



National Regulatory
Research Institute

Outline of Study
on
**“What Regulators Should Ask about Energy
Assistance”**

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Affairs**

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I. Motivation for Study

- A. Good regulation requires that energy assistance (EA) actions funded by utilities and their customers maximize benefits to the intended targets, namely, eligible low-income households.
- B. Since EA actions collectively fall short in adequately meeting the needs of low-income households, it is important that each dollar expended returns the highest possible dividend.
- C. Increasing effectiveness has the same effect as increasing the number of dollars for EA.
 - 1. Effectiveness depends on many factors, which this study will identify.
 - 2. This study will provide regulators with a framework for determining the effectiveness of EA actions in their states.
 - 3. Effectiveness applies to both individual actions and the portfolio of actions that utilities take to address the “affordability” problem.
 - 4. A utility, for example, might provide rate discounts concurrently with waivers on deposits, arrearages, and reconnection costs.
- D. An assessment of EA actions would involve determining whether individual actions complement others, or are in fact conflicting, in advancing affordability.
- E. This study aims to assist regulators in making those assessments by identifying specific problems with EA actions that can:
 - 1. Undermine the objective to assist low-income households, and
 - 2. Lead to avoidable efficiency losses and other costs.
- F. This study will present both general and detailed questions that regulators should ask about EA actions. Answers to these questions should help regulators determine the effectiveness of existing or proposed EA actions.

II. Problems Addressed by EA

- A. Low-income households find energy unaffordable.
- B. Poor households invest little in energy efficiency.
- C. Unaffordability adversely affects utilities and non-poor households.

- D. In addressing the problems identified above, EA actions have three major objectives:
 - 1. They make energy more affordable to the poor, thereby reducing the number of service disconnections.
 - 2. They limit how much the poor must pay for energy so that they are better able to purchase other necessities (i.e., to lower poor households' energy burden so that they have more money available for housing, medical care, food and other essential items).
 - 3. They reduce utilities' bad debt expense, collection expense, uncollectible expense, and disconnect/reconnect expense.

III. Federal, State, Local and Utility EA Actions

- A. Modified rate designs (e.g., lifeline rates, volumetric rates)
- B. Rate discounts (e.g., 20% rate discounts to eligible households, with lower discounts at higher levels of consumption)
- C. Percentage-of-income plans (e.g., eligible households pay no more than 15% of their incomes toward natural gas service during the winter heating season)
- D. Bill-assistance plans (e.g., eligible households receive lump-sum \$50 assistance toward their monthly gas bill)
- E. Federal, state and utility weatherization/energy efficiency programs
- F. Waivers on certain costs (e.g., deposits, late payment charges, reconnection costs, customer charges)
- G. Bill facilitation (e.g., budget billing, winter moratorium on service disconnection, flexible payment options, prepayment, and automatic withdrawal)

IV. Problems with Current EA Actions

- A. Specific deficiencies
 - 1. Recipients of assistance sometimes include the non-need.
 - 2. Poor information and other problems can cause low participation rates (e.g., lack of customer education, time-consuming application process).

3. Some recipients fail even to make full payment on their subsidized bills.
4. Inadequate funding inevitably leads to some eligible households without assistance and vulnerable to service disconnections.
5. Subsidization of low-income households affecting the marginal price of energy can cause the over-consumption of energy.
6. Some EA actions result in intra- or inter-class cross-subsidization.
7. Poor coordination among the different EA actions in addition to the different entities jointly responsible for their execution is likely to hamper the effectiveness of those actions.
8. Some forms of assistance fall short in addressing the severity of the unaffordability problem.

B. Two examples

1. Non-targeted lifeline rates
2. Rate discounts

V. Ten Criteria for Evaluating EA Actions

1. Benefits should accrue to only low-income households (or households who experience temporary income problems because of unemployment).
2. The recipients of EA should receive maximum benefits for the dollars funded.
3. Consumer information and education should make eligible households aware of available assistance in addition to ways to reduce their energy bills.
4. Benefits to recipients of EA should positively correlate with their actual energy costs or energy burden.
5. EA should be sufficient to allow recipients to purchase both utility service and non-energy necessities.
6. EA should result in minimal efficiency losses.
7. EA should have low administrative and enrollment costs.

8. Funding should impose minimal financial burden on each subsidizing customer.
9. EA should result in reduced service disconnections, arrearages, and debt write-offs.
10. EA should promote equity.

VI. Six General Questions

- A. What is the rationale for utilities offering EA to low-income customers?
- B. What primary objectives should EA have?
- C. What should be the dollar amount of assistance?
- D. Who should provide the funding?
- E. What mechanism(s) should fund EA?
- F. What should be the specific EA actions (or mechanisms), keeping in mind other regulatory objectives?

VII. What Should Regulators Do?

- A. Regulators have to make tradeoffs
 1. Because different actions have varying effects, it is difficult to say unequivocally that regulators should place a higher priority on some EA actions than others.
 2. Regulators have to make inevitable tradeoffs between different regulatory goals.
- B. Grading EA actions by the ten criteria
 1. Regulators should consider developing a checklist for determining whether and to what extent each action satisfies the different criteria.
 2. Regulators can choose those EA actions that score well on criteria that they weigh highly.
 3. They can also determine which actions seem to complement others.

- C. Major messages of the study
1. Regulators and utilities should review EA actions to make sure that they are achieving the regulatory goal of utility-service affordability: (a) most effectively and (b) with minimal adverse effects on other goals.
 - a. An important dimension of effectiveness is maximizing the benefits to targeted households given the dollars funded by other utility customers and utility shareholders.
 - b. Minimal adverse effects mean that in the process of funding EA, regulators should mitigate distortions in pricing, consumption, and behavior from moral-hazard incentives.
 2. Regulators should evaluate EA actions periodically.
 - a. These actions can easily deviate from expectations by producing disappointing benefits to targeted customers and unintended consequences harming the utility and its other customers.
 - b. Regulators need to be vigilant in assuring that utility EA actions are performing as expected in benefiting eligible low-income households and minimizing impediments to efficiency and other regulatory goals.
 3. This study will examine what can go wrong with EA actions and identify the questions that regulators should ask to steer those actions in the direction of advancing the public interest.

Appendix A: Numerical Examples of EA Mechanisms

Appendix B: Primary Questions for Regulators to Ask

Appendix C: Evaluating Seven EA Actions by the Ten Criteria

Energy Assistance Action

Criterion	Modified rate design (MRD)	Rate discount (RDI)	Percentage-of-income plan (PIP)	Bill assistance (BA)	Weatherization and other EE actions (EE)	Waiver of certain costs (WV)	Billing facilitation (BF)
Benefits only to targeted customers							
Maximum benefits to targeted customers per dollar of subsidy							
Good consumer information and education							
Benefits directly related to customers' energy costs							
Adequate benefits to make energy "affordable"							
Minimal economic-efficiency losses from improper price signals							
Low administrative and enrollment costs							
Minimal effect on each subsidizing customer							
Reductions in service disconnections, arrearages and bad debt							
Promotion of equity							