A REVIEW OF LOW INCOME ENERGY ASSISTANCE MEASURES ADOPTED IN OTHER JURISDICTIONS

SUPPLEMENTAL REPORT

Prepared for:

The Ontario Energy Board

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I. SUPPLEMENTAL REPORT

Subsequent to the stakeholder conference on low income energy assistance programs held in September 2008, the Ontario Energy Board (the "Board" or "OEB") retained Concentric Energy Advisors, Inc. ("Concentric") to research two additional questions:

1) What is the cost to the utility customer or the taxpayer to fund utility offered low income programs in Canada, the United States, and the United Kingdom?

2) What is the authority under which funding is provided for utility offered low income programs in Canada, the United States, and the United Kingdom?

The scope of Concentric's supplemental research was limited to rate assistance programs (e.g., reduction or waiver of the fixed monthly charge), emergency assistance programs (e.g., shut-off protection for customers with past due accounts) and energy efficiency programs (e.g., weatherization or home appliance replacement). The research focused on a group of five Canadian utilities, fifteen U.S. utilities, and five U.K. utilities which were identified as offering some type of low income energy assistance programs. The survey results are summarized in this report. Appendix A contains more complete results for each utility in the survey.

A. Funding Mechanisms

Concentric's research indicates that the majority of U.S. gas and electric utilities in our survey have an explicit funding mechanism, such as a customer surcharge or a separate tariff rider, for the low income energy assistance programs which they offer. Far less common are those utilities which have been allowed to embed the cost of low income programs within their existing rates for electric and natural gas service. Of the 15 U.S. utilities in the Concentric survey, twelve have an explicit funding mechanism to finance low income energy programs. The funding mechanisms are generally divided into those which are based on customer usage (e.g., a specified amount per therm for natural gas customers and per kilowatt hour for electric customers) and those which are a flat monthly surcharge regardless of customer usage. The vast majority of U.S. utilities surveyed apply the tariff rider or monthly surcharge to residential customers only. However, there are notable exceptions, such as Maryland, where low income programs are funded primarily by commercial and industrial customers.

In Canada, it is much less common for utilities to offer low income programs to energy consumers. Those Canadian utilities which do offer such low income programs do not appear to have an explicit charge on their customer bills. Many of these Canadian programs are designed to provide emergency assistance (i.e., shutoff protection) and energy efficiency, rather than direct rate assistance. The emergency assistance programs are funded through voluntary contributions to social welfare agencies such as the United Way, while the energy efficiency programs are funded through government grants and utility contributions.

Utilities in the U.K. are encouraged by the regulator (OFGEM) to introduce social tariffs which may benefit qualified low income customers through annual bill credits. Many utilities in Great Britain have also established charitable trusts, which provide emergency assistance to customers facing disconnection due to past due amounts. These trusts are funded by donations from the utility company, but the financial assistance provided to low income customers is somewhat limited in scale. The majority of low income programs in the U.K. are funded through government grants.

As a result of legislation or Commission order, there are alternative funding mechanisms or sources for low income programs in several states. Wisconsin, for example, has a statute which directs utilities to contribute a percentage of their gross revenues to fund low income programs and alternative fuel initiatives. In Michigan, the utility offered programs are rather limited in scope, and are funded through grants from the Michigan Public Service Commission. The grant money originates from utility securitization savings that exceeded the amount necessary to achieve a five percent rate reduction for residential and business customers after electric deregulation was implemented.

Emergency assistance programs, which offer customers protection against disconnection, are funded by a variety of different sources, including customer and employee donations and shareholder contributions. In Arizona, the Arizona Department of Economic Security uses taxpayer dollars to fund emergency assistance and energy efficiency programs. Concentric did not find any utilities which have explicit funding sources for protection against shut-off or for waivers of security deposits, late payment charges, or reconnection fees. Rather, it appears that the cost of these low income energy programs is recovered through the utility's standard rates for electric and gas service.

Several utilities in our survey, including British Columbia Hydro and Arizona Public Service, have implemented inverted block rate structures, which may benefit low income energy customers, if those customers use less than a specified amount of electricity each billing period. Under this rate structure, there is not an explicit tariff rider or customer surcharge. Rather, low volume users pay a lower rate per kWh, while high volume users pay a higher rate. This rate structure provides a financial incentive for customers to reduce energy consumption by providing subsidies to low volume users.

Based on Concentric's research, it does not appear to be common industry practice for utilities to designate tariff riders or customer surcharges for a specific purpose. The funding mechanism collects dollars which are then allocated to a variety of low income programs, including discounted rates, energy efficiency programs, and waivers of late payment charges, disconnection fees, etc. Public Service Company of New Hampshire is the only utility in our survey which divides the tariff rider into amounts for rate assistance and energy efficiency. However, several states fund multiple initiatives through the same mechanism. For example, in Washington, Avista Utilities' low income program is funded through the Public Purpose Rate Adjustment, which is a tariff rider that also funds Demand Side Management. As noted previously, the Wisconsin assessment on utility gross revenues funds alternative fuel initiatives as well as low income rate assistance programs.

B. Funding Authority

As noted in our previous report, many low income programs were developed in conjunction with deregulation of the electricity or natural gas market. Legislative bodies and regulatory authorities responded to concerns from consumer advocates that low income customers would be disadvantaged by retail competition. In order to prevent this outcome, many deregulation statutes included a requirement for the Commission or Board to establish and implement programs to assist low income energy customers. However, the legislation generally did not include specific instructions or guidance concerning how those programs would be funded, or under what authority the utility would be allowed to collect the money needed to offer programs to its low income customers. In most instances, this decision was left to the expertise of the regulatory authority. As always, there are notable exceptions. The State of Oregon has a statute under which utilities shall increase the energy charge component for residential customers to fund rate assistance programs for low income customers. A 1994 State of Minnesota statute requires electric utilities serving more than 200,000 customers to provide a 50% discount to low income customers on the first 300 kWh consumed each month. The State of Wisconsin requires utilities to contribute a percentage of gross revenues (1.2% in the case of Wisconsin Power and Light) to fund low income programs, and directs general assistance funds to provide some minimum life necessities, including home heating, to those who require financial assistance.

Many regulatory authorities have implemented rules and regulations that encourage or permit utilities to propose programs to assist low-income energy consumers. In some instances, these rules and regulations provide utilities with very specific policy guidance from the Commission or Board concerning the need to develop and implement programs to assist low income energy consumers. In other cases, these rules and regulations serve to acknowledge that the Commission or Board would entertain utility proposals regarding rate assistance or energy efficiency programs. Finally, other provinces and states provide absolutely no formal regulations or informal policy direction, and the responsibility falls on the utility to propose some form of low income program.

It appears that the provinces and states that take a more formal approach to low income energy programs, either through statutes or rules and regulations, are more likely to have utilities that offer programs to low income energy customers. For example, the New Hampshire legislature authorized the Public Utilities Commission to develop a statewide program for low income energy consumers in conjunction with electric utility deregulation in that state. Ultimately, Public Service Company of New Hampshire developed one of the more aggressive programs to benefit low income customers. The State of Indiana legislation which approved partial deregulation authorized utilities to file alternative regulation plans, including universal service plans, with the Commission. Consequently, Northern Indiana Public Service Company requested and was granted authority to fund its low income rate assistance program through a monthly surcharge on residential customer bills. The British Columbia Utilities Commission recently approved British Columbia Hydro's application requesting authority to implement a residential inverted block rate structure, which provides an implicit subsidy for customers who use fewer kilowatt hours during the bi-monthly billing period.

Conversely, several Canadian provinces have restrictions or prohibitions against certain low income energy programs. For example, the Nova Scotia Court of Appeal confirmed that the Nova Scotia Utility and Review Board does not have the jurisdiction to approve low income rate assistance programs under the Public Utilities Act. However, the Review Board has approved Nova Scotia Power Inc.'s request to implement a pilot budget billing program. Similarly, in Ontario the *Electricity Act* and the *Public Utilities Act* allow electric and gas utilities to disconnect customers for non-payment.

II. SUMMARY AND CONCLUSIONS

In the U.S., utility offered low income energy programs such as rate assistance and energy efficiency frequently are funded through a separate tariff rider or monthly customer surcharge. Where there is not an explicit funding mechanism, the subsidy is embedded within the existing rate for electric or natural gas service. Utilities in Canada and the U.K. are much less likely to have explicit funding mechanisms for low income energy programs. Those in the U.K. offer rate assistance programs to eligible customers by way of social tariff rates and annual bill credits, and through donations to independent charitable trusts.

The authority under which utilities are allowed to offer low income energy programs varies widely. In the U.S., some state legislatures have passed statutes which place specific requirements on utilities to collect funds for low income rate assistance programs. In other instances, the state legislature has directed the utility regulatory authority to develop and implement low income programs. Other states have no formal legislative directive, but the utility Commission or Board has established rules and regulations to encourage or support utility offered low income programs. Finally, some U.S. jurisdictions have no formal rules or regulations concerning low income energy programs. In Canada, there has been little, if any, formal authority for utilities to offer low income energy programs, while in the U.K. the regulatory authority has encouraged utilities to file social tariffs rather than specific tariff riders or customer surcharges.