

Strategies and Initiatives to Proactively Respond to a New Customer Demographic

by Katherine Johnson, Johnson Consulting Group

I. Introduction

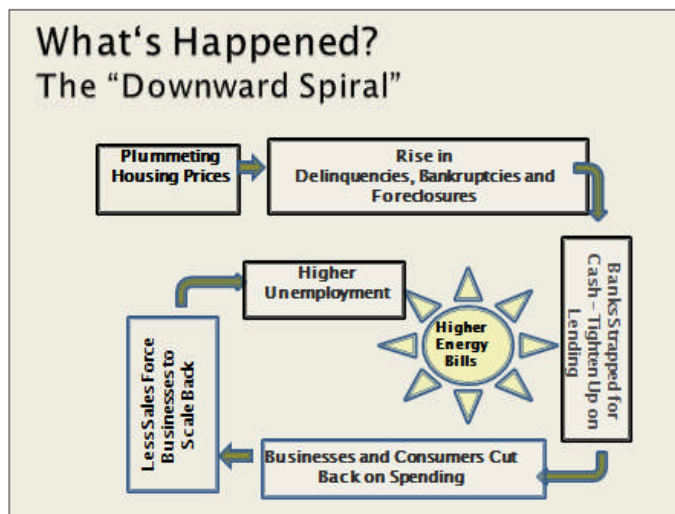
A challenging economic outlook, rising energy bills, and a growing housing crisis have left more utility customers facing significant challenges in making ends meet. As a result, the utility industry is seeing a steady increase in customer with late payments, delinquencies, and an increasing number of those who cannot even pay the utility bill. Where this customer class has traditionally included mostly low-income households, it has since expanded to include a much broader group of customers *at risk* of being overwhelmed by growing financial hardships, including those with fixed incomes, the working poor, families facing foreclosure, the unemployed, and customers with medical conditions – all due to the combination of rising prices within the utility industry and rising costs in all sectors of the economy.

This white paper summarizes the challenges facing the energy utilities, and identifies possible solutions that utilities can use to address and even mitigate the effect of rising delinquency rates and cash-strapped customers.

II. Situation Analysis

Across the country, utility customers are being squeezed between tight economic circumstances and higher energy bills. Currently, the United States is facing a massive financial crisis and enormous uncertainty about future economic prospects both here and abroad. However, even before the failure of a number of investment banks, the plunge in the stock markets, and the legislative and regulatory actions to shore up the economy, residential customers of gas and electric utilities had been facing increased pressure on their ability to afford energy services. Figure 1 illustrates this downward spiral of our economy as it reels from these various financial challenges.

Figure 1: A Summary of the Downward Spiral of our Current Economy

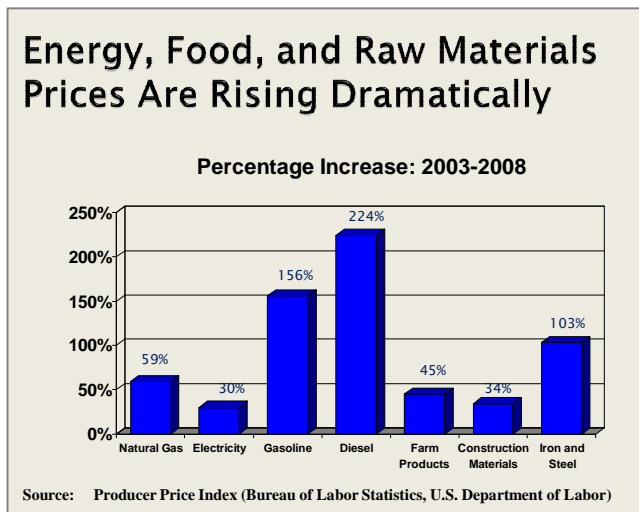


Other symptoms of economic distress include the following:

- Individuals receiving aid from the Supplemental Nutrition Assistance Program (SNAP) increased from 26,468,000 (2007) to 28,408,000 (2008), a 7.3% increase. Total program costs increased from \$33,195,100,000 (2007) to \$37,656,300,000 (2008), a \$4.46 billion dollar increase. (Source : <http://www.fns.usda.gov/pd/SNAPsummary.htm>)
- Total Initial Claimants from Mass Layoffs (seasonally adjusted) numbered 183,038 in Feb 2008 and increased to 295,477 in Feb 2009, a 61% increase in a year, or an average monthly increase of over 9,000 a month. (Source: http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?data_tool=latest_numbers&series_id=mlsms00nn0119005)
- Total Bankruptcy Filings in 2007 numbered 850,912, while there were 1,117,771 filings in 2008, a 31.4 % increase. The average monthly increase was over 22,000 cases. (Source: <http://www.uscourts.gov/bnkrpctystats/statistics.htm#fiscal>)
- The Percent of All Loans Past Due (seasonally adjusted) increased from 4.67% (2006 Q3) to 6.99% (2008 Q3). (Source: Mortgage Banker's Association: National Delinquency Survey, March 5, 2009: <http://www.mortgagebankers.org/NewsandMedia/PressCenter/68008.htm>)
- There were 7,626,248 unemployment insurance claims in 2008 Q4, compared to 4,925,263 claims in 2007 Q4; a 55% increase.(Source: <http://workforcesecurity.doleta.gov/unemploy/content/data.asp>)
- The number of unemployed actively seeking work (seasonally adjusted) rose from 6,112,000 in Feb 2008 to 10,839,000 in Feb 2009, a 77% increase. (Source: [http://data.bls.gov/PDQ/servlet/SurveyOutputServlet;jsessionid=f0303538b3ff\\$5C\\$3F\\$3](http://data.bls.gov/PDQ/servlet/SurveyOutputServlet;jsessionid=f0303538b3ff$5C$3F$3))
- The unemployment rate is currently 8.1% (Feb, 2009), compared to 4.8% a year ago (Feb. 2008). (Source: http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?data_tool=latest_numbers&series_id=LNS1400000)

While incomes are declining, the costs of home energy utilities have risen. According to the Energy Information Administration (EIA), some utilities increased electricity rates beginning in July; more increases are expected in the upcoming months. As of September, the average U.S. residential electricity prices were projected to increase by 5.7 percent in 2008 over 2007, and by 9.5 percent in 2009 ([U.S. Residential Electricity Prices](#)). As Figure 2 shows, prices for basic goods have risen dramatically in the past five years.

Figure 2: Energy, Food and Raw Material Prices are Rising Dramatically



Rising Prices Led to Increasing Arrearages

Not surprisingly, these rising prices have led to more utility customers falling behind on their bills compared to previous years. This has led to an increase in aggregate arrearages and uncollectibles, and more customers are being disconnected. Even more disturbing is that a smaller number of accounts is being reconnected which suggests that more customers are going without service as a result of termination and thus utilities are facing an erosion of their customer base.¹

Residential electricity and gas customer payment difficulties have gotten worse. The National Energy Assistance Director's Association (NEADA) reported in August 2008 more than 15 million households were facing utility shutoffs because they could not pay their energy bill, an increase of nearly 10% over the comparable period in 2007.²

Customers in Debt and Average Arrearages

Customer debt is affected by many factors, including customer income level and ability to pay, company collection practices, and the size of customer bills. The percent of customers in debt is calculated by dividing the number of customers in debt by the total number of residential customers. Average arrearage is calculated by dividing the total dollars in debt by the number of customers in debt. The consumer must pay or make arrangement to pay the debt or face termination. Larger average arrearages may take more time for customers to pay. A company with a low percent of its residential customers in debt will experience better cash flow than one with a high percent of its residential customers in debt. High average arrearages pose more of an uncollectible risk than smaller average arrearages. Overall, the national data find:

- 22% of all electric customers were overdue as of May 1, 2008. This represents over 26.6 million consumers nationally. These consumers owed an average arrearage of \$157. This would indicate that consumers owed their utility approximately 4.2 billion dollars for unpaid electric service.
- 20.8% of all gas consumers came out of winter (5/1/08) overdue in their bills. This would represent approximately 12.4 million consumers. This is an increase from the 19.2% customers reported overdue 10/1/07. The average arrearage at winter's end was \$362 as compared to \$261 on 10/01/07. That would mean that almost 4.5 billion dollars were overdue following the winter heating season 2007-08.³

¹ 2008 National Summary Report On Utility Collections Data Prepared by the NARUC Consumer Affairs Subcommittee

² Rooney, B. "Winter heat crisis looms, little relief seen: High fuel prices and the weak economy could make heating a luxury this winter..." CNNMoney.com, Sept. 2, 2008, <http://money.cnn.com/2008/08/29/news/economy/LIHEAP/index.htm?postversion=2008090205>, last viewed 9-17-08.

³ 2008 National Summary Report NARUC

Termination and Reconnection of Service

Termination of utility service is the most serious consequence of customer nonpayment. It is also the utility’s last resort when customers fail to meet their payment obligations.

Termination of service is of particular concern because it poses serious health and safety issues not only for the individuals that are affected, but for the surrounding community. The termination rate is calculated by dividing the number of terminations by the number of customers. Reconnection of service occurs when a customer either pays his/her debt in full or makes a significant upfront payment. Nationally, the data show:

- Over 5.8 million electric households had their service terminated in 2007. This amounts to 4.8 % of all electric customers or almost 1 in 20. Of those terminated, 33% or over 1.9 million customers did not have their service restored in the reporting year.
- 3 million gas customers had their service terminated in 2007. This amounted to 5.1% of all gas customers or 1 in 20 of all gas customers. Of those terminated 56% or almost 1.7 million households were not able to have service restored.
- The 2007 gas customer termination rate of 5.1% is significantly higher than the 2001 rate of 2.5%. Over twice as many consumers were terminated in 2007 than in 2001. Electric termination rates had been stable over the same time period.
- The termination rate in 2007 was 4.0% for customers who had both electric and gas service with the same utility. Of those terminated 33% were not able to have service restored.⁴

However, as Figure 3 shows, this situation is likely to get worse in the near term.

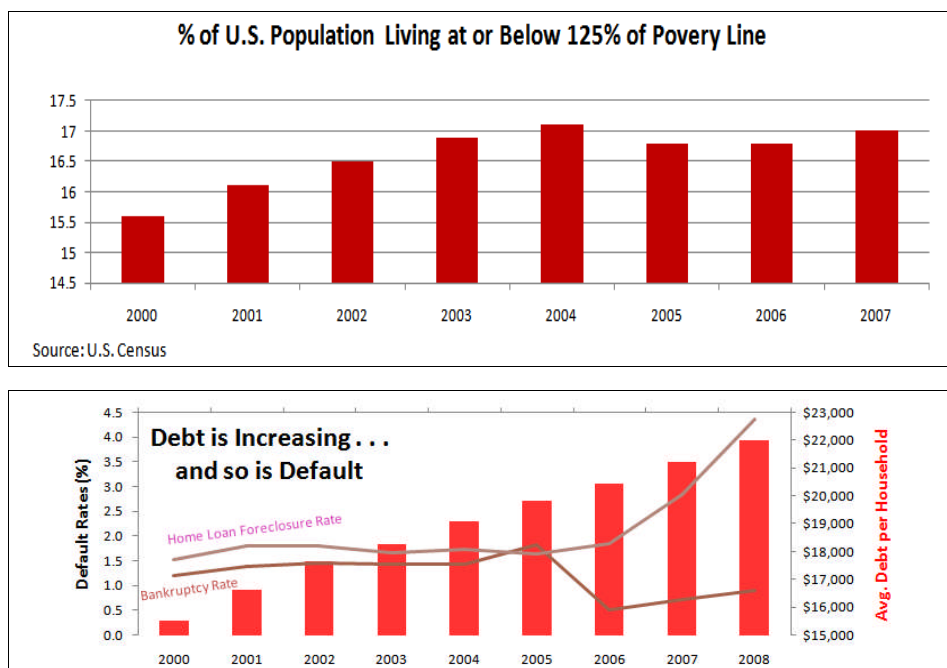


Figure 3: Recent Trends Indicate A Rise in Both Poverty and Debt

⁴ 2008 National Summary Report, NARUC

Percentage of Gross Residential Billings Written Off as Uncollectible

The percentage of residential billings written off as uncollectible is the most commonly used long-term measure of collections system performance. This measure is calculated by dividing the annual total gross dollars written off for residential accounts by the annual total dollars of residential billings. For individual consumers it generally reflects defaults when a consumer has not had service restored and the written off dollars will be pursued through the collections process. The most recent national data show the following trends:

- Electric companies wrote off 1.3% of their revenue in 2007. Write offs remained stable from 2005 to 2007.
- Nationally, natural gas companies were forced to write off 4.4% of their revenue in 2007; a significant increase compared to 2005 when 2.65% of revenue was written off.
- Customers having both services with one utility had the highest level of uncollectibles at 5.7%. This level of uncollectibles is significantly higher than the 1.1% experienced by customers in 2005. ⁵(Source: 2008 National Summary Report on Utility Collections Data Prepared by the NARUC Consumer Affairs Subcommittee).

These findings suggest that the gap between bills and ability to pay will likely continue to grow.

This trend will lead to higher bills with consumer incomes that do not keep pace with inflation. As a result, the gap between electricity bills and ability to pay will likely continue to grow. This also means that arrearage problems are likely to get worse for energy companies.

III. Challenges of Identifying the New At-Risk Customer Demographic

This economic crisis has also led to the rise of a new customer class for energy companies. Traditionally, a low-income household is defined as one that is 150% above the federal poverty level. “Struggling Customers” are those with household incomes between 150% and 200% of the federal poverty guidelines. However, these customers often qualify for weatherization assistance. The newest group is now the “At-Risk” customers with household incomes above the 200% federal poverty level. As Figure 4 illustrates, this customer class is growing at an alarming rate.

⁵ 2008 National Summary Report, NARUC

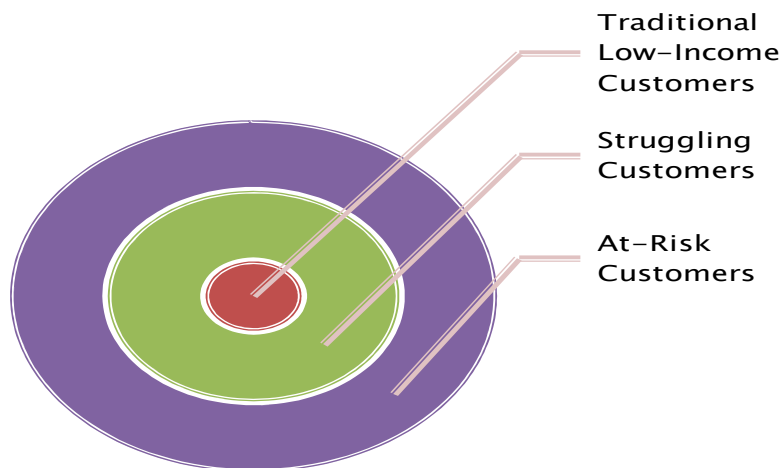


Figure 4: The Emergence of New Customer Demographics

Many of these “At-Risk” customers are for the first time having difficulty paying their bills, and meeting their household needs as they face growing rates of unemployment and credit issues. Often, these households had relied on credit cards to help ease their financial burdens and have now become overwhelmed with both credit and housing debt. Unfortunately, these households do not qualify for the traditional low-income programs, or for financial payment assistance.

The emergence of this customer group is also having a negative impact on energy companies’ long-term revenue. It is also often difficult to identify “Struggling and At-Risk” customers before they are terminated for service.

At the recent Edison Electric Institute (EEI) Critical Issue Policy Forum,⁶ EEI members said they lack many of the indicators that help to identify “At Risk” customers. Many of these customers do not ask for help because they are uncomfortable or embarrassed. It is also difficult to differentiate those customers who are truly in need from those that have historically taken advantage of the system. Furthermore, there is often a lack of communication between the customer and the utility regarding payment options that may be available.

Some of the challenges facing energy companies are summarized in the following examples, which illustrate that the growth of “At Risk” customers affect energy companies across the United States.

- Central Maine Power Company – 537,000 residential customers have not paid anything on their bills – a 4% increase in unpaid accounts from 2007.
- Wisconsin Public Service – 12%-15% of its 500,000 residential customers have past-due bills – up 5% from 2007.
- Xcel Energy – 17%-19% of its 1.1 million Minnesota customers and 280,000 Wisconsin customers are in arrears, with balances owed up 10% in Minnesota and up 20% in Wisconsin.
- Northeast Utilities, which owns electric and gas utilities in New Hampshire, Massachusetts and Connecticut, is carrying about \$15 million of unpaid bills currently, up from about \$11 million this time last year and about \$8 million in 2006.

⁶ EEI Critical Issue Policy Forum was held October 1-2 in New Orleans, LA

- PECO Corp., a Philadelphia utility, racked up an additional \$37 million of bad-debt expenses from unpaid bills in its third quarter, compared with the third quarter of 2007, bringing its total unpaid balance to \$56 million.⁷
- A record \$40 million was owed by 226,670 delinquent customers of rate-regulated utilities in Iowa.⁸

Utilities also face competing priorities. Utilities have to balance their responsibilities to its shareholders with their concerns for customers who are struggling to pay their bills. This is becoming even more difficult as the number of utility service cut-offs continues to rise. So what used to be a mainly limited to a low-income issue has now emerged as an overall customer service issue.

The government agencies, commissions, and legislatures are also facing resource constraints. As of now, there has not been a comprehensive approach taken by either regulators or utilities that both balance the utility's need to operate a business while also address the problem of increasing numbers of customers who cannot afford basic utility services. While political pressure has increased in some regions of the country to solve this problem, fundamental barrier remains – where will the funds for additional programs come from?

IV. Proactive Solutions for New Customer Demographics

Several energy companies have already started tackling this difficult problem. They have implemented a combination of the following strategies to help reduce arrearages, limit disconnections, and also find a longer-term solution to this growing crisis. These solutions are grouped around the following four strategies:

- Education and Information
- Promote Energy Efficiency
- Cultivate New Partnerships
- Leverage Existing Resources
- Adapt Existing Programs
- Invest in Valuable Partnerships

1. Provide Education and Information

The most important first step to develop an appropriate solution to meet the needs of these customers is to first “listen and learn.” Several energy companies, such as Integrys are listening to their customers who call in with “high bill complaints” and identifying them as “At Risk” customers. The call center representatives can often identify newly at-risk customers by reviewing the timeliness of past payments.

⁷Smith, R. “More Utility Bills Go Unpaid Consumers' Economic Struggles Spur More Power Shutoffs as Firms Step Up Collections,” Wall Street Journal, November 3, 2008

⁸ Kean, J. “Unpaid utility bills soar as economy sags,” USA Today, April 24, 2008.
http://www.usatoday.com/money/industries/energy/2008-04-24-shutoff_N.htm

Going one step further, Integrys also conducted an outbound campaign to inform newly identified “At-Risk” customers about opportunities for flexible payment arrangements. The company targeted customers who had begun to experience larger arrearages and who had not received federal assistance in the past. The campaign included telephone calls, bill inserts, and online content.

WE Energies also uses customer education as a proactive ways to help their customers. The utility sent out energy savings kits to customers late last year, and the company’s website features a “Managing Your Costs” area that informs customers how they can take actions to lower their bills.

In general, all energy companies need to provide basic information about all available assistance programs. For example, Entergy displays information about programs such as the Earned Income Tax Credit, which can reduce their taxes and thus help them pay their bills, on its website, through bill inserts and by providing flyers and bulletin board posters to 1,500 churches, senior centers, and nonprofit agencies in its service territory.

2. **Promote Energy Efficiency to Reduce Energy Bills**

Utilities and regulators can also work to provide customers with new tools to control their energy costs (such as Demand Side Management (DSM) and Direct Response (DR) programs). This can be achieved by utilities and regulatory agencies working together to craft policies that allow utilities to pursue energy efficiency as long-term, sustainable businesses. Many studies have shown that end use efficiency can be a less costly means to obtain electricity (and gas) end use benefits than production and delivery. Energy efficiency also has the benefit of averting production of green house gas emissions. Energy efficiency programs can provide strategies to help bridge the “affordability gap” and thus provide cost-effective returns from these initiatives.⁹ Investments in energy efficiency programs help to address both the immediate crisis facing payment-troubled households, and longer-term, will help close the gap between utility bills and disposable income.¹⁰

However, energy efficiency programs and technologies still face substantial barriers. Table 1 summarizes the types of utility energy efficiency programs or initiatives that have been developed to reduce or eliminate these market barriers.

⁹ Information on Pay As You Save ® at www.paysamerica.org

¹⁰ Summarized from Brockway, N, “Alternatives to utility administration of EE, National Regulatory Research Institute Memorandum, Aug. 2008

Table 1: Summary of Utility Energy Efficiency Strategies for Reducing Market Barriers

Energy Efficiency Programs/Initiatives	Intended Effect on Market Barrier(s)
Energy Efficiency Rebates and Grants	Reduce the first-cost premium for purchasing and installing energy efficient equipment
Private loan placement services	Reduce borrowing hassles and improve access to financing
“Leasing” portable efficiency measures (such as CFLs), with the “lease fee” on the bill.	Eliminate up-front cost, and allow customers to try out the new efficiency measure before committing to paying full cost
Energy-Efficient Mortgages	Expand access to credit for efficiency investments in homes, lower up-front cost of efficiency-treated homes, and make principal and interest payments on such homes lower than otherwise.
<p>On-the-bill financing of efficiency measures for any utility customer in good standing and installed in case of non-portable measures with:</p> <ul style="list-style-type: none"> • no money down, • measures selected such that customer enjoys net savings from the outset and pays off the cost before the end of the life of the measure • no obligation to pay for non-portable measures (e.g. high-efficiency furnace, insulation) if (a) they do not function and save energy as promised (and can’t be made to work properly) or (b) customer is no longer in premises. • Any remaining charges are not a debt to the departing customer, but an obligation attached to the meter, to be borne by the next customer. 	<p>Eliminate a customer’s up-front investment and expand access to credit for efficiency purchases</p> <p>Expand access to credit (both in amount of capital made available by financial players and in types of customers who can take advantage of the offer),</p> <p>Eliminate need to take on new long-term debt,</p> <p>Assure doubtful customers that savings will exceed payments,</p> <p>Allow utility customers to benefit from efficiency installed in premises they may not be able to stay in long enough to enjoy net savings [i.e., eliminate split incentives],</p> <p>Expand the pool of capital available on reasonable terms for efficiency.</p>
<p>On-the-bill financing for new construction –payment is made to the builder/developer of new premises in exchange for installing energy efficiency measures (e.g. to produce premises rated Energy Star® or better), the cost of which measures is added to the utility bill and reimbursed through a monthly charge, and the obligation to pay the monthly charge runs with the meter,</p>	<p>Eliminate split incentive in new construction,</p> <p>Assure that savings are enjoyed by occupant who pays for the efficiency.</p> <p>Reduce first-cost of more efficient new construction, without raising mortgage, interest and utility bills relative to premises without such measures.</p> <p>Eliminate hassle for purchaser seeking more efficient new construction.</p> <p>Prevent lost opportunity to make most cost-effective efficiency investments, at a time when premises are under construction rather than having to go back and retrofit.</p>

3. *Cultivate New Partnerships*

Although, energy companies are not in the business of providing social services, they are important and vital members of the communities in which they serve. The utility approaches vary. Some also include a combination of energy efficiency and weatherization installation measures, flexible billing arrangements, and education.

DTE Energy has incorporated the United Way's 2-1-1 telephone service that informs callers about state and local subsidy programs that are available to help utility customers experiencing difficulty paying their bills. Since the company's current technology will not allow a transfer outside the company, DTE Energy now has 2-1-1 call center agents set up in the company's contact center.

Another successful strategy that has been implemented by Entergy, Integrys, DTE Energy and others has been to partner with local churches, social service agencies, and charitable organizations such as the Salvation Army to provide a holistic response to meet "At-Risk" customers' needs.

Entergy also formed a corporate-wide team called the Low-Income Champions, made up of Entergy employees in all our states. This is similar to the approach used by DTE Energy, by staffing it with Entergy employees who are already aware of the role and abilities of the low-income advocates and agencies that serve our customers and who respected and appreciated their efforts.

In Minnesota, Integrys launched its Gas Affordability Program. This program, which is administered by the Salvation Army and funds the forgiveness of bad debt through a surcharge and matching utility funds, has collected nearly to \$250,000.

The most effective programs will provide long-range support for newly "At-Risk" customer groups—those that exist today and those that may exist in the future. Other utility approaches include:

- Hiring social workers to work with "At-Risk" customers
- Working with social service agencies to help them distribute LIHEAP funds
- Partnering with churches, civic groups, community leaders, and retailers.
- Hosting workshops and expos to educate customers about these resources.

Community outreach activities also build trust between utilities and their customers. Integrys employees, for example, volunteer to hold heating fairs in low-income neighborhoods and to meet with aldermen and other community leaders.

Kansas City Power & Light (KCP&L) has also used this economic crisis as an opportunity to expand its relationships with other community organizations and develop new partnerships. Through a new pilot program, KCP&L will offer targeted households an opportunity to receive minor repairs up to \$5,000. These minor repairs are household improvements that would not qualify for weatherization assistance and will be available to households with slightly higher income levels - at 200% above the poverty level instead of 150%. By making these repairs, then the weatherization measures become cost-effective and the households will also receive those additional energy efficiency measures. KCP&L has teamed up with local community organizations, including both traditional community action agencies as well as forging new relationships with other organizations such as Local Incentives Support Corporation (www.lisc.org). By collaborating with these organizations, KCP&L is able to leverage both weatherization dollars and also hopes to bundle in other energy assistance grants as they become available from the Department of Housing and Urban Development.

4. *Leverage Internal Resources*

Utilities are also having some success by leveraging their current resources to focus more directly at this new customer group. For example, DTE Energy has expanded its innovative Case Management Group's responsibilities to focus on "At Risk" customers instead of just the traditional low-income group. This group operates like a small social service agency within the company. The staff can make special payment arrangements. They are also familiar with the other social service agencies and can refer customers to those agencies when the need arises.

Several utilities are also focusing their internal research and analysis to better identify and understand the specific needs of the "At Risk" customer group. Entergy conducted an exhaustive three year analysis of its low-income customers to better understand the issues facing their low-income customers and trust.

5. *Adapt Existing Programs*

Integrating programs designed to assist newly at-risk customers into a utility's customer strategy is important for several reasons. By helping more customers respond to the economic crisis, companies can achieve their objective of proactive customer service while simultaneously meeting shareholder expectations and strengthening local economies.

Utilities can also develop programs similar to those in place for low-income customers. For example, these programs can offer incentives to "At-Risk" customers, for example, for each month that a customer on a payment plan pays in full, the last month's payment is deducted.

Southern California Edison (SCE) just developed its California Alternate Rates for Energy (CARE) program offers income-qualified customers a discount of 20% or more off their monthly electric bill. For families that do not qualify for the CARE program, they may qualify for the Family Electric Rate Assistance program (FERA). This plan offers a discounted rate on the monthly SCE bill for families of 3 or more who fall within the income guidelines and exceed their baseline usage by 30% or more. This innovative approach not only addresses traditional low-income households, but also extends to families that are 250% above the poverty level. This two-tiered rate is summarized in Table 2.

Table 2: SCE Income Guidelines

Maximum Household Income		
Number of Persons in Household	Total Combined Annual Income	
	CARE	FERA
1-2	up to \$30,500	Not Eligible
3	up to \$35,800	\$35,801 – \$44,800
4	up to \$43,200	\$43,201 – \$54,000
5	up to \$50,600	\$50,601 – \$63,200
6	up to \$58,000	\$58,001 – \$72,400
each additional person	\$7,400	\$ 7,400 – \$ 9,200

These income limits are effective from June 1, 2008 to May 31, 2009

Source: <http://www.sce.com/residential/income-qualified/CAREFERA/care-fera-rate-programs.htm>

6. **Invest in Valuable Partnerships**

Another approach has been to work with regulators and consumer advocates to find solutions. These activities could also include partnering with state energy offices and weatherization agencies as well as working with legislators.

For the past several years, Entergy has hosted the “Low-Income Customer Assistance Summit” which brings together utility staff with advocates for the poor, government agencies, private charitable groups, and national poverty experts to help the utility better understand the problem and develop concrete solutions. This summit formed the cornerstone of a multipoint low-income strategy with three key elements:

- Customer programs that required no changes in laws or regulations, including credit policies, contributions, employee support, and fuel funds promotions;
- Expanded advocacy for greater-and more equitable-government assistance at the federal, state, and local levels; and
- Education and communications programs to reach more low-income customers, using straight talk and information channels they prefer

Entergy also uses its Champions to build partnerships with those advocates to pursue common interests and consensus on issues like energy affordability and housing. In addition, Entergy is providing the leadership and employee support for creating “Customer Energy Assistance Program” initiatives in Louisiana, Mississippi, Arkansas, and the city of New Orleans. These are utility-incubated, coalition-supported initiatives that, if adopted by regulators, would create permanent sources of ratepayer funding to help low-income people weatherize their homes and reduce energy bills.

Entergy also worked with its state representatives to change the policy of the U.S. Department of Housing and Urban Development that discriminates against warm-weather states by ignoring the fact that hot temperatures can be as deadly as cold. Assistance for home cooling is just as necessary to the health and safety of low-income person. State and federal lobbyists also are actively involved in promoting a fair formula for warm-weather states and increases in the levels of federal funding for both LIHEAP and the Weatherization Assistance Program.

Another approach is to work more proactively with funding from both LIHEAP and other sources now available from the new stimulus package.

The Stimulus Package

President Barack Obama signed the American Recovery and Reinvestment Act of 2009 into law on February 17, 2009. Many of the provisions are only in effect for 2009 and 2010. In many cases, the funds must be spent by Sept. 30, 2010. The provisions of the stimulus that may directly benefit both low-income and at-risk customers include the following:

- Weatherization Assistance - \$5 Billion in Assisted Housing - \$6 Billion (HUD and Native American housing)
- Energy Efficiency and Conservation Block Grant Program - \$3.2 Billion
- State Energy Program - \$3.1 Billion – Conditions: States must assure DOE that they will update regulatory policies on utility efficiency programs, update building codes, and provide a plan for enforcement of codes.

LIHEAP Funding

The federal government has fully funded Low-Income Home Energy Assistance Program (LIHEAP) and now more than \$5.1 billion in energy assistance will be available to the states, tribes, territories and charitable organizations that together administer this program. As a result of this significant appropriations improvement, it is likely that at least an additional two million US households will be helped by LIHEAP.

The program's funding amounts to an increase of more than 96 percent from FY08 and states have received increases of 85 to 226 percent increases in their Base LIHEAP grant allocations. These amounts have been further augmented by the release of \$590.3 million from additional LIHEAP Contingency grants. Together, these new LIHEAP funds can be a resource to assist utilities' At-Risk customers.

In addition, the new law modified LIHEAP in several other important aspects, in that it enables states to increase their income eligibility ceiling for LIHEAP from the greater of 150% of poverty or 60% of state median income to 75% of state median income, and also carryover any funds remaining from FY08 to FY09 ¹¹

However, the future for LIHEAP funding is not assured. The President's FY 2010 Budget Blueprint proposes cutting LIHEAP from \$5.1 billion to \$3.1 billion. However, administration proposes creating a new trigger mechanism to provide automatic increases in energy assistance whenever there is a spike in energy costs. The normal appropriations process cannot always respond to the volatile energy market on a timely basis; the trigger will ensure a prompt and potentially significant increase in funds in response to a rapid future rise in costs. (Source: http://www.whitehouse.gov/omb/assets/fy2010_new_era/A_New_Era_of_Responsibility2.pdf p.70)

Therefore, it is even more important for electric and gas utilities to look for ways to maximize the opportunities that federal funding offer by:

¹¹ Source: Billions of Additional US LIHEAP Dollars are Headed to Your States – This Opportunity Warrants Close Work With Affected State/Local Agencies to Maximize Benefits to Your At-Risk Customers, EEI Action Transmittal, Oct. 2008

- *Meeting with state policymakers and LIHEAP administrators to determine funding levels and objectives:*
- *Meeting with state sub-grantees in your service territories to help them administer and distribute the funds.*
- *Identify other types of community-based organizations that have access to additional federal and state grants for weatherization and related home improvements.*

Conclusion

This white paper has identified the challenges and possible solutions to the growing issue of at-risk middle income customers. The major recommendation from this paper is to emphasize the need for utilities to take a proactive approach. They need to proactively develop and implement solutions to meet these customers' needs and utilities need to proactively communicate with regulators and legislators in order to:

- Help them see the urgency of the problem and how it is interrelated with other problems that utilities face, such as infrastructure investment and environmental remediation efforts
- Build awareness of and seek additional help for existing energy assistance funds, weatherization programs, customer education, etc.
- Educate them about the impact of policies created by outside organizations on utility customers

More importantly, each utility must develop and implement a suite of solutions that will achieve the following goals by proactively:

- Assisting communities and
- Helping customers manage their energy use.

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“Billions of Additional US LIHEAP Dollars are Headed to Your States – This Opportunity Warrants Close Work With Affected State/Local Agencies to Maximize Benefits to Your At-Risk Customers,” EEI Action Transmittal, Oct. 2008

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