this payment and the household's actual utility bill is placed in an arrearage account. The program provides for forgiveness of the lesser of $250/year or half of the current arrearage balance. In addition, LIHEAP Energy Assistance payments are applied to arrearages, and the customer receives cost effective efficiency measures and education. In an evaluation done after a year of program operation, several benefits were observed. The net revenue from low-income customers on the program was estimated to be 16% higher than from non-participant low-income households. A February, 2002 study of the utility's low-income programs showed that low-income customers who entered the program with lower average arrearage balances tended to be successful in eliminating those balances, that 23% of households had a reduction of $100 to $500 in arrearages, with 11% reducing arrearage balances more than $500 in the first year of plan operation. Over the same time frame, 50% of customers had an

increased level of arrears. Households that received energy efficiency education and services along with an affordable payment were the most successful in reducing arrearage balances. Other reported program impacts included improved health and comfort of participant households.

The largest and oldest Percentage of Income Payment Plan is offered in **Ohio,** where PIPP programs have been available since 1983, and have been funded by a system benefits charge since 2000. Participants in the Ohio program pay a set percentage of income in the winter toward their energy bill, with the percentage lower for households at lower income levels. For example, customers heating with natural gas pay 10% of their monthly income to the gas company, and 5% to the electric company. Customers with incomes below 50% of the FPL pay 3% of their income, rather than 5%.

The difference between the customer's payment and the actual bill is credited to an arrearage account, which the customer is responsible for paying if they leave the PIPP program. All participants on the PIPP must agree to needed weatherization and in-home education in order to take part in the program.

In an effort to lower the long-term costs of the PIPP program to the rest of Ohio regulated utility customers, the Electric Partnership Program was begun in 2001. This program, targeted toward participants in the PIPP program, makes a distinction between energy used for baseload vs. heating/cooling. Depending on the type of energy end-use, measures such as refrigerator replacement and lighting retrofits or full-scale weatherization was performed.

Data was collected on usage, bill paying, household characteristics, and other parameters, and analyzed after the Ohio EPP program had been in effect for approximately a year. The analysis showed a decrease in participant bills, a net reduction of $66 in payments, and a net reduction of $95 in the difference between the full bill and the amount participants paid. It was estimated that ratepayers received 59% of this bill savings, while participants received the other 41%. The overall benefit/cost ratio was estimated, using a present value

analysis, at 1.34, with ratepayers receiving a return of about 80% of the high usage program cost, and 75% of the moderate usage program cost.

One very successful PIPP program is the **Clark County, Washington**, Guarantee of Service Plan. Under this plan, in addition to weatherization, education and arrearage forgiveness, a participant's bill is limited to 9% of their household income. A 1999 plan evaluation showed low-income household disconnections down 64%, a decrease in account write-offs of 36%, and an overall benefit/cost ratio of 1.11. Even though participant customer bills were lower due to the PIPP, the utility reported that it collected more revenue overall from this group.

Massachusetts has had long-term experience with bill assistance programs. Since 1980, low-income discounts have come about as a result of rate case settlements; in 1997, with the restructuring of the state's electric market, the Massachusetts legislature passed legislation requiring regulated utilities to offer discounts ranging from 20-35% of the bill to households with incomes of up to 175% of the FPG (one utility uses 200%). The cost of these programs is recovered through a utility's rates. In an effort to reach the 60% of households that are eligible but do not participate, the enrollment process was recently streamlined. Eligible customers are identified with the assistance of the Executive Office of Health and Human Services, and are automatically enrolled in the utility program unless they choose to opt out. This began in December 2004 so information is not yet available to assess the impact of this change.

Massachusetts utility efficiency programs began in the mid-80's, and were expanded in the late 90's, with the restructuring of the Massachusetts electricity market. A 2002 evaluation performed for KeySpan Energy showed a benefit/cost ratio greater than one when considering only energy savings; it was also reported that 30% of households entering the program with arrearages were able to pay their arrearage amounts in full.

Another state that has actively addressed energy affordability is **Wisconsin**. Wisconsin is unusual because its state Public Benefits Fund was not initiated as a part of electricity market restructuring. State Public Benefits Funds are combined with the federal Weatherization Assistance Program and Low-Income Home Energy Assistance Program funds in the 'Home Energy Plus' program. The split between weatherization and bill assistance is set by law with 47% going to weatherization and 53% to bill assistance programs.

A 2003 evaluation of the program found benefits to the utility companies (and ratepayers) from reduced arrearage carrying cost levels and decreased collection costs. Significant economic development impacts were noted, in the form of new jobs, increased sales, and decreased funds flowing from Wisconsin to energy-producing states. The increase in personal income resulting from the decrease in participants' energy expenses allowed households to pay their utility bill without sacrificing other critical needs, such as food or medication.

In **Connecticut**, two separate charges fund the state's low income programs. A System Benefits Charge covers bill assistance programs, and energy efficiency programs are funded through a Conservation Surcharge. Utilities are allowed to use a portion of the SBC to fund arrearage forgiveness.

Connecticut regulated natural gas companies are required to offer an arrearage repayment option to low-income customers receiving energy assistance; in addition, 2003 legislation made this type of program mandatory for the heating customers of the state's two electric public service companies. The year is divided into heating and non-heating season months, and the arrearage repayment rules differ depending on the period. In the winter months, the entire bill – calculated as a base amount plus an affordable arrearage payment – does not have to be paid in a timely manner, but the account must be brought up to date by the end of the heating-season period (April 30). In the summer period, timely, full payments must be made on the account. Each time a customer successfully completes one of the six-month arrearage periods, an amount equal

to the customer's payment during that timeframe is credited to their arrearage balance.

The Connecticut Light and Power affordability program, NU Start, has a different arrearage management program structure. When a customer at 200% of FPL or below enters the program, their arrearage amount is divided into 12 equal payments. The customer is provided efficiency and budgeting education, referred for weatherization, and placed on an affordable payment plan. For each month that a household makes the payment as agreed-upon, 1/12 of their arrearage balance is forgiven. The company believes that with this type of program, they are able to receive some revenue from customers who would otherwise be disconnected.

Connecticut's Conservation and Load Management Charge, levied on all electricity sold by the state's two largest electric utilities, is used to fund efficiency programs and other conservation activities for customers in all customer groups, not just low income households. It is estimated that the benefit/cost ratio for these programs is around 3. The charge raised almost $90 million in 2003, but a statute was enacted that allows the state to borrow from the fund and use it to supplement the general revenue fund. In 2004, around 30% was borrowed, with a corresponding reduction in programs and services.

Nevada has a unique energy bill assistance program. Customers at up to 150% of the FPG are eligible for a Fixed Annual Credit, calculated as the amount necessary to bring the household's energy burden down to the state median energy burden percentage. For FY 2005, the percentage used will be 3.06%

Funds for this program come from two sources – the Federal LIHEAP program, and a System Energy Charge approved by the legislature in 2001. A November 2004 evaluation of the program found it "the best program of its type" and suggested that it be a model for other western states. Several features of the Nevada program were noted. First, the assistance program addresses year-round bills, not just heating bills. The study suggests that households in western states, which have significant usage in the summer as well as the winter, are not

served by the current LIHEAP practice of disbursing a majority of its funds for winter heating periods. Second, the program covers both gas and electric usage. Finally, rather than using an arbitrary measure such as the federal poverty guidelines, the program uses the state median energy burden in its calculation of benefit levels. This ensures that the measure reflects recent energy prices and, to some extent, weather.

Criticisms include the use of the Federal Poverty Guidelines to establish eligibility, the existence of caps on administrative costs, and the method of calculating the energy burden used to determine benefits.

The **New Jersey** Universal Service Fund, created by an order of the Board of Public Utilities in 2003, is used to fund the state's Percentage of Income Payment Plan program. A customer's utility bill payment is capped at 6% of the household's income and arrearage amounts are forgiven after timely, full payments have been made for a year. Participants are automatically enrolled in the USF program if they are receiving benefits from LIHEAP or the state's Lifeline program. Detailed information is collected to aid in evaluating the program.

In addition, during the restructuring of New Jersey electricity markets in the late 90's, a Societal Benefits Charge was established to pay for efficiency programs, research and development and other social programs of benefit to all ratepayers. The New Jersey Comfort Partners program, funded at $15 million per year from the SBC, combines direct installation of efficiency measures with an arrearage forgiveness program and personalized comprehensive energy education

Summary of States' Arrearage Management Policies

Connecticut: all gas public service companies required by statute to operate an arrearage forgiveness program for gas heating customers.

- Connecticut Light and Power – customers who pay budgeted amount on time are eligible for arrearage forgiveness – must have arrears of $100 or more, income less than 200% of the FPG.

- Connecticut Natural Gas – customers who qualify for matching funds get $2 reduction for every dollar paid to the Company. Customers must receive energy assistance.
- Yankee Gas – customers who make and keep satisfactory payment arrangement and receive LIHEAP, company will deduct from bill an amount equal to money they have paid, and the amount received from LIHEAP.

Kentucky: Louisville Gas and Electric – provides a subsidy for bill payment. Eligible customers receive about $145 in arrearage subsidy.

Maine: Maine Public Service – LIHEAP eligible customers who keep current with bill payments Nov – March may receive credit up to $230 in June.

Maryland: Electric Universal Service Program authorized through restructuring legislation. Provides for retirement of "certain" old bills.

Massachusetts: IOUs offer utility rate 20-42% off of customer's bill – negotiated, then continued under Massachusetts' restructuring legislation.
KeySpan Energy Delivery – program open to 350 customers in Boston Gas territory. Bill forgiveness up to $400.

Michigan: Arrearage forgiveness provided by utilities that participated in the automated positive billing system (HH must pay a percentage of its monthly assistance grant to utility).

New Hampshire: 2002 program has component that arrearages existing on or before August 31, 2002 are eligible for retirement.

New Jersey:
- New Jersey Comfort Partners (group of 7 utilities), using the System Benefit Charge created in restructuring. Provides weatherization, education, and arrearage forgiveness for participants who agree to payment plans.
- Jersey Central Power and Light – provides up to $750 of arrearage forgiveness through timely and in-full bill payments. Eligibility up to 175% and must participate in the Comfort Partners program.
-

Tennessee: - Memphis Light Gas and Water – extended payment plans for up to 3 years.

Wisconsin: State funds are distributed for payment of uncollectible utility arrearages. Assistance provided to HH whose housing cost is more than 35% of their total income.

This discussion skims the surface of the variety of low-income household affordability programs – every state has these plans, and there are as many types of programs as there are of low-income customers. The most common components of successful affordability programs are weatherization and other efficiency and education measures, combined with an affordable bill. This bill generally includes an arrearage management component, which results in realistic household payment amounts. By attacking the problem from a number of directions at once, the likelihood of successfully addressing energy affordability for low-income families is increased

GOVERNOR OF MISSOURI

JEFFERSON CITY
65102

JEREMIAH W. (JAY) NIXON
GOVERNOR

P.O. Box 720
(573) 751-3222

March 23, 2009

Commissioner Robert M. Clayton III
Chairman
Missouri Public Service Commission
Governor Office Building
200 Madison Street
Jefferson City, MO 65101

Re: State Energy Program Funding

Dear Chairman Clayton:

I am attaching the relevant section of the recently passed American Recovery and Renewal Act of 2009 (H.R. 1)(ARRA), which contains certain requirements regarding energy efficiency programs as a condition of the state of Missouri receiving its share of $3.1 billion in federal State Energy Program (SEP) funds.

Within the limits of my authority as Governor, and fully recognizing your authority as an independent regulatory agency, I request that you consider appropriate additional steps consistent with state law, the attached statute and relevant federal Public Utility Regulatory Policy Act (PURPA) requirements, to implement appropriate incentives for energy efficiency programs. I am asking the Missouri Energy Center to work with you as you consider potential enhancements to existing energy efficiency incentives.

I appreciate your attention to this matter.

Sincerely,

STATE OF MISSOURI

Jeremiah W. (Jay) Nixon
Governor

JWN:bwk
c: Mark N. Templeton, Director, Missouri Department of Natural Resources
Attachment

SEC. 410. ADDITIONAL STATE ENERGY GRANTS. (a) IN GENERAL.— Amounts appropriated under the heading "Department of Energy—Energy Programs—Energy Efficiency and Renewable Energy" in this title shall be available to the Secretary of Energy for making additional grants under part D of title III of the Energy Policy and Conservation Act (42 U.S.C. 6321 et seq.).The Secretary shall make grants under this section in excess of the base allocation established for a State under regulations issued pursuant to the authorization provided in section 365(f) of such Act only if the governor of the recipient State notifies the Secretary of Energy in writing that the governor has obtained necessary assurances that each of the following will occur:

(1) The applicable State regulatory authority will seek to implement, in appropriate proceedings for each electric and gas utility, with respect to which the State regulatory authority has ratemaking authority, a general policy that ensures that utility financial incentives are aligned with helping their customers use energy more efficiently and that provide timely cost recovery and a timely earnings opportunity for utilities associated with cost-effective measurable and verifiable efficiency savings, in a way that sustains or enhances utility customers' incentives to use energy more efficiently.

. . . .

GOVERNOR OF MISSOURI

JEFFERSON CITY
65102

JEREMIAH W. (JAY) NIXON
GOVERNOR

P.O. Box 720
(573) 751-3222

March 23, 2009

The Honorable Steven Chu
Secretary
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Re: Missouri State Energy Program (SEP) Assurances

Dear Secretary Chu:

I am writing regarding Missouri's share of the $3.1 billion funding for the State Energy Program (SEP) under the American Recovery and Renewal Act of 2009 (H.R. 1)(ARRA). We anticipate that this increased level of SEP funding will allow Missouri to pursue a variety of programs and projects in the agricultural, industrial, commercial, residential and governmental sectors to achieve energy savings. We appreciate the significant opportunities that the SEP, the Low Income Weatherization Assistance Program, and the State Energy Block Grant funding will provide as we work with Missouri communities and the private sector to promote effective and wise utilization of our energy resources.

I have written the Missouri Public Service Commission (PSC) and suggested that they consider additional actions to promote energy efficiency consistent with the provisions contained in H.R. 1, while balancing existing obligations to maintain just and reasonable rates for Missouri consumers. Consistent with U.S. Department of Energy guidance, I have also instructed the Missouri Department of Natural Resources' Director to begin a dialogue with authorized communities which have the authority to adopt energy standards. The State is committed to working with communities to create model energy efficiency standards that, if local units of government choose to implement, should reduce energy costs for Missourians. I and my staff will also work with the Missouri General Assembly to pursue incentives to assist communities in promoting improved energy efficiency consistent with the goals of ARRA.

Missouri's objectives in our overarching plan for distribution and utilization of SEP funds will be job creation, energy savings, the promotion of renewable energy, and reductions in air pollution. We will prioritize our energy investments so as to take advantage of existing program delivery mechanisms, while also considering enhancements where appropriate.

The state of Missouri is committed to using this historic opportunity to proactively work with communities, and when appropriate, the General Assembly of Missouri, to provide incentives and technical assistance that will result in improvements in energy efficiency and renewable energy, as well as a balanced state energy policy. I want to assure you that, within the limits of my authority, we will move forward in these critical areas.

We look forward to the opportunity to work with you as we refine Missouri's proposal for utilization and distribution of the federal SEP funds to assist Missouri in making progress in energy efficiency and renewable energy development.

Respectfully submitted,

STATE OF MISSOURI

Jeremiah W. (Jay) Nixon
Governor

JWN:bwk

c: Gil Sperling, Director, Office of Weatherization and Intergovernmental Programs, USDOE
Mark N. Templeton, Director, Missouri Department of Natural Resources