

**Natural Gas**  
**Universal Service Task Force**  
**Annual Report**

**December 2002**

# TABLE OF CONTENTS

I.	Executive Summary.....	Page i
II.	Acknowledgements .....	Page ii
III.	Introduction.....	Page 1
IV.	Task Force Recommendation.....	Page 2
V.	Background.....	Page 5
	Appendix A: Program Case Studies .....	Page A-1
	Appendix B: Program Legal Bases .....	Page B-1

## I. EXECUTIVE SUMMARY

The Natural Gas Universal Service Task Force submits this Fourth Annual Natural Gas Universal Service Task Force Report in accordance with Section 2203(10) of the Natural Gas Choice and Competition Act, which provides for the Task Force to review universal service programs and their funding and issue a report to the Pennsylvania Public Utility Commission (the "Commission") and the General Assembly by December 31<sup>st</sup> of each year.

Through company-specific restructuring proceedings before the Commission, Natural Gas Distribution Companies ("NGDCs") have expanded their universal service programs. For example, as of December 31, 2001, 93,081 customers were participating in NGDCs' Customer Assistance Programs ("CAPs"), an enrollment increase of over 28% since December 2000, with continued growth expected as a result of restructuring settlements. Despite these efforts, the financial burden on low-income customers in Pennsylvania remains heavy:

- For a low-income household of three whose income is at 100 percent of the federal poverty level (or \$15,024), natural gas costs equaled 7.8% of their income. For a family with the Pennsylvania median household income of \$40,106, spending 7.8 % for natural gas would translate into paying \$3,128 annually to heat their home. In actuality, for a family making \$40,000 natural gas bills will average 2.9% of their income.
- Based on the most recent statistics available, Pennsylvania has 800,000 families living at or below 135 percent of the federal poverty level (e.g., \$24,435 for a family of four), but the federally funded Low Income Home Energy Assistance Program (commonly referred to as "the LIHEAP program") assists less than half of these families.
- The number of residential households without either gas or electric service this winter remains high. As of December 13, 2002, 11,232 households were without regulated utility service.

The need is critical and compelling. However, Pennsylvania provides no state funding for energy assistance programs.

Given the continuing financial burden faced by Pennsylvania's low-income customers, the Task Force looked at Pennsylvania NGDCs' practices to identify the most cost-effective means to provide assistance. In addition, recognizing that additional funds, other than from the NGDCs and their ratepayers, may be necessary, the Task Force reviewed universal service programs in other states.

In light of the income burdens on low-income customers and the research completed to date, the Task Force recommends that the General Assembly provide stable and permanent funds to supplement the LIHEAP program and the existing universal service programs. Providing these funds will be a first step to ensure that all Pennsylvania residents with incomes at or below 150% of the federal poverty level will receive some assistance to meet their energy needs.

## **II. ACKNOWLEDGEMENTS**

The Natural Gas Universal Service Task Force prepared this report, and it reflects a consensus of industry and consumer representatives. The Task Force wishes to acknowledge the outstanding contribution of Wayne Williams and Janice Hummel of the Commission's Bureau of Consumer Services ("BCS") for convening our meetings, facilitating our work and providing technical advice and assistance.

### **III. INTRODUCTION**

#### **A. Statutory Authority**

This report is issued by the Natural Gas Universal Service Task Force in furtherance of the mandate contained in Section 2203(10) of the Natural Gas Choice and Competition Act,<sup>1</sup> which provides that “the [Pennsylvania Public Utility Commission] shall convene a task force to review universal service programs and their funding. The task force shall issue a report to the [Commission] by December 31, 1999, and annually thereafter...” The Task Force held its first meeting on October 13, 1999.

#### **B. Composition of the Task Force**

The Task Force is currently composed of representatives of the following stakeholders and interested parties.

\$1 Energy Fund	Energy Association of Pennsylvania
Columbia Energy Services	Pennsylvania Utility Law Project
Columbia Gas of Pennsylvania	PA Weatherization and CAP Providers
Commission on Economic Opportunity	PG Energy Company
Community Action Assoc. of PA	Philadelphia Gas Works
Community Legal Services, Inc.	PPL Electric Utilities
Duke Energy Company	PUC Law Bureau
Energy Coordinating Agency of Phila.	PUC Office of Trial Staff
Equitable Gas Company	T.W. Phillips Gas and Oil Company
Industrial Energy Consumers of PA	The McFarren Group
National Fuel Gas Company	Dominion Peoples
Office of Consumer Advocate	UGI Utilities Inc.
PECO Energy Company	Westmoreland County Weatherization Program

The BCS staff does not participate as members of the Task Force; however, the Task Force asked BCS staff to facilitate the Task Force’s meetings, and BCS agreed. The Task Force is led by two co-chairs — one representing industry and one representing consumers. The co-chairs for the 2001-2002 period are Dan Regan (Energy Association of Pennsylvania) and Edward McCool (Community Legal Services).

#### **C. Meeting Schedule for 2002**

The Task Force met on the following dates in order to prepare the report. During the intervals between meetings, various subgroups met as necessary.

- February 6, 2002
- April 8, 2002
- June 5, 2002
- October 9, 2002
- November 19, 2002

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<sup>1</sup> 66 Pa. C.S. § 2203(10).

#### IV. RECOMMENDATION

***A Supplemental State Appropriation Is Crucial If Pennsylvania Is To Meet the Goals of Universal Service.***

For the reasons detailed below, the Task Force concludes that for Pennsylvania to successfully meet the objectives of universal service the Commonwealth must provide meaningful funding through supplemental state appropriations.

The paramount objectives of universal service are to provide available, safe, reliable and affordable electric and natural gas service to Pennsylvania's most vulnerable residents. These include service customers who find themselves and their families attempting to survive on extremely limited incomes due to temporary set-backs brought on by illness, or employment layoffs or more chronic and continuing economic circumstances.

Pennsylvania ratepayers already bear a significant portion of the cost of meeting these goals through their current rates. Last year, ratepayers provided over \$127.4 million to the various regulated gas and electric utilities to operate Commission-approved universal service programs.<sup>2</sup>

The LIHEAP program, the Weatherization Assistance Program and numerous non-profit and charitable endeavors also attempt to meet the increasing need. Pennsylvania's total LIHEAP budget for federal FY 02-03 is \$110.1 million, a decrease of \$14.5 million over last year and a decrease of \$60.8 million over FY 00-01. Moreover, Pennsylvania is a national leader in generating additional LIHEAP funds through leveraging programs tied to contributions from electric and gas utilities and on-profit and charitable organizations.

**Unfortunately, all of these collective efforts, taken together, do not meet the goals of Universal Service.**

##### **A. Needy Households Are Not Getting Relief**

Pennsylvania has relied exclusively on the federal LIHEAP grant to provide energy payment relief to the Commonwealth's low-income families. As a result, the Department of Public Welfare ("DPW") has limited the program to households at or below 135% of the federal poverty income guidelines and provided cash grants (averaging only \$250) to

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<sup>2</sup> Source: Universal Service Spending and Enrollment Year 2001- Bureau of Consumer Services. Spending figures for 2002 were not available at the time this report was prepared.

between 250,000 and 350,000 households each year, depending on the size of the Federal appropriation available.<sup>3</sup>

In contrast, DPW acknowledges that close to 800,000 households are living at or below 135% of the federal poverty level.<sup>4</sup> Thus, by relying solely on federal funds, Pennsylvania does not provide any energy relief to over half, and at times almost 70% of needy families as identified by DPW's particularly narrow definition of need.

The 135% eligibility threshold is a concession to exclusive reliance on federal funds, when in fact the generally accepted threshold for universal service programs is 150% of the federal poverty level.<sup>5</sup> According to the most recent estimates available, the number of Pennsylvania households at or below 149% of the federal poverty level stands at approximately 924,027.<sup>6</sup> The absence of state funding not only precludes service to the clear majority of households at or below 135% of the poverty level, it completely excludes households between 135% and 150%.

If income eligibility were set at 60% of the state median income —an allowable measure under federal regulations — the number of eligible households would swell to more than 1.3 million, and 70% of these households would have one or more vulnerable members.<sup>7</sup>

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<sup>3</sup> For recent federal fiscal years, actual households receiving LIHEAP were:

FY 1999-2000 254,665

FY 00-01 356,745

FY 01-02 351,175

Source: Pennsylvania Department of Public Welfare LIHEAP reports.

<sup>4</sup> Source: Pennsylvania State Data Center as reported by DPW to the LIHEAP Advisory Committee.

<sup>5</sup> To illustrate, 150% is the generally accepted eligibility standard for electric and natural gas utilities' universal service programs.

<sup>6</sup> Source: Pennsylvania State Data Center as reported by DPW to the LIHEAP Advisory Committee.

<sup>7</sup> Of the total of 1.3 million households, 20% (271,099) would have a person with a disability, 15% (208,091) would have one or more children under 6, and 45% (615,240) would have one or more persons over 60. Source: Low Income Home Energy Assistance Information Memorandum Transmittal No. 1, LIHEAP-IM-2002-3, November 28, 2001 -- Targeting LIHEAP Benefits To Eligible High Energy Burdened Households and Vulnerable Households.

## **B. The financial burden continues to grow**

For a three-person household, the federal poverty level of income is \$15,024. That household pays \$1172, or 7.8% of its income for natural gas service. In contrast, the same \$1172 would represent only 2.9% of the annual income of the Pennsylvania median family income, which is \$40,106 per year.

As of December 13, 2002, the number of residential households entering this current winter without essential natural gas or electric service rose to 11,232, an 18% increase over this time last year. Sixty-seven percent (7,528) of these households were without essential gas service and 33% (3,704) were without electric service. Of the households without service, 25% (2825) had incomes at or below 150% of the federal poverty level.<sup>8</sup>

## **C. Conclusion**

In the face of the significant nature of energy costs, rising layoffs and payment troubled utility customers, Pennsylvania can ill afford to sit on the sidelines. At least 80% of the state's financially neediest households face the economic burden of keeping the lights on and the house warm all by themselves.

**The unmet need is critical. The Natural Gas Universal Services Task Force calls for a meaningful appropriation of state funds as an essential first step toward the long term objective of protecting the utility service of our most vulnerable citizens.**

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<sup>8</sup> Source: Pennsylvania Public Utility Commission Press Release (December 18, 2002) [PUC Bureau of Consumer Services Releases Cold Weather Survey Results.](#)

## **V. Background**

### **A. Universal Service**

#### **1. Statutory Goal**

Section 2202 of the Act defines “universal service and energy conservation” as:

Policies, practices and services that help residential low-income retail gas customers and other residential retail gas customers experiencing temporary emergencies, as defined by the [Commission], to maintain natural gas supply and distribution services.

#### **2. Commonly Understood Objectives**

The objectives of these policies, practices, and services are to:

- Protect low-income customers’ health and safety by ensuring that natural gas service is obtained and/or maintained in accordance with the Pennsylvania Public Utility Code and Commission regulations;
- Help low-income customers to obtain and/or maintain service;
- Make available payment assistance programs to make natural gas service affordable to low-income customers;
- Assist low-income customers to conserve energy and reduce their residential natural gas bill; and
- Establish effective and efficiently operated universal service and energy conservation programs.

### **B. Universal Service Task Force**

#### **1. Mission**

The mission of the Universal Service Task Force is to:

- Review natural gas universal service programs and funding; and
- Review and consider recommendations for the General Assembly on the use of general state revenues and other nontraditional resources for universal service.

#### **2. Objectives**

The objectives of the Universal Service Task Force are to review and consider recommendations on the use of general state revenues and other resources as follows:

- To review universal service programs:
  - Provide an opportunity to exchange and advance best practices of universal service programs.

- Review current status of Public Utility Commission reports or statutes on universal service programs (includes participation, funding, design types, and eligibility).
- Explore other states' models or programs.
- To review universal service funding:
  - Review funding mechanisms (existing and other states' models).
  - Review existing funding levels (existing and other states' models).
  - Review other states' funding initiatives or attempts to fund universal service.
- To review and consider possible recommendations regarding the use of general state revenues and other resources to the General Assembly as follows:
  - Determine demographics of participants and non-participants.
  - Determine level of need and if level of need is being served.
  - Prepare a general recommendation.
  - Develop a recommendation with a detailed plan.
  - Identify the process to receive recommendation.
  - Develop need and benefit analysis to support recommendation.

## **C. Description of Universal Service Programs**

### **1. Customer Assistance Programs (CAPs)**

#### **a. Program Overview<sup>9</sup>**

CAPs provide an alternative to traditional collection methods for low-income, payment-troubled utility customers. Generally, customers enrolled in a CAP agree to make monthly payments to the utility based on household size and gross income. Customers make regular monthly payments, which may be for an amount that is less than the current bill for utility service, in exchange for continued provision of the service. Besides regular monthly payments, customers need to comply with certain responsibilities and restrictions to remain eligible for continued participation. For all utilities, customers must be at or below 150% of the federal poverty guidelines. There are no restrictions for customers living in subsidized housing. The following table shows the number of gas customers enrolled in CAP.

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<sup>9</sup> In this section, the reported participation and contribution figures for natural gas utilities and customers do not reflect the natural gas operations of PECO Energy Company. PECO provides both electric and natural gas service, and it reports its universal service figures on a consolidated basis.

<b>Total CAP Enrollment for Pennsylvania's NGDCs as of December 31, 2001</b>	92,741
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**b. Example**

A recently divorced mother, with three young children, was struggling to make ends meet when she enrolled in her utility's CAP) At enrollment, she had a \$2,204 overdue balance and was having a difficult time just providing for the basic needs of her children. After enrollment, the customer was placed on a monthly payment that allowed her to meet her current bills and pay toward her arrears. The customer was able to reduce her overdue balance to \$354. She is now employed and looks forward to "graduating" from the program. She often comments that the program was her "saving grace."

**c. Legal Basis**

CAPs follow policy statement guidelines codified at 52 Pa. Code §§ 69.261 - 69.267 (Appendix B, Exhibit 1).

**2. Customer Assistance and Referral Evaluation Services (CARES)**

**a. Program Overview**

CARES provides a cost-effective service that helps selected, payment-troubled customers maximize their ability to pay utility bills. Through its CARES representative a utility works with program participants on a personal basis to help them secure energy assistance funds and other assistance. By securing these funds, customers with special needs can maintain safe and adequate utility service. Besides directly providing assistance to needy customers, CARES representatives also perform the task of strengthening and maintaining a network of community organizations and government agencies that can provide services to the program clients. The table below shows the number of CARES participants and short-term assistance recipients.

2001	Number of CARES Participants	Short Term Assistance Recipients
Total for PA Natural Gas Distribution Companies	1,346	7,120

Each utility identifies their CARES customers differently. Generally, short-term assistance customers refer to customers that need and receive limited intervention, such as a referral to energy assistance or another community resource. "CARES

participants" are customers that receive on-going assistance from the company usually for a period between six months to two years.

**b. Example**

An 82 year old woman living with her mentally challenged 76 year old sister came into contact with the gas utility when she had a leak in her gas line. A CARES representative contacted the customer to determine whether she was income qualified for assistance through the utility's repair program. The CARES representative was able to determine that she was income qualified for a number of programs, and assisted the customer in applying for LIHEAP and in enrolling in the utility's CAP program. The customer is now in CAP and able to make her monthly payment as well as affording a line protection program for her gas and water lines.

**c. Legal Basis**

A Secretarial Letter issued by the Pennsylvania Public Utility Commission provides the basis of utility company CARES programs (Appendix B, Exhibit 2).

**3. Low Income Usage Reduction Program (LIURP)**

**a. Program Overview**

LIURP assists low-income residential customers conserve energy, which reduces their energy bills and improves their ability to pay. LIURP targets customers with annual incomes at or below 150% of the federal poverty level. Beginning in 1998, the regulations permit companies to spend up to 20% of their annual LIURP budgets on customers with incomes between 150% and 200% of the federal poverty level. LIURP places priority on the highest energy users, which offer the greatest opportunities for bill reductions. When feasible, the program targets customers with payment problems (arrearages). The program is available to both homeowners and renters. LIURP serves all housing types, including single family homes, mobile homes, and small and large multi-family residences.

Weatherization measures used to reduce consumption vary by company. These include, but are not limited to:

- Customer education
- Furnace clean and tune
- Set back thermostats
- Plastic windows
- Side-wall and attic insulation
- Caulking and weather-stripping
- Sealing of infiltration areas

The following table shows LIURP expenditures and gas customers assisted in 2000.

2001	LIURP Spending Levels	LIURP Production Levels
Total for PA Natural Gas Distribution Companies	\$6,726,165	5,456

**b. Example**

A family, living in a home built prior to the 1800's, was having trouble making ends meet. Upon contacting the universal service representative at the natural gas company, the representative noticed that the usage for the household far exceeded the average. The customer was offered assistance through the Low Income Usage Reduction Program (LIURP). Weatherization measures were provided for the household as well as an energy audit and conservation education. The family experienced a 28% reduction in gas consumption and is now able to pay the monthly bill in full.

**c. Legal Basis**

All LIURP programs follow the regulations at 52 Pa. Code, Chapter 58 (Appendix B, Exhibit 3).

**4. Utility Hardship Funds**

**a. Program Overview**

Utility-sponsored hardship funds provide cash assistance to utility customers who “fall through the cracks” of other financial programs or to those who still have a critical need for assistance after other resources have been exhausted. The funds make payments directly to companies on behalf of eligible customers.

Contributions from shareholders, utility employees and customers are the primary sources of funding for these programs. Settlements of formal complaints, overcharge settlements, off-system sales, special solicitations of business corporations and natural gas purchase arrangements with Citizens Energy Corporation expand the funding for these assistance programs.

Each fall, BCS surveys the companies with hardship funds to obtain information about their programs. The information in this section (see table below) is from the data that the companies supplied about their hardship funds.

<b>Pennsylvania NGDCs' Hardship Funds: 2001</b>				
<b>Contributions from Ratepayers and Employees</b>	<b>Contributions from Shareholders</b>	<b>Total Benefits Disbursed<sup>10</sup></b>	<b>Number of Ratepayers Receiving Grants</b>	<b>Average Grant</b>
\$860,061	\$1,432,714	\$2,452,931	9,618	\$255

**b. Example**

A low-income senior citizen, who had her service shut-off due to non-payment of bills, was able to pay enough to have service restored, but was unable to pay off the large outstanding balance. The local utility's Hardship Fund was able to assist the customer in paying the outstanding balance which allowed the customer to make current bill payments. The customer noted that the help through the Hardship Fund was a Godsend.

**c. Legal Basis**

In 1985, the Commission sent all major utilities a Secretarial Letter to urging them to develop and support hardship funds. The Commission issued another Secretarial Letter in November 1992 that recommended specific guidelines for the funds. These Secretarial Letters provide the basis of utility hardship funds (Appendix B, Exhibit 4).

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<sup>10</sup> Total benefits disbursed exceeds the combined ratepayer and shareholder contributions due to contributions from third parties and the carryforward of amounts from the previous year.

## **Appendix A: Program Case Studies**

### **1. Customer Assistance Programs (CAPs)**

A utility enrolled a customer in its CAP because she had a low income and a high overdue balance. The customer was recently divorced and she had three young children. Her overdue balance was \$2,204 when she enrolled in CAP. She was struggling just to make ends meet and was having a difficult time just providing the basics (e.g., shelter, food, medicine, and utilities) for her children. Her ex-husband refused to pay court-ordered support.

The customer now has a job and continues in CAP with a great payment history. Her monthly CAP payment is \$75 and her current balance is down to \$354. Every time she makes an on-time payment, the utility forgives a portion of her overdue balance. Her joint goal with the community-based organization that administers CAP is to “graduate” from the program at her annual re-certification review. That means she would have the ability to pay a normal budget-billing amount each month.

The caseworker who completed the enrollment for CAP noted that the customer really appreciated the program. She often comments that CAP was her “saving grace” and helped to give her direction.

### **2. Customer Assistance and Referral Evaluation Services (CARES)**

Ms. K. is 82 years old and lives with her mentally challenged 76-year old sister. In February, Ms. K thought she smelled gas and called her gas utility’s emergency number. The responding serviceman investigated and found a leak in her house (internal) line and shut her gas off for safety.

One of the utility’s CARES representatives contacted Ms. K regarding the leak. The CARES representative determined Ms. K’s income qualified her for assistance through the utility’s repair program. Ms. K and her sister stayed with a relative overnight and repairs were made the following day.

While processing the paperwork, the CARES representative noticed that Ms. K would also qualify for a LIHEAP grant as well as the utility’s CAP program and assisted her with both. During one conversation, Ms. K stated that she had considered signing up for line protection many times but felt she could not afford the additional monthly cost. As a result of enrolling in CAP, Ms. K’s budget was reduced \$36 a month which permitted her to enroll in a protection program for her gas and water lines.

### **3. Low Income Usage Reduction Program (LIURP)**

Mr. & Mrs. S live in a 3 story duplex built prior to the 1800’s. They have six children and their sole income is the wage from Mr. S’s full time job. Mrs. S called the company concerned about her heating bill. She was struggling to make ends meet on \$24,000 a year and her annual bill was over \$1800 or \$150 a month. Mrs. S was not on a payment plan and paid her budget bill monthly, but was calling to say she would not be able to continue to do so.

The call was received by a Universal Service representative who recognized that the consumption of 337 ccf per month in the winter time was much higher than the average customer. Weatherization standards generally require that if consumption is greater than 180 ccf per month during the winter, the household is eligible for weatherization.

The property's heating system and hot water tank were cleaned and tuned, an energy audit was performed, and the residents received education on conservation. A weatherization crew blew in attic insulation, installed door sweeps, repaired plaster and broken windows; and weather-stripped doors.

Since the completion of weatherization, the family experienced a 28% reduction in gas consumption. The current budget for this household is now \$75 a month. The bill continues to be paid in full and no arrearages ever accrued.

#### **4. Utility hardship funds**

A low-income senior citizen called a local community action agency seeking assistance with her energy bill. Her utility had shut off the service due to non-payment of bills. The customer managed to pay enough to get service restored, but she still had an outstanding balance.

The only income the family of two relied upon was the husband's monthly Social Security payment of \$705. They live in subsidized housing but are required to pay the entire cost of all utilities. On their fixed low income this requirement was very difficult for the family to achieve on a consistent basis.

Fortunately, the community action agency administered the local utility's hardship fund and was able to pay off the customer's outstanding balance. Since that time the family has remained current on their energy bill. The customer noted that the agency's help through the hardship fund was a Godsend for her and her husband.

**Appendix B: Program Legal Bases**

**Exhibit 1: Customer Assistance Programs (CAPs)**

**STATEMENTS OF POLICY**

**Title 52--PUBLIC UTILITIES**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**[52 PA. CODE CH. 69]**

**[29 Pa.B. 2495]**

**[M-991232]**

**Customer Assistance Program**

The Pennsylvania Public Utility Commission (Commission) on March 31, 1999, adopted a final policy statement intended to encourage the major gas and electric utilities in this Commonwealth to implement pilot customer assistance programs (CAPs) and to provide guidelines for those utilities who voluntarily implement CAPs. The contact persons are Janice Hummel, Bureau of Consumer Services, (717) 783-9088, and Rhonda Daviston, Law Bureau, (717) 787-6166.

*Commissioners Present* : John M. Quain, Chairperson; Robert K. Bloom, Vice Chairperson; David W. Rolka; Nora Mead Brownell; Aaron Wilson, Jr.

Public Meeting held  
March 31, 1999

**Order**

*By the Commission:*

On July 2, 1992, the Commission adopted a policy statement that established guidelines for CAPs. On July 25, 1992, the CAP Policy Statement became final upon publication in the *Pennsylvania Bulletin*. CAPs provide an alternative to traditional collection methods for low income, payment troubled customers. Generally, customers enrolled in a CAP agree to make monthly payments based on household family size and gross income.

The purpose of the policy statement is to encourage the major gas and electric utilities in this Commonwealth to implement pilot CAPs and to provide guidelines for those utilities who voluntarily implement CAPs. The guidelines prescribe a model CAP that is designed to be a more cost-effective approach for dealing with issues of customer inability to pay than are traditional collection methods. In these guidelines, the Commission encourages CAP funding that makes maximum use of existing low-income energy assistance programs, most notably LIHEAP. The guidelines also recommend that utilities incorporate a series of control features into their CAPs to limit program costs.

On December 3, 1996, Governor Tom Ridge signed into law, 66 Pa.C.S. §§ 2801—2812 (relating to the Electricity Generation Customer Choice and Competition Act) (act). The act revised 66 Pa.C.S. (relating to the Public Utility Code) by adding Chapter 28 (relating to restructuring of the

electric utility industry). The Commission is the agency charged with implementing the act. The act is clear in its intent that utilities are to continue, at a minimum, the protections, policies and services that now assist customers who are low-income to afford electric service. Section 2803 of the act (relating to definitions) defines universal service and energy conservation policies, as including customer assistance programs. Section 2804(9) (relating to standards for restructuring of electric industry) requires the Commission to ensure that universal service and energy conservation policies, activities and services are appropriately funded and available in each electric distribution territory.

In keeping with these provisions, on July 10, 1997, the Commission established guidelines for universal service and energy conservation programs. These guidelines give direction to electric distribution companies (EDCs) to follow when establishing, expanding or maintaining universal service and energy conservation programs. The universal service and conservation guidelines incorporate sections of the CAP Policy Statement.

Because of the experiences learned from the CAP pilots and the results of evaluations, we are revising the CAP Policy Statement. Also, in order for the Universal Service and Conservation Guidelines and the CAP Policy Statement to be consistent, we are revising 52 Chapter 69. The intent of this order is to revise the CAP Policy Statement and to publish those revisions in the *Pennsylvania Bulletin*.

### *I. Background*

Since the Commission approved the CAP Policy Statement in July 1992, 12 of 15 utilities have voluntarily implemented CAPs. Approximately 50,000 customers are enrolled in CAPs. The results of CAP impact evaluations show that participants enrolled in a CAP increase the number of payments they make while maintaining the same level of energy usage.

Utilities also submit quarterly reports to the Commission that support the finding that CAP participants make regular payments. Reports from 1995, 1996 and 1997 show that on a quarterly average, 80% of CAP participants made their monthly payments.

More importantly, the results of two impact evaluations show that CAPs support the principles found in the CAP Policy Statement, namely that an appropriately designed and well-implemented CAP, as an integrated part of a company's rate structure, is in the public interest. Further, the results show that CAPs can be a more cost effective approach for dealing with issues of customer inability to pay than traditional collection methods.

### *II. Revisions to the Design of the CAP Policy Statement*

*Definitions.* The Commission is amending this section to delete definitions that are no longer relevant and to add two definitions as a result of the act. Specifically, we are adding definitions of "alternative program designs" and "low-income payment troubled customers."

*Development and scope of CAPs.* The Commission is amending the scope of CAPs based on three factors: 1) the need exists to expand CAPs to serve the low-income population; 2) the act requires that universal service programs are appropriately funded and available in each EDC's service territory; and 3) evaluations show that CAPs are a cost-effective alternative to traditional collection policies.

The Commission is amending the development of CAP section to provide for Commission review and approval of revisions to a CAP program design.

EDCs are expanding their CAP programs to ensure that CAPs are available in each service territory. Several gas CAP programs are pilots with limited enrollment. The pilot CAPs currently

target CAP enrollment to low-income negative ability to pay customers. At a minimum, the gas pilot CAPs enroll 1,000 participants or 2% of low income negative ability to pay customers. Approximately 50,000 participants are currently enrolled in CAPs.

For the following reasons, the Commission believes that the upper limits of households Statewide who may be eligible to enroll in CAP to be around 338,000. The 1990 Census Data shows that 2,170,979 persons in this Commonwealth have incomes below 150% of the poverty level. Assuming a 2.57 average size household, we can estimate that 844,739 households are below 150% of the poverty level. The Commission's Investigation of Uncollectible Balances, at Docket No. I-900002, found that 40% (338,000) of the Commonwealth's low-income households are payment troubled. However, current participation rates for government programs such as food stamps and LIHEAP are around 50%. We would not expect every payment troubled household who is eligible for CAP to apply for enrollment. Using the 50% participation rate, we can estimate that 169,000 households may apply for CAP.

Section 2802(9) of the act (relating to declaration of policy) requires that electric service is essential to the health and well-being of residents, to public safety and to orderly economic development; and electric service should be available to all customers on reasonable terms and conditions. Section 2804(9) of the act also requires the Commission shall ensure that universal service and energy conservation policies, activities and services are appropriately funded and available in each electric distribution territory.

Further, the act defines CAPs as a component of universal service.

*CAP program funding.* The Commission is amending program funding to include a universal service funding mechanism for EDCs. This revision is consistent with section 2804(8) of the act that requires the Commission establish for each electric utility an appropriate cost recovery mechanism which is designed to fully recover the EDC's universal service and energy conservation costs over the life of these programs.

*Payment plan proposal.* Because utilities implemented pilots rather than full-scale programs, the Commission allowed utilities to test various design elements to determine the most efficient and cost-effective design for a CAP. Generally, these payment plan experiments have been successful. The Commission is amending payment plans to include plans that utilities have implemented successfully. The revisions also allow utilities to implement an alternative payment formula with Commission approval.

The Commission is also amending the payment plans to allow for an increase in the CAP payment amount. These changes allow for flexible payments that are affordable; but in most cases, CAP payments are not less than these customers have paid historically. As utilities and the Commission have gained experience from the CAP pilots, it seems that some CAP participants' payments have been set too low and could be raised without negatively influencing affordability. The Commission does not believe it is appropriate for customers, as participants of CAP, to make payments that are significantly less than what they have historically been paying. One independent evaluation found that CAP participants could afford to pay 8% of their income for gas energy. The evaluation also recommended that CAP participants whose incomes were between 51%--150% of the Federal poverty guidelines could afford to pay 10% of their income for gas energy. These amounts are considerably higher than the current CAP Policy Statement guidelines. Our goal in establishing payment ranges is to maximize customer payments, maintain affordable payments and limit the CAP credits as much as possible.

*Control features.* The Commission is amending this section to eliminate conservation incentives. The Commission included conservation incentives to limit program costs due to increases in consumption. While evaluators to date indicate that CAP participants do not abuse energy usage,

we will retain usage limits to ensure that these results are maintained. The conservation incentive has been complex and burdensome to administer.

Evaluators also had difficulty quantifying benefits directly related to conservation incentives. The conservation credits, when applied properly to a participant's bill, have been small. If eligible, participants received conservation credits yearly. However, participants had difficulty understanding the purpose and timing of the credits. The incentive is confusing to CAP participants who see a reduction in 1 month's bill. Because many utilities' payment plans are tied to usage, participants who conserve see a reduction in their bill.

The Commission is also increasing the minimum payments to reflect the changes in payment plans. The Commission has added a control feature that disallows a CAP participant from subscribing to nonbasic services that would cause an increase in monthly billing and would not contribute to bill reduction. This addition is consistent with the provisions for participants of telephone universal service programs. Telephone universal service participants may not subscribe to telephone nonbasic services such as call waiting and call forwarding. Nonbasic services that help to reduce bills may be allowable. CAP credits should not be used to pay for nonbasic services.

The Commission is changing the term "billing deficiency limit" to "maximum CAP credits." The term "billing deficiency" suggests that customers are not making their agreed upon payments. Participation in CAP requires that a customer make regular, monthly payments for the full CAP amount billed. The term "CAP credits" is more accurate in describing the difference between the amount that would have been billed at the standard residential rate and the amount billed at the CAP rate.

*Eligibility criteria.* The Commission is changing eligibility criteria from a negative ability to pay customer to a payment troubled customer. We found that determining negative ability to pay is complex, inefficient and excessively subjective to administer. A utility may choose one of four eligibility priorities for payment troubled.

*Administration.* The Commission is adding language to the outreach and intake sections that provides additional options for utilities to include in their programs. We have found that automatic referrals to CAP when a customer calls to make a payment arrangement and intake certification by government agencies are simple to administer and costeffective.

*Default provision.* The Commission believes that the consequences for nonpayment should be loss of service; therefore, we recommended that utilities return participants who do not make payments to the regular collection cycle. Prior to this revision, a utility would default a customer from the program and issue the next bill at the normal tariffed rate. The utility would not take action until that bill became past due. The changes to this section will allow a utility to immediately start the termination process. The utility will not issue a new bill. We are also adding the steps a utility should follow before defaulting a CAP participant.

We are deleting the provision that failure to apply for LIHEAP should result in dismissal. Because of the changes to LIHEAP eligibility and funding, CAP participants have difficulty meeting this provision.

*Reinstatement.* The Commission is amending this section to allow the utility the discretion to reinstate a CAP participant. Prior to this change, a utility required that a customer could not reinstate into CAP until 1 year after the dismissal date. The utility may now reinstate the customer at any time. The reinstatement should normally occur when a customer has made its missed CAP payments. If the utility has terminated the customer's service for nonpayment, the utility can reinstate the customer into CAP at the time that the customer makes payment to have service

restored. Again, we believe the consequence for failing to comply with CAP payment terms should be loss of service not loss of enrollment in CAP.

*Coordination of LIHEAP benefits.* The Commission is adding a section to allow the utility flexibility to deal with a participant who fails to apply for a LIHEAP grant.

Changes to the LIHEAP eligibility criteria make the provision increasingly difficult to administer. When the Commission approved the CAP Policy Statement, a CAP participant was eligible to receive two LIHEAP benefits in the form of cash and crisis grants. Changes to LIHEAP eligibility restrict CAP participants from receiving LIHEAP crisis benefits. Because of the difficulty a CAP participant has in obtaining LIHEAP benefits, we do not believe that utilities should automatically impose penalties on a CAP participant who does not designate a LIHEAP grant to the CAP sponsoring-utility.

However, we do believe that utilities should strongly encourage participants to apply for LIHEAP benefits. This change allows utilities the option of imposing a penalty on a CAP participant who is eligible for LIHEAP benefits but who fails to apply for those benefits.

*Evaluations.* The Commission is amending this section to allow for routine evaluations of expanded and ongoing CAPs.

*Alternative program designs.* We are changing this section to include revisions to CAP so that utilities should receive Commission approval before implementing any design changes.

The Commission reviewed and addressed comments relating to the revisions to the CAP Policy Statement as part of its order that issued guidelines for universal service and energy conservation programs. Because many interested parties have been given an opportunity to comment on the substantive revisions in the Commission order at Docket No. M-00960890F0010, we are directing that the revisions to the CAP Policy Statement shall become effective upon publication in the *Pennsylvania Bulletin*, Therefore,

*It Is Ordered That:*

1. The regulations of the Commission, 52 Pa. Code Chapter 69, are amended by amending §§ 69.261–69.265 and 69.267 to read as set forth in Annex A.
2. The Secretary shall submit this order and Annex A to the Governor's Budget Office for fiscal impact analysis.
3. The Secretary shall certify this order and Annex A and deposit them with the Legislative Reference Bureau for publication in the *Pennsylvania Bulletin*.
4. The Secretary shall serve a copy of this order, and Annex A upon all Class A electric utilities and natural gas utilities with gross intrastate annual operation revenue in excess of \$40 million, and the Office of Consumer Advocate, and the Office of Small Businesses Advocate.
5. This Policy Statement shall become effective upon publication in the *Pennsylvania Bulletin*.

JAMES J. MCNULTY,  
Secretary

**Fiscal Note:** 57-206. No fiscal impact; (8) recommends adoption.

**Annex A**

**TITLE 52. PUBLIC UTILITIES**  
**PART I. PENNSYLVANIA PUBLIC UTILITY COMMISSION**  
**Subpart C. FIXED SERVICE UTILITIES**  
**CHAPTER 69. GENERAL ORDERS, POLICY STATEMENTS**  
**AND**  
**GUIDELINES ON FIXED UTILITIES**  
**CUSTOMER ASSISTANCE PROGRAMS**

**§ 69.261. General.**

CAPs are designed as alternatives to traditional collection methods for low income, payment troubled customers. Customers participating in CAPs agree to make monthly payments based on household family size and gross income. Customers make regular monthly payments, which may be for an amount that is less than the current bill for utility service, in exchange for continued provision of the service. Class A electric utilities and natural gas utilities with gross intrastate annual operating revenue in excess of \$40 million should adopt the guidelines in §§ 69.263--69.265 (relating to CAP development; scope of CAPs; and CAP design elements) implementing residential CAPs.

**§ 69.262. Definitions.**

The following words and terms, when used in §§ 69.261, 69.263--69.267 and this section, have the following meanings, unless the context clearly indicates otherwise;

*Alternative program designs*--Program designs which include traditional utility collection methods, alternative collection approaches that do not include a CAP and CAP designs which substantially deviate from this chapter.

*CAP*--Customer Assistance Program.

*EDC*--*Electric distribution company*--The electric distribution company as defined in 66 Pa.C.S. § 2803 (relating to definitions).

*LIHEAP*--*Low Income Home Energy Assistance Program*--A Federally funded program which provides financial assistance grants to needy households for home energy bills.

*Low income customers*--A residential utility customer whose annual household gross income is at or below 150% of the Federal poverty income guidelines.

*Low-income payment troubled customers*--Low-income customers who have failed to maintain one or more payment arrangements.

**§ 69.263. CAP development.**

- (a) A utility should develop a CAP consistent with the guidelines provided in §§ 69.261, 69.262, 69.264--69.267 and this section.
- (b) The Bureau of Consumer Services will work with the utility in CAP development.

- (c) Before implementing, revising or expanding a CAP, a utility should submit its CAP proposal to the Bureau of Consumer Services for review and Commission approval of design elements. This review is not for ratemaking purposes, and the rate consequences of any CAP will be addressed within the context of subsequent Commission rate proceedings as described in § 69.266 (relating to cost recovery).

#### **§ 69.264. Scope of CAPs.**

CAPs should be targeted to low-income, payment troubled customers. The participation limit for CAP should reflect a needs assessment, consideration of the estimated number of low-income households in the utility's service territory, the number of participants currently enrolled in the pilot CAP, participation rates for assistance programs and the resources available to meet the needs of the targeted population.

#### **§ 69.265. CAP design elements.**

The following design elements should be included in a CAP:

- (1) *Program funding.* Program funding should be derived from the following sources:
  - (i) Payments from CAP participants.
  - (ii) LIHEAP grants.
  - (iii) Operations and maintenance expense reductions.
  - (iv) Universal service funding mechanism for EDCs.
- (2) *Payment plan proposal.* Generally, CAP payments for total electric and natural gas home energy should not exceed 17% of the CAP participant's annual income. The minimum payment should not be less than the guidelines in paragraph (3)(v)(A) and (B). Payment plans should be based on one or a combination of the following:
  - (i) *Percentage of income plan.* Total payment for total electric and natural gas home energy under a percentage of income plan is determined based upon a scheduled percentage of the participant's annual gross income. The participating household's gross income and family size place the family at a particular poverty level based on Federal poverty income guidelines.
    - (A) Generally, maximum payments for electric nonheating service should be within the following ranges:
      - (I) Household income between 0--50% of poverty at 2%--5% of income.
      - (II) Household income between 51--100% of poverty at 4%--6% of income.
      - (III) Household income between 101--150% of poverty at 6%--7% of income.
    - (B) Generally, maximum payments for gas heating should be within the following ranges:

- (I) Household income between 0--50% of poverty at 5%--8% of income.
    - (II) Household income between 51--100% of poverty at 7%--10% of income.
    - (III) Household income between 101--150% of poverty at 9%--10% of income.
  - (C) Generally, maximum payments for electric heating or gas heating and electric nonheating combined should not exceed the following guidelines:
    - (I) Household income between 0--50% of poverty at 7%--13% of income.
    - (II) Household income between 51--100% of poverty at 11%--16% of income.
    - (III) Household income between 101--150% of poverty at 15%--17% of income.
  - (ii) *Percentage of bill plan.* The participant's household payment contribution for total electric and natural gas home energy under a percentage of bill plan is determined using variables based on family size and income and the household's energy usage level. A participant's annual payment is calculated as a percentage of income payment and converted to a percentage of the annual bill. When a utility determines subsequent CAP payment amounts, a participant will continue to pay the same percentage of the total bill even if annual usage has changed.
  - (iii) *Rate discount.* The participant's energy usage is billed at a reduced rate.
  - (iv) *Minimum monthly payment.* The participant's payment contribution is calculated by taking the participant's estimated monthly budget billing amount and subtracting the maximum, monthly CAP credit (previously called billing deficiency).
  - (v) *Annualized, average payment.* The participant's payment contribution is calculated by determining the total amount the participant paid over the last 12 months and dividing by 12 months to determine a monthly budget.
  - (vi) *An alternative payment formula.* An alternative payment formula must be reviewed by the Bureau of Consumer Services and approved by the Commission.
- (3) *Control features.* The utility should include the following control features to limit program costs:
- (i) *Minimum payment terms.*
    - (A) A CAP participant payment for a gas heating account should be at least \$18--\$25 a month.
    - (B) A CAP participant payment for a nonheating account should be at least \$12--\$15 a month.

- (C) A CAP participant payment for an electric heating account should be at least \$30--\$40 a month.
- (ii) *Nonbasic services.* A CAP participant may not subscribe to nonbasic services that would cause an increase in monthly billing and would not contribute to bill reduction. Nonbasic services that help to reduce bills may be allowable. CAP credits should not be used to pay for nonbasic services.
- (iii) *Consumption limits.* Limits on consumption should be set at a percentage of a participant's historical average usage. A level of 110% is recommended. Adjustments in consumption should be made for extreme weather conditions through the use of weather normalization techniques.
- (iv) *High usage treatment.* Utilities should target for special treatment those participants who historically use high amounts of energy.
- (v) *Maximum CAP credits.* The annual maximum CAP credits should not exceed a total of \$1,400 per participant.
  - (A) The annual maximum CAP credits per gas heating participant should not exceed \$840.
  - (B) The annual maximum CAP credits per nonheating customer should not exceed \$560.
  - (C) The annual maximum CAP credits per electric heating participant should not exceed \$1,400.
- (vi) *Exemptions.* A utility may exempt a household from a CAP control feature if one or more of the following conditions exist:
  - (A) The household experienced the addition of a family member.
  - (B) A member of the household experienced a serious illness.
  - (C) Energy consumption was beyond the household's ability to control.
  - (D) The household is located in housing that is or has been condemned or has housing code violations that negatively affect energy consumption.
  - (E) Energy consumption estimates have been based on consumption of a previous occupant.
- (4) *Eligibility criteria.* The CAP applicant should meet the following criteria for eligibility:
  - (i) Status as a utility ratepayer or new applicant for service is verified.
  - (ii) Household income is verified at or below 150% of the Federal poverty income guidelines.
  - (iii) The applicant is a low income, payment troubled customer. When determining if a CAP applicant is payment troubled, a utility should select one of the following four options to prioritize the enrollment of eligible, payment troubled customers:

- (A) A household whose housing and utility costs exceed 45% of the household's total income. Housing and utility costs are defined as rent or mortgage/taxes and gas, electric, water, oil, telephone and sewage.
  - (B) A household who has \$100 or less disposable income after subtracting all household expenses from all household income.
  - (C) A household who has an arrearage. The utility may define the amount of the arrearage.
  - (D) A household who has received a termination notice or who has failed to maintain one payment arrangement.
- (5) *Appeal process.* The utility should establish the following appeal process for program denial:
- (i) If the CAP applicant is not satisfied with the utility's initial eligibility determination, the utility should use utility company dispute procedures in §§ 56.151 and 56.152 (relating to general rule; and contents of the utility company report).
  - (ii) The CAP applicant may appeal the denial of eligibility to the Bureau of Consumer Services in accordance with §§ 56.161--56.165 (relating to informal complaint procedures).
- (6) *Administration.* If feasible, the utility should include nonprofit community based organizations in the operation of the CAP. The utility should incorporate the following components into the CAP administration:
- (i) *Outreach.* Outreach may be conducted by nonprofit, community-based organizations and should be targeted to low income payment troubled customers. The utility should make automatic referrals to CAP when a low-income customer calls to make payment arrangements.
  - (ii) *Intake and verification.* Income verification may be completed through a certification process that is satisfactory to the utility or certification through a government agency. Intake may also be conducted by those organizations and should include verification of the following:
    - (A) Identification of the CAP applicant.
    - (B) The annual household income.
    - (C) The family size.
    - (D) The ratepayer status.
    - (E) The class of service--heating or nonheating.
  - (iii) *Calculation of payment.* Calculation of the monthly CAP payment should be the responsibility of the utility. The utility may develop a payment chart so that the assisting community-based organizations may determine payment amounts during the intake interview.
  - (iv) *Explanation of CAP.* A complete and thorough explanation of the CAP components should be provided to participants.

- (v) *Application for LIHEAP grants.* An application for LIHEAP grants, to the extent that is available, should be completed during the intake interview.
  - (vi) *Consumer education and referral.* CAP consumer education programs should include information on benefits and responsibilities of CAP participation and the importance of energy conservation. Referrals to other appropriate support services should also be a part of consumer education.
  - (vii) *Account monitoring.* Account monitoring should include both payment and energy consumption monitoring.
  - (viii) *Annual reapplication.* An annual process that reestablishes a participant's eligibility for CAP benefits should be required.
  - (ix) *Arrearage forgiveness.* Arrearage forgiveness should occur over a 2- to 3-year period contingent upon receipt of regular monthly payments by the CAP participant.
  - (x) *Routine management program progress reports.* Progress reports that may be used to monitor CAP administration should be prepared at regular intervals. These reports should include basic information related to the number of participants, payments and account status.
- (7) *Default provisions.* The failure of a participant to comply with one of the following should result in dismissal from CAP participation:
- (i) Failure to make payments will result in the utility returning the participant to the regular collection cycle and may lead to termination of service. By returning the customer to the regular collection cycle, the utility does not need to enter into a new payment arrangement but may begin the termination process. At a minimum, the utility should inform the participant of the consequences of defaulting from the CAP. To avoid termination of service, the CAP participant must pay the amount set forth in the termination notice prior to the scheduled termination date. This amount should generally be no more than two CAP bills.
  - (ii) Failure to abide by established consumption limits.
  - (iii) Failure to allow access or to provide customer meter readings in 4 consecutive months.
  - (iv) Failure to report changes in income or family size.
  - (v) Failure to accept budget counseling, weatherization/usage reduction or consumer education services.
  - (vi) Failure to annually verify eligibility.
- (8) *Reinstatement policy.* A customer may be reinstated into CAP at the utility's discretion.
- (9) *Coordination of energy assistance benefits.* In a CAP, the utility should include the following to coordinate a participant's energy assistance benefits between it and other utilities:
- (i) A LIHEAP grant should be designated by the participant to the utility sponsoring the CAP.

- (ii) A LIHEAP or other energy assistance grant may not be substituted for a participant's monthly payment. If the utility determines that a participant's minimum payment exceeds 17% of the household's income, additional energy assistance grants may be used to reduce the amount of the participant's monthly payment. The participant is still responsible for making the remainder of the regular monthly payment.
  - (iii) The LIHEAP grant should be applied to reduce the amount of CAP credits.
  - (iv) A utility may impose a penalty on a CAP participant who is eligible for LIHEAP benefits but who fails to apply for those benefits. A utility should use this option carefully and the penalty should not exceed the amount of an average LIHEAP cash benefit. If a customer applies for a LIHEAP benefit but directs it to another utility or energy provider, the CAP provider should not assess a penalty.
- (10) *Evaluation.* The utility should thoroughly and objectively evaluate its CAP in accordance with the following unless otherwise modified in § 54.76 (relating to evaluation reporting requirements).
- (i) *Content.* The evaluation should include both process and impact components. The process evaluation should focus on whether CAP implementation conforms to the program design and should assess the degree to which the program operates efficiently. The impact evaluation should focus on the degree to which the program achieves the continuation of utility service to CAP participants at reasonable cost levels. The impact evaluation should include an analysis of the following:
    - (A) Customer payment behavior.
    - (B) Energy assistance participation.
    - (C) Energy consumption.
    - (D) Administrative costs.
    - (E) Program costs.
  - (ii) *Time frame.* Unless otherwise modified by § 54.76, the time frame for evaluations should be as follows:
    - (A) Following the expansion of a CAP or subsequent to substantial revision of an existing CAP or alternate program design, a one-time process evaluation completed by an independent third-party should be undertaken during the middle of the second year.
    - (B) Program impacts should be evaluated by an independent third-party at no more than 6 year intervals and submitted to the Commission.
  - (iii) *Evaluation plan approval.* The utility should submit the impact evaluation plan to the Bureau of Consumer Services for review and approval.

### **§ 69.267. Alternative program designs.**

Alternative program designs that differ from §§ 69.261--69.266 and this section may reduce uncollectible balances and may provide low income, payment troubled customers with needed

assistance. These programs may be acceptable if the utility can provide support for design deviations. Before implementing an alternative program design, the utility should submit its proposal including an evaluation plan as described in § 69.265(10) (relating to CAP design elements) to the Bureau of Consumer Services for review and Commission approval.

**Exhibit 2: Customer Assistance Programs (CAPs)**

**COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
P.O. BOX 3265, HARRISBURG, PA 17120**

May 31, 1985

IN REPLY PLEASE  
REFER TO OUR FILE:  
M-840403

TO ALL CLASS A ELECTRIC & GAS COMPANIES:

Dear Sir:

In Public Session On May 24, 1985 the Commission reviewed and approved the recommendations of the Bureau of Consumer Services related to waiving late payment charges, budget counseling, and customer "Cares" positions. These are recommendations based on the report "Recommendations for Dealing with Payment Troubled Customers."

I am advising you, via this letter, that the Commission urges you to consider waiving residential late payment charges for customers with a limited ability to pay for utility services. These charges can present an insurmountable barrier to good payment for customers with limited abilities to pay.

I am also advising you that the Commission (strongly) endorses the use of budget counseling for those customers with some ability to pay and a willingness to have their financial affairs managed by a credit counseling agency. The Commission has established the following guidelines for companies in establishing or arranging for budget counseling.

1. These services should not be provided by company employees who perform responsibilities related to billing, credit or collections. Budget counseling involves close and detailed work with customers, and the existence of responsibilities in those areas could conflict with the goals of budget counseling.
2. Companies should view the fee charged by the agencies in question in light of the risk of default. Thus, a customer with a history of nonpayment represents a significant risk of loss. Thus, a fee which results in a great likelihood of good payment is a more cost effective use of resources than avoiding the fee ( and the service) and causing a high probability of default.
3. Careful attention must be paid to qualify in order for budget counseling to be productive and legitimate. Thus, companies must insure that budget counseling agencies are producing results and must be able to demonstrate this to the Commission.

I am also advising you that the Commission suggests that you consider the establishment of a customer "Cares" program to assist selected, deserving, payment troubled customers maximize their ability to meet their obligations for the payment of utility bills.

Thank you for your attention to these matters.

Very truly yours,

Jerry Rich  
Secretary

**Exhibit 3: Low Income Usage Reduction Program (LIURP)**

**TITLE 52. PUBLIC UTILITIES  
PART I. PENNSYLVANIA PUBLIC UTILITY COMMISSION  
Subpart C. FIXED SERVICE UTILITIES  
CHAPTER 58. RESIDENTIAL LOW INCOME USAGE  
REDUCTION PROGRAMS**

**§ 58.1. Purpose.**

This chapter requires covered utilities to establish fair, effective and efficient energy usage reduction programs for their low income customers. The programs are intended to assist low income customers conserve energy and reduce residential energy bills. The reduction in energy bills should decrease the incidence and risk of customer payment delinquencies and the attendant utility costs associated with uncollectible accounts expense, collection costs and arrearage carrying costs. The programs are also intended to reduce the residential demand for electricity and gas and the peak demand for electricity so as to reduce costs related to the purchase of fuel or of power and concomitantly reduce demand which could lead to the need to construct new generating capacity. The programs should also result in improved health, safety and comfort levels for program recipients.

**§ 58.2. Definitions.**

The following words and terms, when used in this chapter, have the following meanings, unless the context clearly indicates otherwise:

*Administrative costs*—Expenses not directly related to the provision of program services. The term may include salaries, fringe benefits and related personnel costs for administration, secretarial and clerical support involved in fiscal activities, planning, personnel administration, and the like; office expenses, such as rents, postage, copying and equipment; and other expenses, such as audit and evaluation expenses, advertising and insurance.

*Covered utility*—A jurisdictional electric or gas local distribution utility having sales of natural gas for purposes other than resale exceeding 10 billion cubic feet or sales of electric energy for purposes other than resale exceeding 750 million kilowatt-hours during the preceding calendar year or both.

*Eligible customer*—A low income or special needs customer who is a residential space heating customer, or a residential water heating customer, or a residential high use electric baseload customer of a covered utility.

*Energy survey*—An onsite inspection of a residential building for the purpose of determining the most appropriate usage reduction measures.

*Low income customer*—A residential utility customer with household income at or below 150% of the Federal poverty guidelines.

*Pilot program*—A program by a covered utility to develop, implement and evaluate new or innovative methods for achieving usage reduction.

*Program measures*—Installations which are designed to reduce energy consumption.

*Program services*—Services offered or performed by a covered utility or its agent under this chapter.

*Residential high use electric baseload customer*—A residential customer of a covered utility utilizing the electric service provided by the covered utility for nonspace heating or nonwater heating end uses such as lighting and major and minor appliance usage and utilizing greater than 125% of the usage of the covered utility's average residential baseload customer.

*Residential space heating customer*—A residential customer of the covered utility utilizing the electric or gas service provided by the covered utility as the primary heating source for the customer's residence. The term includes customers with gas furnaces that have historically been used for heating but may not currently be operable.

*Residential water heating customer*—A residential customer of the covered utility utilizing the electric or gas service provided by the covered utility as the primary water heating source for the customer's residence.

*Special needs customer*—A customer having an arrearage with the covered utility and whose household income is at or below 200% of the Federal poverty guidelines.

*Usage reduction education*—A group or individual presentation or workshop in which usage reduction objectives and techniques are explained.

### **§ 58.3. Establishment of residential low income usage reduction program.**

A covered utility shall establish a usage reduction program for its low income customers.

### **§ 58.4. Program funding.**

- (a) *General guidelines for gas utilities.* Annual funding for a covered natural gas utility's usage reduction program shall be at least .2% of a covered utility's jurisdictional revenues. Covered gas utilities shall submit annual program budgets to the Commission. A covered gas utility will continue to fund its usage reduction program at this level until the Commission acts upon a petition from the utility for a different funding level, or until the Commission reviews the need for program services and revises the funding level through a Commission order that addresses the recovery of program costs in utility rates. Proposed funding revisions that would involve a reduction in program funding shall include public notice found acceptable by the Commission's Bureau of Consumer Services, and the opportunity for public input from affected persons or entities.
- (b) *General guidelines for electric utilities.* A target annual funding level for a covered electric utility is computed at the time of the Commission's initial approval of the utility's proposed program. A covered electric utility shall continue funding the program at that level until the Commission acts upon a petition from the utility for a revised funding level, or until the Commission reviews the need for program services and revises the funding level through a Commission order that addresses the recovery of program costs in utility rates. Proposed funding revisions that would involve a reduction in program funding shall include public notice found acceptable by the Commission's Bureau of Consumer Services, and the opportunity for public input from affected persons or entities.
- (c) *Guidelines for revising program funding.* A revision to a covered utility's program funding level is to be computed based upon factors listed in this section. These factors are the following:

- (1) The number of eligible customers that could be provided cost-effective usage reduction services. The calculation shall take into consideration the number of customer dwellings that have already received, or are not otherwise in need of, usage reduction services.
  - (2) Expected customer participation rates for eligible customers. Expected participation rates shall be based on historical participation rates when customers have been solicited through approved personal contact methods.
  - (3) The total expense of providing usage reduction services, including costs of program measures, conservation education expenses and prorated expenses for program administration.
  - (4) A plan for providing program services within a reasonable period of time, with consideration given to the contractor capacity necessary for provision of services and the impact on utility rates.
- (d) *Pilot programs.* Covered utilities are encouraged to propose pilot programs for the development and evaluation of conservation education and other innovative technologies for achieving the purposes of residential low income usage reduction.
- (e) *Recovery of costs.*
- (1) Program expenses shall be allotted among ratepayers. The precise method of allocation between capital and expense accounts shall be determined in future rate proceedings.
  - (2) Recovery of program expenses shall be subject to Commission review of the prudence and effectiveness of a utility's administration of its low income residential usage reduction program.

### **§ 58.5. Administrative costs.**

For programs covered by § 58.4 (relating to program funding), not more than 15% of a covered utility's annual budget for its usage reduction program may be spent on administrative costs, as defined in § 58.2 (relating to definitions). The costs associated with approved pilot programs are exempt from the 15% cap.

### **§ 58.6. Consultation.**

A covered utility, when making major modifications in its program design or developing a pilot program, shall consult with persons and entities with experience in the design or administration of usage reduction programs. Consultations may typically be with past recipients of weatherization services, social service agencies, community groups, other utilities with usage reduction programs, and conservation and energy service contractors.

### **§ 58.7. Integration.**

- (a) A covered utility shall coordinate program service with existing resources in the community.
- (b) Mandatory usage reduction programs shall be designed to operate in conjunction with the covered utility's consumer services and collection programs and relevant public or private programs so that customers experiencing ability-to-pay problems are made aware of the covered utility's usage reduction program and hardship funds. The covered utility shall

provide direct assistance to low income usage reduction program participants in making application to the Low Income Home Energy Assistance Program.

- (c) Mandatory usage reduction programs shall be designed, whenever possible, to provide program services through independent agencies which have demonstrated experience and effectiveness in the administration and provision of program services. In the absence of qualified independent agencies, a covered utility electing not to provide program services directly shall solicit competitive bids for the provision of services by providers of related services, such as construction, architectural or engineering services.

#### **§ 58.8. Tenant eligibility.**

- (a) *Program measures.* An eligible customer who is a tenant shall have an equal opportunity to secure program services if the landlord has granted written permission to the tenant for the installation of program measures, and the landlord agrees, in writing, that rents will not be raised unless the increase is related to matters other than the installation of the usage reduction measures, and the tenant not evicted for a stated period of time at least 12 months after the installation of the program measures, if the tenant complies with ongoing obligations and responsibilities owed the landlord.
- (b) *Landlord contributions.* A covered utility may seek landlord contributions as long as the contributions do not prevent an eligible customer from receiving program services. Contributions from landlords shall be used by the utility as supplemental to its approved Residential Low Income Usage Program budget.

#### **§ 58.9. Program announcement.**

- (a) A covered utility shall provide notice of program activities as follows:
  - (1) The utility shall, at least annually, review its customer records to identify customers who appear to be eligible for low income usage reduction service. The utility shall then provide a targeted mass mailing to each customer identified through this procedure so as to solicit applications for consideration of program services. A copy of this notice shall also be sent to publicly and privately funded agencies which assist low income customers within the covered utility's service territory. A covered utility shall also consider providing public service announcements regarding its low income usage reduction program in local newspapers and on local radio and television.
  - (2) If available program resources exceed initial customer response, the targeted mass mailing shall be followed by a personalized letter to customers who did not respond to the mass mailing.
  - (3) If available program resources still exceed customer response, personal contact should be made with customers who have not responded to earlier program announcements.
- (b) If, after implementing notice requirements of subsection (a), additional funding resources remain, a covered utility shall send each of its residential customers notice of its usage reduction program along with a description of program services, eligibility rules and how customers may be considered for program services.

### **§ 58.10. Program announcement.**

- (a) Priority for receipt of program services shall be determined as follows:
  - (1) Among eligible customers, those with the largest usage and greatest opportunities for bill reductions relative to the cost of providing program services shall receive services first. When prioritizing eligible customers by usage level, several factors shall be considered when feasible. These factors include: the size of the dwelling, the number of occupants and the end uses of the utility service. When prioritizing eligible customers by opportunities for bill reductions, utility rate factors which may tend to limit (for example, declining block rates) or facilitate, for example, time-of-day rates or heating rates, bill reductions somewhat independently of absolute usage levels should be considered.
  - (2) Among customers with the same standing with respect to paragraph (1), those with the greatest arrearages shall receive services first. When feasible, priority should be given to customers with the largest arrearage relative to their income; for example, arrearage as a percentage of income.
  - (3) Among the customers with the same standing with respect to paragraph (2), those with incomes which place them farthest below the maximum eligibility level shall receive services first.
- (b) Covered electric utilities shall use the guidelines outlined in this section to determine the amount of annual program funding to be budgeted for usage reduction services available to residential space heating customers, residential water heating customers and residential high-use electric baseload customers.
- (c) A covered utility may spend up to 20% of its annual program budget on eligible special needs customers as defined in § 58.2 (relating to definitions).

### **§ 58.11. Energy survey.**

- (a) If an applicant is eligible to receive program services, an onsite energy survey shall be performed to determine if the installation of program measures would be appropriate. The installation of a program measure is considered appropriate if it is not already present and performing effectively and when the energy savings derived from the installation will result in a simple payback of 7 years or less. A 12-year simple payback criterion shall be utilized for the installation of side wall insulation, attic insulation, space heating system replacement, water heater replacements and refrigerator replacement when the expected lifetime of the measure exceeds the payback period.
- (b) Program funds may not be used for measures that involve fuel switching between Commission regulated utilities. This stipulation does not apply to fuel switching within a dual-fuel utility.

### **§ 58.12. Incidental repairs.**

Expenditures on program measures may include incidental repairs to the dwelling necessary to permit proper installation of the program measures or repairs to existing weatherization measures which are needed to make those measures operate effectively.

### **§ 58.13. Usage reduction education.**

- (a) *Applicability.* A covered utility shall provide usage reduction education services to program recipients so that maximum energy savings can be derived from the installation of program measures and through the modification of energy-related behavior including water consumption. Usage reduction education should also address regular utility bill payment behavior and the covered utility shall provide direct assistance to low income usage reduction program recipients in making application to secure available energy assistance funds.
- (b) *Funding level.* Expenditures for usage reduction education services shall be sufficient to provide these services to each customer who receives other program services. Usage reduction education programs that have average costs which exceed \$150 per program recipient household are to be pilot tested for 1 year during which the program will be measured for the incremental contribution to energy savings that the usage reduction education produces and the cost-effectiveness of that contribution.
- (c) *Pilot programs.* The Commission encourages covered utilities to pilot test and evaluate innovative usage reduction education approaches. Pilot programs are also encouraged that evaluate the incremental energy savings of usage reduction programs that incorporate an education component as compared to programs that do not incorporate an education component.
- (d) *Program services.* The usage reduction education services described in this chapter include activities designed to produce voluntary conservation of energy on the part of eligible customers. The activities shall include, but need not be restricted to, the following:
  - (1) *Group presentations.* Meetings involving recipients of program measures and other customers at which conservation objectives are explained and possible conservation measures are described and, when appropriate, demonstrated.
  - (2) *Workshops.* Group presentations at which, in addition to receiving explanations of conservation objectives, recipients of program measures and other customers are taught to install selected program measures.
  - (3) *In-home presentations.* Consultations held in the dwelling between a person supplying conservation education services and the occupant or owner of the dwelling. The presentations may include the explanation of conservation objectives, the participation of the owner or occupant in the installation of selected program measures or other activities designed to produce voluntary reductions in energy use by the owner or occupant.

### **§ 58.14. Program measure installation.**

- (a) *Installation.* Based on the results of the energy survey conducted under § 58.11 (relating to energy survey), a covered utility shall install or arrange for the installation of the following applicable program measures designed to reduce energy bills, usage or demand for space heating, water heating and baseload end uses:
  - (1) For residential space heating customers, applicable program measures may include the installation of insulation, furnace replacement or furnace efficiency modifications, clock thermostats, infiltration measures designed to reduce the flow of air through the building envelope or the repair or replacement of chimneys and service lines.

- (2) For residential water heating customers, program measures may include the installation of control devices on water heaters or other major appliances, rewiring to permit billing on a time of day or other off-peak rate schedule, the installation of water heater and pipe insulation and devices reducing the flow of hot water in showers, faucets or other equipment.
  - (3) For residential baseload customers, applicable program measures may include lighting efficiency modifications, refrigeration replacements or efficiency improvements, air conditioner replacements or efficiency improvements and other major appliance replacements, retrofits or efficiency improvements.
- (b) *Quality control.* A covered utility shall establish effective quality control guidelines and procedures for the installation of program measures. When a contractor is utilized, the covered utility shall schedule post-installation inspections and require a warranty covering workmanship.
- (c) *Inter-utility coordination.* Customers of covered gas utilities and covered electric utilities shall have coordinated provision of comprehensive program services.
- (1) When providing program services a covered gas utility shall address usage of electricity provided by a covered utility through the provision of electric usage reduction education, the installation of efficient lightbulbs, where appropriate, the installation of electric water heater and hot water pipe insulation where the equipment is in unheated areas and the installation of devices to reduce the flow of hot water in showers and faucets.
  - (2) When providing program services, a covered electric utility shall address usage of gas provided by a covered utility through the provision of gas usage reduction education, the installation of gas water heater and hot water pipe insulation where the equipment is in unheated areas and the installation of devices to reduce the flow of hot water in showers and faucets.
  - (3) Covered electric utilities should arrange for the bulk purchase of efficient lightbulbs at their own expense and the distribution of the lightbulbs to covered gas utilities or the gas utilities' program contractors that are providing program services in the electric utility service territory.
  - (4) A covered utility may choose to absorb in its program budget the labor and materials cost for the water heating treatments they provide under this section. An electric utility choosing not to absorb the costs may choose to bill the covered gas utility for the electric utility's cost of providing gas water heating treatments. Similarly, a gas utility choosing not to absorb the costs may choose to bill the covered electric utility for the gas utility's cost of providing electric water heater treatments. Inter-utility billing arrangements shall be stated in a contract between the two utilities which specifies costs to be covered and measures to be installed.
  - (5) Conservation education costs incurred as a result of this section are not to be included in inter-utility billing arrangements.
  - (6) Covered electric utilities shall provide training at their own expense to covered gas utility contractors and inspectors regarding the installation of electric hot water measures and the determination of appropriate installations for efficient lightbulbs. Covered gas utilities shall provide training at their own expense to covered electric utility contractors and inspectors regarding the installation of gas hot water measures.

- (7) Covered utilities are not required to track or report energy usage data associated with conservation education provided or measures installed under this section.

### **§ 58.15. Program evaluation.**

A covered utility shall be responsible for the ongoing evaluation of its program. Evaluation shall include establishing procedures for monitoring program results and evaluating program effectiveness. Procedures shall include the following:

- (1) Compiling statistical data concerning:
  - (i) The number of homes weatherized.
  - (ii) The itemized cost of conservation measures installed.
  - (iii) The total cost per home in terms of materials and labor.
  - (iv) The types of housing structures weatherized.
  - (v) Energy consumption.
  - (vi) Program recipient demographics.
  - (vii) Program recipient utility bills and account balances.
  - (viii) Program recipient utility payments.
- (2) Evaluating the energy savings and load management impacts of program services; changes in customer bills, payment behavior and account balances; and the overall quality of program services and steps being taken to improve program performance. Utilities should at least annually assess the cost-effectiveness of weatherization contractors utilized in providing program services and incorporate this information into program management decisions.
- (3) Reporting annually to the Commission regarding the findings of this evaluation.

### **§ 58.16. Advisory panels.**

- (a) *Creation.* A covered utility shall create and maintain a Usage Reduction Program Advisory Panel to provide consultation and advice to the company regarding usage reduction services.
- (b) *Membership.* No more than one representative from an organization or group may serve on a company's advisory panel. Membership of a utility's consumer advisory panel may include:
  - (1) Recipients of program measures and representatives from social service agencies, from community groups and from agencies or companies which administer or install program measures.
  - (2) Representatives from other groups or agencies which may be able to offer reasonable advice regarding usage reduction programs and services.
- (c) *Review.* The advisory panel shall be provided with usage reduction program plans and proposed changes at least 15 days prior to the submission of plans for approval by the

Commission. The panel shall report comments and exceptions to plans to the covered utility which shall provide the reports to the Commission in conjunction with the submission of the proposed plan.

- (d) *Creation of additional advisory panels.* A covered utility may create more than one advisory panel when the size of the service territory or other considerations warrant.
- (e) *Existing advisory panels.* A covered utility may use an existing customer advisory panel to satisfy this section when the membership of the panel can reasonably be expected to provide effective consultation and advice regarding usage reduction programs.

#### **§ 58.17. Regulatory review.**

A covered utility may not implement a required usage reduction program, nor subsequently significantly modify a program approved under this chapter until the utility has received Commission approval for the proposal.

#### **§ 58.18. Exemptions.**

A covered utility alleging special circumstances may petition the Commission to exempt its required usage reduction program from this chapter.

**Exhibit 4: Utility hardship funds**

**COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
P.O. BOX 3265, HARRISBURG, PA 17120**

June 26, 1985

IN REPLY PLEASE  
REFER TO OUR FILE:  
M-840403

TO ALL CLASS A ELECTRIC & GAS COMPANIES:

Dear Sir:

In Public Session on June 7, 1985, the Commission reviewed and approved the recommendations of the Bureau of Consumer Services related to utility hardship funds and a status report on the implementation of the ability to pay recommendations. These are recommendations based on the report "Recommendations for Dealing with Payment Troubled Customers."

I am advising you, via this letter, that the Commission strongly encourages you to support a hardship or fuel fund to assist needy customers in your service territory. The Commission also encourages you to seriously consider utilizing matching credits from stockholder contributions to multiply the value of customer and employee contributions, even if your hardship fund is primarily supported from overcharge settlements, off-system sales, sales to the interchange, or special fuel purchase agreements. Dollar check-off provisions for customer contributions and the active seeking of donations from the community and corporate neighbors warrant serious considerations as well.

I am also advising you that the Commission requests that you provide the Bureau of Consumer Services with a report detailing the actions you have taken regarding the following recommendations for dealing with payment troubled customers:

Service Limiters	Budget Billing "Plus"
Monthly Meter Readings	Special Payment Reminders
Monthly Collections	Waving Late Payment Charges
Credit Screening	Budget Counseling
"Soft Core" Dunning	Customer "Cares" Positions
Deposits from Existing Customers	Utility Hardship Funds

For actions which are completed, the report should explain what has been done, when action took place, and the effects of each action taken. For actions which are being planned or in the process of being implemented, the report should explain what is planned and when it will be completed. For recommendations which no action is planned, an explanation of the decision not to act should be attached.

The report should be provided to the Bureau of Consumer Services by March 7, 1986.

Thanking you in advance for your continuing cooperation, I remain,

Very truly yours,  
Jerry Rich  
Secretary

Certified Mail  
JEP:bjc