



# OLR RESEARCH REPORT

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## **REDUCING ELECTRIC RATES FOR LOW-INCOME CUSTOMERS**

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You asked for a discussion of how other states have sought to reduce electric rates for low-income customers by (1) having the state energy office or other state agencies establish purchasing pools for such customers, (2) creating state power authorities or other public power utilities to serve these customers, or (3) requiring electric companies to provide rate discounts for such customers.

### **SUMMARY**

The National Association of State Energy Officials (NASEO) and the Low-Income Home Energy Assistance Program Clearinghouse are not aware of any state that has established an electric purchasing pool for low income customers and we have found no cases where other state agencies have done so. Connecticut and Vermont each took preliminary steps to establish such a pool, but ultimately did not do so. Ohio does operate a natural gas purchasing pool for customers who participate in its Percentage of Income Payment Plan (PIPP) program, which is described below. However, it does not operate a purchasing pool for electricity.

Staff at NASEO, the American Public Power Association and the National Conference of State Legislatures are not aware of any state power authorities that have been created to serve low-income customers or that use sources of low cost power (such as hydropower projects) to serve these customers. Most power authorities do not sell power directly to residential customers. Instead, they most commonly sell power to

municipal utilities and institutional customers. As discussed below, several public power utilities have rate discounts for low-income residential customers.

Several states, including California, Massachusetts, Pennsylvania, and Texas, require electric companies to provide rate discounts to low-income customers. (The programs in California, Massachusetts, and Pennsylvania also apply to gas companies.) The most common type of program is a percentage reduction of electric bills. California also requires electric companies to provide rate discounts to some moderate-income customers. Ohio requires electric and gas companies to offer payment plans to their low-income customers that provide discounts under some circumstances. In addition, several public power utilities provide discounts for their low-income customers. Information on discount policies for all of the states is available at <http://liheap.ncat.org/sp.htm>.

## **EFFORTS TO ESTABLISH ELECTRIC PURCHASING POOLS**

### ***Connecticut***

PA 98-28 required the Office of Policy and Management (OPM) to operate an electricity purchasing pool for state facilities. Under the act, households receiving means-tested assistance from the state or federal government had to be offered the same rates offered to state facilities. The act required OPM to use energy assistance funds to achieve the lowest practicable rates for households participating in the pool.

OPM initially issued a request for proposals (RFP) to obtain suppliers to serve the pool. OPM received very few timely proposals, and chose not to proceed at that point. OPM subsequently held a meeting with potential suppliers, who indicated that the requirement that the pool be open to low-income customers was a major reason they did not submit proposals. The suppliers indicated that they thought that including these customers in the pool would increase the risk of nonpayment. OPM issued a subsequent RFP, which did not include the requirement that the pool be open to low-income customers, and chose a supplier for state facilities.

More recently, OPM has conducted reverse auctions to procure power for state facilities. The auction process placed pre-qualified bidders (using the same criteria as the RFPs) in competition with one another. The lowest bid at the close of the auction won the contract. More than 55 auctions were conducted September 19 and November 29, 2007, resulting in eight separate contracts covering executive, legislative, and

judicial branch facilities and the state university systems. According to OPM, the reverse auction process resulted in more than \$20 million in savings. In addition, the state increased its purchases of green and renewable power by more than 17% above the Renewable Portfolio Standard. However, the auction did not cover low-income customers.

### ***Vermont***

In 1997, Vermont received a grant from the U.S. Department of Health and Human Services to develop a non-profit cooperative offering comprehensive energy services. The cooperative was to have focused on serving people who received energy assistance, but it would have been open to people of all income levels. Vermont sought to:

1. create and demonstrate the viability of a consumer-owned competitor providing least cost energy services to low-income consumers by aggregating electricity and fuel demand and by optimizing energy choice and energy efficiency;
2. develop and demonstrate the effectiveness and economies of integrating comprehensive energy supply aggregation with fuel, weatherization, and efficiency programs and a consolidated affordable payment plan provided through the cooperative; and
3. recruit 75% of energy assistance recipients to become cooperative members, in part by offering enhanced, customized services to low-income consumers with the heaviest energy burden.

The Vermont Agency of Human Services was to direct the project. The agency formed the cooperative which bought an existing home heating oil company. It appears that cooperative did not address electric use and that the project was discontinued within a few years after the agency received the grant. We were unable to find out why, because none of the staff currently in the agency's energy unit worked there before 2000.

## **SPECIFIC RATES FOR LOW INCOME CUSTOMERS**

### ***California***

Low-income customers of the state's three large investor-owned utilities who are enrolled in the California Alternative Rates for Energy (CARE) program receive a 20% discount on their electric and natural gas bills. For one- and two-person households, the maximum income is \$29,300. The maximum increases with household size, e.g., \$34,400 for a three-person household.

The Family Electric Rate Assistance (FERA) program can provide a discount on electricity costs for households with three or more persons with somewhat higher incomes. Households qualify if they receive benefits under various welfare programs, including Temporary Assistance for Needy Families, food stamps, Medicaid, and energy assistance. Alternatively, a household is eligible if its income falls within certain limits, e.g., \$34,401 and \$43,000 for a three person household.

In California, the electric rate that a household is charged depends on how its consumption compares with a baseline, which varies by region and other factors. Households that participate in FERA are charged Tier 2 rates that normally apply to consumption at 101% to 130 % of baseline for their Tier 3 usage (131% to 200% of baseline). The program does not affect the rates charged for higher levels of consumption.

These provisions are funded through a rate surcharge paid by all utility customers.

### ***Massachusetts***

State law (Mass. Gen. Law 164 Sec. 1F) requires electric companies to provide rate discounts for low-income customers. Eligible customers receive rate discounts of 20% to 35% off the standard residential rate, depending on their utility company. Customers are eligible if their household income is 200% of the federal poverty limit (i.e., \$35,200 for a three-person household in 2008). Participants in certain benefit programs, such as food stamps and supplemental security income, are automatically enrolled in the rate discount program, Participants in energy assistance programs are also eligible, but must apply for the rate discount. The law requires that the cost of the discounts be paid from the rates charged other company customers. Further information about the rate discounts is available at [www.massresources.org/pages.cfm?contentID=72&pageID=14&Subpages=yes#whatis](http://www.massresources.org/pages.cfm?contentID=72&pageID=14&Subpages=yes#whatis).

### ***Ohio***

The state's Percentage of Income Payment Plan (PIPP) requires regulated gas and electric companies to accept payments based on a percentage of household income. The Office of Community Services administers the program for electric customers and community action agencies for gas customers. The program is funded by the universal service charges on electric and gas bills.

To be eligible for the program, a customer must (1) receive his or her primary or secondary heat source from a utility company regulated by the Public Utilities Commission of Ohio, (2) have a total household income at or below 150% of the federal poverty level, and (3) apply for all energy assistance programs for which he or she is eligible.

Customers whose primary heating source is electricity make a monthly payment to their electric company that is 15% of their gross monthly household income in billing periods that include any usage from November 1 through April 15. The rest of the year, these households pay 15% of their gross monthly household income or their current electric bill, whichever is greater. Customers who use electricity to control their gas or oil furnace or have electric space heaters in addition to another heating source make an electric PIPP installment that is 5% of their income in the heating season. During the rest of the year, the household pays 5% of its income or its current electric bill, whichever is greater. (Most households whose income is at or below 50% of the federal poverty level and use electricity as its secondary source of heat, pay only 3% of their income during the heating season). Cleveland Electric Illuminating and Toledo Edison do not offer the 3% provision. Instead, they offer very low-income customers a 7% discount off their electric bills.

Customers whose primary heating source is natural gas pay their gas company an installment that is 10% of their gross monthly household income, year-round. Customers who use natural gas as their secondary heating source pay the company 5% of their income year-round.

Participating customers must (1) make the required monthly payments, (2) re-verify their gross monthly household income at least once every 12 months, (3) reapply for all available energy assistance programs at least once every 12 months, and (4) apply for weatherization if contacted by a utility or state agency representative. People who apply for the Emergency Heating Assistance Program must also apply for PIPP or another payment plan. Further information about PIPP is available at [www.odod.state.oh.us/cdd/ocs/pip.htm](http://www.odod.state.oh.us/cdd/ocs/pip.htm).

## ***Pennsylvania***

Pennsylvania's Public Utility Commission requires major electric and gas companies to provide Customer Assistance Programs (CAPs) for their low-income customers. Some programs provide flat rate discounts or bill credits, while others provide discounts that are tied to the customer's income. For example, PECO, which serves the Philadelphia area, provides four discounted rates to its low-income electric and gas customers (those with incomes of up to 150% of the federal poverty level).

The percentage of discount is based on the customer's gross household income. Other companies have arrearage forgiveness in their programs. For example, Duquesne, which serves the western part of the state, requires customers who participate in CAP to go on a payment plan and make on-time monthly payments. Customers are forgiven 1/36 of their arrearage amount each monthly payment that is on time and complete.

### ***Texas***

The LITE-UP program provides an electric rate discount of about 2 cents per kilowatt-hour during the cooling season for low-income families. This reduces the electric bills of participating families by about 15% from July through October, an average savings of \$25 to \$30 per month.

A customer qualifies for the discount if his or her family income is at or below 125% of federal poverty level guidelines or if the customer gets certain benefits from the Health and Human Services Commission. These benefits include food stamps, Temporary Assistance to Needy Families, Supplemental Security Income, Medicaid, or low-income Medicare.

The Public Utility Commission reports that there are 316,000 households who are automatically enrolled in the program. This system is operated by the Low-Income Discount Administrator (LIDA) and uses data provided by the Texas Health and Human Services Commission and retail electric providers to identify eligible customers. In addition, other households that believe they are eligible can apply directly to LIDA. The discount is only for the summer months and will be available again during the summers of 2008 and 2009.

In addition to the rate discount, participating customers cannot be charged late fees under Public Utility Commission rules. Participants are also eligible to pay security deposits over \$50 in two installments. Further information about the program is available at [www.texasrose.org/RTF1.cfm?pagename=LITE-UP%20TEXAS](http://www.texasrose.org/RTF1.cfm?pagename=LITE-UP%20TEXAS).

### ***Public Power Utilities***

Several public power utilities (which generally are not regulated by state public utility commissions) offer discounted rates to low-income customers. For example, the Cowlitz County (Washington) Public Utility District offers a reduced electric rate for qualified seniors aged 65 or older. Households with a gross income below \$13,691 receive a 20% rate discount; those with incomes between \$13,692 and \$20,535 receive a 10% discount. The district also offers the same discounts to low-income

households with a disabled household member. The Los Angeles Division of Water and Power offers a discount of up to 15% for electric and water customers with eligibility standards similar to the CARE program described above. Seattle City Light (the municipal electric utility) provides a 50% rate discount for eligible customers. Customers who are 65 or older or who are disabled qualify if their income is below 70% of the area median (i.e., \$42,600 for a three-person household). Other customers are eligible if their income is below 200% of the federal poverty level. The program is open to homeowners and renters, but not to residents of subsidized housing.

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