

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

IN RE:)
EXAMINATION OF THE FEASIBILITY OF)
IMPLEMENTING A DEBT FORGIVENESS)
PROGRAM)
_____)

Docket No. 3400

ADDENDUM OF RHODE ISLAND STATE ENERGY OFFICE

The Rhode Island State Energy Office (“Energy Office”) hereby submits this addendum to accompany the filing of the May 2003 Working Group Report entitled Long-Term Arrearage Management Solutions for Rhode Island (the “Plan”). The Energy Office is in general support of the programs outlined in the Plan.

Universal Service Ideal and the Plan for Long-Term Arrearage Management for Rhode Island

Prior to and during implementation of the national utility restructuring experiment, advocates from within and outside of government successfully promoted a range of programmatic and regulatory structures intended to protect low-income utility customers from high bills and loss of service. These structures included state and federal payment assistance and energy efficiency programs, and regulatory provisions pertaining to termination of service and requirements to offer payment plans to customers facing termination. Indeed, over three billion federal and non-federal dollars were devoted to low-income energy programs in 2001. In

addition, many states have adopted temporary or permanent enhancements to the existing regulatory protection structure. Some states have extended winter shutoff moratoria, and others have required more reasonable payment plan terms. Despite this funding and regulatory protection, energy burdens remain high, and large numbers of low-income customers suffer interruptions in energy and utility service.

One of the lessons learned through experience of the past three years is that the costs of high and volatile energy prices can quickly overwhelm the value of the benefits associated with energy payment assistance and efficiency programs. In light of the sweeping changes to energy and utility industries, new, and equally sweeping programmatic and regulatory structural changes are needed if low-income households are to retain long-term access to basic energy and utility services. What is needed is an “affordable energy bargain” where low-income households that make regular, affordable utility payments and participate in energy efficiency and education programs receive a basic block of service, reduce and eliminate arrearages, and are free from the threat of service termination. The Energy Office believes that key elements of such a bargain—affordable payments and means of dealing with pre-program arrears—are present in the Plan before the Commission.

Key to the Plan is a payment structure that makes sense for the individual customer. In this context, “affordability” for low-income households refers to regular monthly utility payments that result in an energy burden - the proportion of disposable income that is devoted to household energy costs – that is deemed to be affordable. The Plan provides for affordable payments by structuring rate discounts geared toward target total household energy burdens of 7% for natural gas heat customers and 6% for electric heat customers, all of whom participate in the federal Low Income Home Energy Assistance Program. In addition, the Plan provides LIHEAP participants with a one-time opportunity to have pre-program arrears forgiven, so that regular payments in the future are not made “unaffordable” through the addition of an arrearage

write-down component. For reasons described below, the Energy Office urges that the Commission adopt Plan components as a necessary first step in addressing the energy affordability gap faced by the state's low-income residents.

Essential Nature of Basic Utility Service

Courts, regulatory and legislative bodies have repeatedly acknowledged the necessity nature of basic utility service. The hardships and tragedies that occur as a result of loss of service are well known. The difficulty in low-income households of remaining debt-free, paying for basic utility service while making all other ends meet on a monthly basis is well documented. Adding to this difficulty, energy and utility industry changes have brought about high and volatile pricing from which low-income households cannot escape.

Most U.S. states have adopted a regulatory consumer protection framework that is intended to provide assurance of access to a basic level of service. The component parts of this framework include limited termination prohibitions, termination notice requirements pertaining to timing, format, and delivery of notice. In addition, in recognition of both the monopoly and the essential nature of utility distribution service, commissions around the country have provided consumers with the right to dispute their bill. Finally, many commissions have required that utilities offer customers payment plans so that they may retain access to vital service.

In addition to regulatory requirements, several state legislatures have explicitly noted the essential nature of utility service. In New Hampshire, the legislature stated that “universal Service . . . electric service is essential and should be available to all customers.”¹ In Massachusetts, the General Court noted that “Electricity service is essential to the health and well-being of all residents of the commonwealth...Affordable electric service should be available

¹ N.H. Rev. Stat. C-374-F:3(v)

to all consumers on reasonable terms and conditions.”² In Oklahoma, legislation stated that "mechanisms that enable . . . consumers with limited incomes to obtain affordable essential electric service" shall be ensured.”³ Similarly, the Maine Legislature declared that “electricity is a basic necessity to which all residents of the State should have access.”⁴ In order to assure access to essential service in Rhode Island new programmatic structures, such as those outlined in the Plan, are required to be developed and implemented.

Needs Analysis: Poverty and Energy Burdens

High, volatile energy and utility prices, which appear to be permanent features of the restructured energy landscape, cause tremendous disruption in low-income households, and impact general utility ratepayers as well. High prices bring with them excessive low-income energy burdens that run 3-4 times higher than those of the median income households.

Despite the economic boom of the 1990s, poverty in Rhode Island remains a persistent problem. As indicated in the table below, nearly 27% of the state's total population was eligible to receive energy assistance benefits (assuming program eligibility criteria currently in effect) during 1999.

² Mass. St. 1997, C-164, " 1(a), 1(b), 1(j), 1(n).

³ Okla. Stat. Tit.17'194.4.

⁴ Maine Rev. Stat. Tit. 35-A, 3214(1)

Poverty in Rhode Island

	Category Total		Cumulative Total	
	Population	Percent of Total	Population	Percent of Total
Total:	1,010,000	100.0%		
Under .50	54,366	5.4%	54,366	5.4%
50 to .74	28,571	2.8%	82,937	8.2%
75 to .99	37,611	3.7%	120,548	11.9%
1.00 to 1.24	36,056	3.6%	156,604	15.5%
1.25 to 1.49	39,038	3.9%	195,642	19.4%
1.50 to 1.74	38,488	3.8%	234,130	23.2%
1.75 to 1.84	15,890	1.6%	250,020	24.8%
1.85 to 1.99	22,152	2.2%	272,172	26.9%
2.00 and over	737,828	73.1%	1,010,000	100.0%

U.S. Census Bureau

Census 2000 – Poverty in 1999. Data Set: Census 2000 Summary File 3

The following table illustrates the relationship between income level and energy burden. Please note that the expenditure levels reflected here are based on 1999 energy prices. Energy burdens during subsequent periods of higher prices have been considerably higher than those reflected here.

Sample Rhode Island Energy Burdens

Household Type	Income	Energy Expenditure	Energy Burden
1 person household, 75% FPL	\$6645	1139.25	17.1%
Full Time Minimum Wage	\$11,440	1519	13.3%
2-person household, 150% FPL	\$17,910	1519	8.5%
3-person household, 200% FPL	\$30,040	1519	5.1%
2-person, Median Income	\$42,090	1519	3.6%

Based on 1999 Expenditures, \$5.50 minimum wage, 1999 Median Household Income as reported by the US Census Bureau, and 2002 HHS Poverty Guidelines.

Current average gas heat burden for LIHEAP participants is about 12% of household income. Add to this the average LIHEAP household electric baseload burden of nearly 5%, and the resulting average energy burden is 17%. It is clear that without effective energy affordability and arrearage management programs, thousands of low-income households in Rhode Island will be unable to pay their utility and fuel bills without foregoing other necessities. The energy and utility industries have fundamentally changed while the programmatic structure to protect vulnerable customers has not. What is needed is a new program structure that assures long-term low-income energy security and manageable energy burdens. The programs outlined in the Plan represent a first step in providing such security for participants in the state's LIHEAP.

Conclusion

Given the essential nature of basic utility service, high Rhode Island energy burdens and poverty rates and the absence of a program structure to adequately protect low-income households from the effects of high, volatile energy prices, the Energy Office recommends that the Plan's program designs be endorsed and approved by the Commission.

Dated this 18th day of June, 2003

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