INITIAL COMMENTS OF AARP REGARDING THE FINANCIAL BURDEN OF RISING UTILITY COSTS ON LOW-INCOME CONSUMERS

September 7, 2012

Introduction

On August 8, 2012, the Missouri Public Service Commission ("Commission") issued Orders opening an "Investigation into the Establishment of a Low Income Customer Class or Other Means to Help Make Utility Service Affordable" in three separate workshop dockets (electric, natural gas, and water utilities). In these Orders, the Commission requested that stakeholders provide comments regarding ways to reduce the financial burden on low income customers while providing a fair and adequate return to the regulated utilities. The Commission requested that commenters include an analysis of the following:

1. The practicality of establishing a low income rate class including effect on revenues and costs,
2. proposed guidelines for inclusion in such a class,
3. proposed verification procedures for participants,
4. the effect on the company's bad debt expense,
5. similar low income rate classes established another state's,
6. the legality of establishing a low income rate class, and
7. the appropriate rate or rate formula for low income rate class.

In addition, the Commission requested that commenters address any other means by which to assist low income residential customers.[1]

As an initial matter, AARP applauds the Commission for recognizing the difficulty faced by low-income utility consumers face in affording utility service and for

[1] Order Opening an Investigation into the Establishment of a Low Income Customer Class or Other Means to Help Make Natural Gas Utility Service Affordable ("Order"), pp.1,2.

opening this investigation. According to current Census Bureau data, approximately one in five Missouri residents lives below 135% of the federal poverty level, the guideline used in Missouri to determine income-eligibility for participation in the Low Income Home Energy Assistance Program ("LIHEAP"):

(Sums in thousands)

Totals		**135% Poverty Status in Missouri- Alternative in 2010**			
		Below 135%		**135% and above**	
Persons		**Persons**		**Persons**	
Sum	**PCT**	**Sum**	**PCT**	**Sum**	**PCT**
5,967	100.0%	1,253	21.0%	4,714	79.0%

Source: U.S. Census Bureau

Current Population Survey, Annual Social and Economic Supplement, 2011

Poverty Status - Alternative uses: (1) Poverty Threshold: Official Poverty Threshold with CPI-U but No Geographical Price Adjustment and (2) Income Definition: Money Family Income.

CPS Data Collected in Year: 2011

Issues For Discussion as Requested by the Commission

Below, AARP addresses each of the issues identified by the Commission in its Order.

1. The Practicality of Establishing a Low Income Rate Class, Including Effect on Revenues and Costs

The practicality of establishing a ratepayer-funded low-income rate assistance program is perhaps best demonstrated by the adoption and administration of such programs in states throughout the U.S. Currently, major rate assistance programs (over $1 million funding level) operate in at least 30 states. The table on the following page, using information provided by the LIHEAP Clearinghouse (http://liheap.ncat.org/Supplements/2010/supplement10.htm) illustrates this experience.

2010 Ratepayer Funded Rate Assistance Programs
Compiled by the LIHEAP Clearinghouse

	State	2010 Funding
1	AL	$2,286,228
2	AZ	$23,963,354
3	CA	$1,182,298,397
4	CO	**
5	CT	$14,585,300
6	DC	$7,419,177
7	GA	$16,900,000
8	IL	$66,019,713
9	IN	$7,864,419
10	KY	$2,435,516
11	ME	$8,561,910
12	MD	$37,000,000
13	MA	$119,379,451
14	MI	$56,571,606
15	MN	$12,538,394
16	MT	$5,272,349
17	NV	$8,063,567
18	NH	$17,704,987
19	NJ	$272,097,609
20	NY	$90,000,000
21	OH	$176,241,089
22	OK	$12,333,070
23	OR	$15,000,000
24	PA	$394,718,101
25	RI	$9,362,371
26	TX	$119,000,000
27	UT	$5,978,856
28	VT	**
29	WA	$18,721,297
30	WI	$22,716,696

** Approved new programs in 2011

As a first step, AARP recommends that a clear set of policy objectives should be identified as part of these workshops. Reliable utility service is a necessity of life in Missouri. Without access to affordable service, residents cannot participate effectively in present-day society or be secure from threats to health and safety. All Missouri residents, including those with low incomes, should have access to reliable and secure home utility service. To help ensure energy security for low-income residents, Missouri needs a sustainable rate affordability program should meet the following objectives:

• serves a large proportion of the state's households at or below 135% of the federal poverty level,

• lowers program participants' utility burdens to an affordable level,

• to the extent possible, targets benefits progressively,

• promotes regular, timely payment of utility bills by program participants,

• comprehensively addresses payment problems associated with program participants' current and past-due bills,

• is funded through a mechanism that is predictable while providing sufficient resources to meet policy objectives over an extended timeframe,

• is paid for by all classes of customers (and where appropriate, funding is also supplemented by contributions from utilities), and

• is administered efficiently and effectively.

2. Proposed Guidelines for Inclusion in a Low Income Rate Class

Consistent with the policy objective of achieving program administrative efficiency, Missouri's utility affordability program should be available to residential utility customers who are eligible to participate in LIHEAP. As indicated above, Missouri's LIHEAP income eligibility guidelines are capped at 135% of the federal poverty level ("FPL").

All households receiving benefits through the federal Low Income Home Energy Assistance Program ("LIHEAP") should be automatically enrolled in the utility affordability program. In the event that the utility affordability program's participation level does not exceed any enrollment ceiling that may be established, consenting households receiving benefits from other means-tested benefit programs (e.g., SNAP, Medicaid) should also be automatically enrolled in the utility affordability program.

3. Proposed Income Verification Procedures

AARP recommends that Missouri employ the income verification procedures and structures that apply to administration of the state's LIHEAP. We further recommend that jurisdictional utilities contract with the state and local agencies that are currently responsible for LIHEAP administration to carry out the income verification process. The model of "piggybacking" utility payment assistance program administrative functions with LIHEAP administration is consistent with the policy objective of achieving administrative efficiency to minimize administrative costs and maximizing the proportion of program funding that is devoted to participant benefits. AARP also recommends the state consider automatic enrollment, which enables those customers who qualify for a utility affordability program to be identified through record matching with social service agencies and automatically enrolled in the utility program without additional paperwork.

4. The Effect of a Low Income Payment Assistance Program on a Company's Bad Debt Expense

Most of the prospective low-income assistance program costs may be readily identified and quantified. Program costs consist primarily of the sum of foregone revenues associated with participant bill reductions and arrearage retirement, plus program administration costs. However, quantification of the entire range of program benefits, including those associated with utility uncollectible accounts, presents a greater analytical challenge. However, quantification challenges do not appropriately lead to the conclusion that benefits simply do not exist. Rather, they suggest that decisions regarding adoption and implementation of low-income payment assistance programs should not hinge entirely on the results of overly-simplified cost-benefit analysis.

5. Similar Rate Classes Established in Other States

Please see the table included in response to Issue 1, above. Brief descriptions of each of the low-income rate programs identified in that table may be found at http://liheap.ncat.org/Supplements/2010/supplement10.htm.

6. Legality of Establishing a Low Income Rate Class

Missouri courts have not yet ruled upon the establishment of a Low Income Rate Class, apart from the traditional Residential Class. However, the creation of new rate classes or sub-classes is not proscribed by Missouri statutes; rather, the Commission has broad discretion, through the rate design process, to define customer classes that are appropriate in each contested utility rate case, based upon the specific evidence presented as to the characteristics of the customers of each particular utility.

A variety of low income pilot programs have been approved by the Commission in previous electric and natural gas rate cases that do not establish a new residential rate class, but which do establish a separate tariff allowing for rate credits or discounts that reduce the amount paid for utility service by eligible low-income customers who comply with program requirements. Recent appellate court cases have found it appropriate for the Commission to make determinations with regard to the usage patterns and characteristics of low income customers that distinguish them from other residential customers, recognizing that it is appropriate for the Commission to examine whether specific rate design decisions unreasonably impact low income utility customers.[2]

The Commission also has the legal authority to promulgate rules of general applicability, governing "the conditions of rendering public utility service, disconnecting or refusing to reconnect public utility service and billing for public utility service." Section 386.250(6) RSMo. The provisions of the Commission's Chapter 13 Residential Billing Rules, which are currently under review in a separate rulemaking, have an enormous impact on low-income utility policy in Missouri. These rules include disconnection standards and weather-related protections such as the Cold Weather Rule that should be considered in connection with the low income rate class issues that are the focus of these working cases.

[2] State ex rel. Public Counsel v. Missouri Public Service Com'n (Atmos Energy), 289 S.W.3d 240 (Mo.App. W.D., 2009); State ex rel. Office of Public Counsel v. Public Service Com'n (Missouri Gas Energy), 367 S.W.3d 91 (Mo.App. S.D., 2012).

7. Appropriate Rate Formula for a Low Income Rate Class

Examination of low-income utility affordability programs operating in the U.S. demonstrates that there are numerous rate formulas and models that have been adopted and that effectively enhance the affordability of service. Following is a brief review of these program models.

Straight Discount

A straight discount entails reducing the total utility bill by a specified percentage or dollar amount. Under this model, the discount may be achieved through a pre-established reduction in the customer charge, volumetric rates, and/or the total bill. The states of California and Massachusetts have adopted straight discount rates that are available to utility customers who participate in LIHEAP. The straight discount model reduces the energy burden of participants at a relatively low administrative cost. However, this model does not differentiate the benefit level within the broad participant group. In other words, the benefit level is the same for a household living at 50% of the federal poverty level as it is for a household living at the upper limit of the income eligibility guideline.

Over the past two decades, the Commission has approved several "experimental" or "pilot program" versions of the straight discount model approach for Missouri electric and natural gas utilities. An evaluation of the results of these experimental programs can inform future attempts to design successful low-income programs.

Consumption-based Discount (inclining block rate)

An inclining block rate entails a higher volumetric charge for consumption in excess of a predetermined level during a particular billing period. In a low income affordability context, program participants may receive a discounted volumetric charge in lower consumption tiers. Thus, in this model, the percentage discount a customer receives depends on the level of usage. An inclining block rate provides an incentive for the customer to use energy efficiently. However, if discounted tier consumption "break points" are set too low, the structure could cause harm to older consumers and others facing temperature related health and safety risks. Such a rate structure also poses risks to those low income customers who may have high usage due to poorly weatherized housing. Implementation of an inclining block rate entails a relatively low administrative cost. California is state that combines the straight discount with an inclining block rate structure.

Percentage of Income Payment Plan (PIPP)

A PIPP entails participant customers paying a predetermined, "affordable" percentage of income for utility or electric service. PIPPs therefore target benefit levels to a household's particular income circumstances based on a predetermined affordability goals. However, since a separate billing and payment arrangements must be developed for each participating customer, PIPPs generally entail a higher level of administrative complexity than straight discount rates. The Colorado Public Utilities Commission recently approved a PIPP for Xcel Energy customers. In addition, the program model has been operative for many years in Ohio, Pennsylvania, New Jersey and Maine.

Tiered Discount

A tiered discount represents a hybrid of design elements of straight discount and PIPP models. In a tiered discount, the level of the discount depends on the customer's income or poverty level. Like a PIPP, the tiered discount is designed to reduce a customer's bill to an affordable level, and households in the lower income or poverty tiers receive a steeper discount than those in higher tiers. Thus, benefits are targeted according to a household's income circumstances, but the individual payment arrangements and billing typified by a PIPP are not required. A tiered discount entails somewhat higher administrative cost than a straight discount, but considerably less than a PIPP. Tiered discount programs currently operate in New Hampshire and Indiana.

Arrearage Management

Any of the affordable rate structures described above may be combined with an arrearage management program component. While arrearage management program designs differ in states where they are offered, the common theme is that they provide customers with an opportunity to retire arrears affordably. In Vermont and New Hampshire, discount rate participants were offered a one-time opportunity to have any "pre-program arrears" written off. However, in most states where arrearage management programs are delivered, customer arrears are forgiven over time through timely payments of current bills. Examples of states where income eligible customers may have prior balances reduced or eliminated over a period of 12 to 36 months include Massachusetts, Pennsylvania, Rhode Island and Connecticut.