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**BEFORE THE STATE OF NEW JERSEY  
OFFICE OF ADMINISTRATIVE LAW**

I/M/O THE PETITION OF PUBLIC SERVICE )  
ELECTRIC & GAS COMPANY FOR APPROVAL ) BPU DOCKET NO. GR01050328  
OF AN INCREASE IN GAS RATES AND FOR ) OAL DOCKET NO. PUC-5052-01  
CHARGES IN THE TARIFF FOR GAS SERVICE )

I/M/O THE PETITION OF PUBLIC SERVICE )  
ELECTRIC & GAS COMPANY FOR AUTHORITY ) BPU DOCKET NO. GR01050297  
TO REVISE ITS GAS PROPERTY DEPRECIATION ) OAL DOCKET NO. PUC-5016-01  
RATES )

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**DIRECT TESTIMONY OF ROGER COLTON  
ON BEHALF OF  
THE NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE**

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**BLOSSOM A. PERETZ, ESQ.  
RATEPAYER ADVOCATE**

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1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. My name is Roger Colton. My address is 34 Warwick Road, Belmont, MA 02478.

3

4 **Q. FOR WHOM DO YOU WORK AND IN WHAT CAPACITY?**

5 A. I am a principal in the firm of Fisher, Sheehan & Colton, Public Finance and General Economics  
6 (FSC). I provide technical assistance to a variety of state agencies, community-based  
7 organizations, and public utilities on rate and customer service issues involving natural gas, electric,  
8 telephone, and water/sewer utilities.

9

10 **Q. FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?**

11 A. I am testifying on behalf of the New Jersey Division of Ratepayer Advocate (Ratepayer Advocate).

12

13 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

14 A. I received a B.A. degree from Iowa State University (1972), a J.D. from the University of Florida  
15 (1981), and an M.A. (economics) from the MacGregor School, Antioch University (1993).

16

17 **Q. PLEASE DESCRIBE YOUR EXPERIENCE WITH UNIVERSAL SERVICE ISSUES.**

18 A. I have been active for 20 years in the design and implementation of universal service activities  
19 for public utilities. At present I am working with the Maryland Office of Peoples Counsel on  
20 developing appropriate payment plan responses to unpaid bills arising from high natural gas  
21 heating bills in the 2000/2001 winter heating season. I am working for the U.S. Department of  
22 Health and Human Services, which administers the Low-Income Home Energy Assistance

1 Program (LIHEAP), as well as for Oak Ridge National Laboratory, to design mechanisms to  
2 better integrate low-income fuel assistance, rate assistance, and energy efficiency programs  
3 with each other. I continue to work with the Iowa Department of Human Rights, which  
4 administers LIHEAP in that state, to improve its targeting of, and outreach for, fuel assistance  
5 benefits. I am working for the Cook County State's Attorney (Chicago) to help design  
6 payment plan initiatives to respond to current and projected high natural gas costs in Illinois.

7  
8 **Q. DO YOU WORK ONLY FOR STATE AGENCIES AND COMMUNITY BASED**  
9 **ORGANIZATIONS?**

10 A. No. At present I am employed by Entergy Services Corporation (serving a four state Southern  
11 region) to help it develop appropriate responses to nonpayment. In the past year, I have worked  
12 directly for Duquesne Light Company (Pittsburgh) as well as for Public Service Company of  
13 Colorado on various aspects of low-income payment problems. I am also now working for  
14 Missouri Gas Energy (MGE) to help that company implement its experimental low-income rate  
15 tariff.

16  
17 **Q. HAVE YOU EVER PREVIOUSLY TESTIFIED BEFORE THE NEW JERSEY BOARD?**

18 A. Yes. I have testified before the New Jersey Board of Public Utilities (Board or BPU) on numerous  
19 occasions regarding universal service for telephone, natural gas and electric companies. I have  
20 appended a list of proceedings in which I have testified as Attachment 1.

21

1 **Q. HAVE YOU EVER PUBLISHED ON UNIVERSAL SERVICE ISSUES?**

2 A. Yes. I have included a list of my publications in Attachment 1 as well.

3

4 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY TODAY.**

5 A. The purpose of my testimony is to consider the universal service aspects of the request of Public  
6 Service Electric & Gas Company (PSE&G) for increased gas rates. I will outline the specific  
7 components of a universal program for PSE&G. I will also outline how and why a universal  
8 service program will generate cost offsets, as well as costs, for a public utility such as PSE&G.

9

10 More specifically, my testimony will recommend that the Board fully implement a universal  
11 service fund for both electric and natural gas utilities, including PSE&G. I conclude that  
12 PSE&G should implement a universal service program with the following components:

- 13 ➤ A rate affordability component.
- 14 ➤ An arrearage forgiveness component.
- 15 ➤ An energy efficiency component.
- 16 ➤ A crisis intervention component.
- 17 ➤ An assistance in aggregation program.
- 18 ➤ Customer information initiatives.

1 In addition, PSE&G should implement a reporting mechanism to track indicators of the  
2 effectiveness of the universal service program, as well as a reporting mechanism to track the  
3 impacts of retail energy competition on low-income customers.  
4

5 **Q. WHY SHOULD THE BOARD CONSIDER UNIVERSAL SERVICE ISSUES IN THIS**  
6 **RATE PROCEEDING?**

7 A. Low-income customers have absorbed particularly high natural gas rate increases during the past  
8 year. According to the Company's own information, a customer with average consumption has  
9 seen annual bill increase from \$695.63 in June 2000 to \$933.45 in June 2001. The \$237.82 bill  
10 increase represents a bill hike of 34.19 percent. While the Division of Ratepayer Advocate is  
11 recommending a decrease in base rates in this proceeding, continuing high commodity costs are  
12 placing unreasonable burdens on the Company's low-income customers. These high natural gas  
13 bills once again focus attention on the need for the Board to implement New Jersey legislation  
14 mandating the creation of a universal service fund.  
15  
16  
17

18 **PART 1: LOW-INCOME CUSTOMERS AND THEIR ABILITY TO PAY**

19 **Q. IS THERE A STANDARD MEASURE OF BEING "LOW-INCOME" IN THE UNITED**  
20 **STATES?**

21 A. The most commonly used measure of low-income status is the federal Poverty Level. The Poverty  
22 Level provides a calculation of the minimum income needed to support a household, adjusted by

1 household size. A three-person household, for example, living with an annual income of \$5,000 is  
2 considered to be "poorer" than a two-person household with an annual income of \$5,000. Poverty  
3 Level figures are adjusted annually and are published by the U.S. Department of Health and  
4 Human Services. Year 2001 Poverty Levels are presented as Schedule RDC-1.

5  
6 **Q. HAVE YOU EXAMINED THE PREVALENCE OF POVERTY IN NEW JERSEY?**

7 A. Poverty is substantial in New Jersey despite the strong economy. In 1999, more than 630,000  
8 New Jersey residents lived with incomes below the federal Poverty Level. This represented  
9 nearly eight percent (7.8%) of all New Jersey residents.

10  
11 **Q. WHAT IS MEANT BY "RANGES" OF POVERTY LEVEL?**

12 A. The Poverty Level, itself, is no longer generally considered to be an accurate representation of the  
13 income needed to support a minimally adequate lifestyle. As a result, people speak in terms of  
14 "percentage of poverty level." Many public assistance programs set their income eligibility equal to  
15 150% to 200% of Poverty Level. 100% of Poverty for a one-person household is \$8,590, while  
16 150% of Poverty is \$12,885 ( $\$8,590 \times 1.5$ ). In addition, when one speaks of the population of  
17 persons who live at or below 150% of Poverty, it is clear that far more people are "below" than are  
18 "at" that specific level. Because of this, analysts consider the lower ranges of Poverty Level (e.g.,  
19 25%, 50%, 75% of Poverty Level) in order to get an accurate picture of the depth of poverty in an  
20 area.

21  
22 **Q. PLEASE DESCRIBE THE DEPTH OF POVERTY IN NEW JERSEY.**

1 A. The 1990 Census reported that nearly 1.2 million persons live with incomes at or below 175  
2 percent of the federal Poverty Level in New Jersey. Of these low-income persons, nearly 290,000  
3 live below 50% of the federal Poverty Level, while another 290,000 live between 50% and 100%  
4 of the federal Poverty Level. The distribution of New Jersey residents by Poverty Level is set out  
5 in Schedule RDC-2.

6

7 **Q. HOW MANY HOUSEHOLDS IN NEW JERSEY LIVE AT THE LOWEST INCOME**  
8 **LEVELS?**

9 A. Schedule RDC-3 presents the number of households with incomes below \$5,000 by county in  
10 New Jersey. While the most recent income data is from the 1990 Census, we know that the  
11 number of households with these low-incomes continues to remain high in New Jersey.  
12 Schedule RDC-4 for example, presents the number of New Jersey Low-Income Home Energy  
13 Assistance Program (LIHEAP) recipients by income range for the years 1990 through 1995  
14 (the last year for which data is published). LIHEAP is the federally-funded fuel assistance  
15 program. Of the roughly 165,000 New Jersey LIHEAP recipients in 1995, nearly 20% had gross  
16 annual incomes of less than \$4,000. Nearly 50% of all LIHEAP recipients had gross annual  
17 incomes of less than \$6,000.

18

19 **Q. ARE LOW-INCOME HOUSEHOLDS IN NEW JERSEY GAINING OR LOSING**  
20 **GROUND ECONOMICALLY?**

21 A. New Jersey is one of the states in this country where there is a widening income disparity gap.  
22 And that gap has accelerated in the past 15 years. From the time period 1988-1990 to 1996-

1 1998, for example, New Jersey was one of only 15 states where the bottom fifth grew poorer  
2 while the top fifth grew richer. During that time span, the poorest fifth of New Jersey  
3 households had an income growth of *minus* \$1,339 (-7.1%), while the top fifth saw their  
4 income grow by \$13,639 (9.0%). It is not simply the poor where this disparity is growing,  
5 however. During the same time period, the income of the middle fifth of households "grew"  
6 by *minus* \$1,833 (-2.9%), compared to the growth of the top fifth by \$13,639 (9.0%).  
7

8 **Q. IS UNAFFORDABILITY ONLY A LOW-INCOME PROBLEM?**

9 A. No. Schedule RDC-5 sets out the minimum monthly costs for a four person household in New  
10 Jersey (two adults with two children). As this Schedule shows, this four person family would  
11 need, on an after-tax basis, \$37,923 a year (1999\$) to maintain a subsistence budget.  
12

13 **Q. HOW DO THESE FIGURES COMPARE TO THE POVERTY LEVEL?**

14 A. The 2001 poverty level for a four-person household is \$17,650. The New Jersey cost of living is  
15 thus more than 200% of the Poverty Level. It is important to note that this budget I have identified  
16 is merely a subsistence budget. It does not meet a household's entire range of basic needs. The  
17 household cannot afford a television or any other appliance. The household purchases day care that  
18 is 30% cheaper than the statewide average. The household spends half of what the average family  
19 spends on transportation. There is no savings for repairs of a car, the home, or any appliances.  
20 There is no money for a college education or a vacation. There is certainly no savings for  
21 retirement.  
22



1 **Q. HOW DOES THIS RELATE TO NON-PUBLIC ASSISTANCE HOUSEHOLDS?**

2 A. Schedule RDC-6 presents the 20 fastest growing job sectors in New Jersey. Only five of those job  
3 sectors pay above a livable wage. In addition, 75% of the jobs with the most growth in New  
4 Jersey pay less than a livable wage; 54% of these jobs pay less than half a livable wage.

5

6 **Q. IS THERE A GENERALLY ACCEPTED MECHANISM TO USE IN MEASURING**  
7 **THE DIFFICULTY THAT LOW-INCOME CUSTOMERS HAVE IN PAYING THEIR**  
8 **HOME ENERGY BILLS?**

9 A. The generally accepted measure of inability-to-pay involves energy burden. A household's energy  
10 burden is the household energy bill divided by the household income. Energy burden is used as the  
11 measure of inability-to-pay at both the state and federal levels. LIHEAP, for example, is statutorily  
12 directed to target the highest level of benefits to households with the lowest incomes and the  
13 highest energy burdens. In addition, states such as Maine, New Hampshire, Maryland, Ohio,  
14 Colorado, and Pennsylvania all use energy burdens as the mechanism to target their rate  
15 affordability initiatives.

16

17 **Q. PLEASE CHARACTERIZE THE OVERALL ENERGY BURDEN THAT LOW-**  
18 **INCOME CUSTOMERS FACE IN THE PSE&G SERVICE TERRITORY.**

19 A. The Company's low-income customers currently bear non-sustainable energy burdens. Because of  
20 these burdens, low-income customers can be expected to experience arrears, be subject to credit  
21 and collection efforts, have their service disconnected, be forced to make unreasonable budget  
22 decisions between competing household necessities (*e.g.*, heat or eat), and be forced to engage in a

1 wide variety of dangerous and/or unhealthy activities in an effort to keep paying their utility bills.  
2 In addition, these energy burdens have been found to represent an impediment to low-income  
3 customers taking constructive actions to address their inability-to-pay.  
4

5 **Q. HAVE YOU QUANTIFIED THE ENERGY BURDEN FACING THE COMPANY'S**  
6 **LOW-INCOME CUSTOMERS?**

7 A. Schedule RDC-7 shows natural gas burdens for PSE&G's low-income customers. This Schedule  
8 shows that natural gas bills of 75% of Poverty, for example, range from 14% to 9% of income,  
9 depending on household size. Households with higher incomes have lower burdens all else equal,  
10 while households with lower incomes have higher burdens all else equal.  
11

12 **Q. IS THERE ANY LIMITATION THAT YOU WOULD PLACE ON YOUR ANALYSIS?**

13 A. The burdens that are presented in Schedule RDC-7 are only natural gas burdens. Natural gas bills,  
14 however, are not the largest part of total home energy bills for low-income households. Home  
15 heating bills tend to represent only 35% to 40% of total home energy bills. Electric bills represent  
16 the other 60% to 65%. A low-income household with a natural gas burden as low as 5%,  
17 therefore, will have a *total* home energy burden approaching 15%. These home energy burdens  
18 cannot be sustained by a low-income household.  
19

20 **Q. PLEASE EXPLAIN WHY YOU CONCLUDE THAT THESE ENERGY BURDENS ARE**  
21 **NON-SUSTAINABLE.**

1 A. According to the U.S. Department of Housing and Urban Development (HUD), a household  
2 experiencing total shelter costs in excess of 30 percent of income is likely to be over-extended.  
3 HUD defines total shelter costs to include housing (rent or mortgage) plus the cost of all utilities  
4 except telephones. As a practical matter, a consumer who pays 10 percent or more of his or her  
5 income for home energy costs is not going to experience *total* shelter costs of 30 percent or less.  
6 In addition, the Federal National Mortgage Association (FNMA or Fannie Mae) has indicated that  
7 utility bills should not generally exceed 20% of total shelter costs. Finally, the U.S. Department of  
8 Labor’s Consumer Expenditures Survey consistently finds that consumer units devote roughly  
9 20% of their shelter costs to home utilities.

10

11 Total shelter costs are in the range of 30% (or even 40%) of income yield sustainable utility  
12 burdens of from 6% (30% x 20%) to 8% (40% x 20%) of income. The natural gas burdens alone  
13 of PSE&G's low-income customers, even setting aside other utility costs such as water/sewer,  
14 often exceed these figures.

15

16 **Q. WHAT IS THE IMPACT OF BEARING A NON-SUSTAINABLE ENERGY BURDEN?**

17 A. One of the primary impacts of non-sustainable energy burdens is the nonpayment of home energy  
18 bills. While PSE&G has never examined the extent of accounts receivable associated with  
19 LIHEAP recipients who are Company customers, or of low-income customers generally,  
20 experience with other states and other utilities demonstrates quite clearly that a relationship exists  
21 between low-income status and payment troubles.

22

1 **Q. WHAT RELATIONSHIP EXISTS BETWEEN LOW-INCOME STATUS AND PAYMENT-**  
2 **TROUBLED STATUS?**

3 A. A relationship quite clearly exists between low-income status and payment troubles. One 1995  
4 Census data report, for example, found that while 9.8% of non-poor families could not pay their  
5 utility bills in full, 32.4% of poor families could not do so. According to the Census Bureau, while  
6 1.8% of non-poor families had their electric and/or natural gas service disconnected for  
7 nonpayment, 8.5% of poor families suffered this same deprivation. This disconnection ratio  
8 increased even further for welfare recipients, to 10.5%.<sup>11</sup>

9  
10 **Q. IS THE NONPAYMENT OF BILLS THE ONLY IMPACT ARISING FROM**  
11 **UNAFFORDABLE HOME ENERGY BILLS?**

12 A. No. The existence of payment problems tells not even half of the story of unaffordable utility bills.  
13 The Iowa State Department of Human Rights further documented these impacts. According to a  
14 study performed by that agency, recipients of assistance through LIHEAP exhibited the following  
15 characteristics in the 1999/2000 winter heating season as a result of unaffordable home energy  
16 bills:

- 17 • Over 12 percent went without food to pay their home heating bill. This meant skipping at  
18 least one meal a day in order to save money to pay for home heating bills.

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1 U.S. Census Bureau, *Extended Measures of Well-Being:1992*, P70-50RV (November 1995). At the time this Census Report was prepared, welfare was commonly known as Aid to Families with Dependent Children (AFDC). Pursuant to federal welfare reform legislation, the program was changed to Temporary Aid to Needy Families (TANF).

- 1 • More than one-in-five went without medical care. This may mean not seeking medical  
2 assistance when it was needed, not filling prescriptions for medicine that a doctor has  
3 prescribed, and/or not taking prescription medicines in the dosage ordered by the doctor;
- 4 • Almost 30 percent reported that they did not pay other bills, but did not elaborate as to  
5 which bills were not paid. In addition to not paying other bills, many low-income  
6 households incurred debt in order to pay both their home heating bills and other basic  
7 necessities: borrowed from friends and/or neighbors; used credit cards to pay for food and  
8 other necessities, or did not pay the heating bill.<sup>12)</sup>

9  
10 This Iowa experience has been confirmed by my own research at the national level. Because of  
11 non-sustainable bill burdens, low-income consumers can be expected to experience arrears, be  
12 subject to credit and collection efforts, have their service disconnected, be forced to make  
13 unreasonable budget decisions between competing household necessities (*e.g.*, heat or eat), and be  
14 forced to engage in a wide variety of dangerous and/or unhealthy activities in an effort to keep  
15 paying their utility bills. In addition, my research on home energy burdens found that unaffordable  
16 bills represent an impediment to low-income consumers taking constructive actions to address their  
17 inability-to-pay. I found:

18 All too frequently, the customer is faced with an immediate need (*i.e.*, bill payment by a  
19 date certain) with the available constructive responses to an inability-to-pay unable to  
20 deliver assistance either in the form, the time period, or the magnitude necessary to meet  
21 that need. Given the immediate consequences of failing to address the short-term  
22 nonpayment crisis, the customer is pushed into the negative actions identified in this  
23 research.<sup>13)</sup>

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2 Joyce Mercier, Cletus Mercier and Susan Collins (June 2000). *Iowa's Cold Winters: LIHEAP Recipient Perspective*, Iowa Department of Human Rights: Des Moines (IA).

3 See, Roger Colton (May 1999). *Measuring LIHEAP's Results: Responding to Home Energy Unaffordability*, Fisher,

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The "negative actions" identified included practices, among others, such as increasing high cost debt by purchasing food and fuel on credit cards; turning down thermostats to dangerously low temperatures; using alternate (and unsafe) energy sources for heating (such as ovens, burners, and charcoal grills); burning "alternative fuels" in fireplaces and wood stoves, including furniture, clothes, siding, used tires, doors, and woodwork; engaging in dishonest or unlawful activities, such as writing bad checks and tampering with meters; foregoing the purchase of food, medical care, dental care and medicine; and foregoing the payment of other bills (such as rent, water, and electricity).

**PART 2. A UNIVERSAL SERVICE PROGRAM FOR PSE&G.**

**A. The New Jersey Legislation.**

**Q. PLEASE DESCRIBE THE NEW JERSEY UNIVERSAL SERVICE STATUTE.**

A. New Jersey’s Electric Discount and Energy Competition Act (EDECA) provides for the creation of a Universal Service Fund (Section 12(b)). The legislation provides that the Board shall determine:

- the level of funding;
- the appropriate administration;
- the purposes and programs to be funded with monies from the fund;
- which programs should be provided as part of the provision of regulated services, which provide a public benefit;
- whether certain designated funds should be deposited in the fund; and

- 1 • whether new charges should be imposed to fund new or expanded social programs.

2 The legislation is mandatory in nature. The Universal Service Fund is "established" not merely  
3 authorized. The Fund is made "nonlapsing." The Board's tasks are stated as mandatory obligations  
4 (*i.e.*, "the Board *shall* determine"). This legislation has not yet been implemented.

5  
6 **B. The Purposes of a Universal Service Program.**

7 **Q. IN LIGHT OF THIS STATUTE, WHAT PURPOSE SHOULD A UNIVERSAL SERVICE**  
8 **PROGRAM PURSUE?**

9 A. A New Jersey universal service program should be directed toward allowing low-income  
10 consumers to obtain and maintain quality utility service at affordable prices.

11  
12 **Q. HOW DO YOU OPERATIONALIZE THE TERM "AFFORDABLE PRICE"?**

13 A. The purpose of the universal service fund is to maintain service at affordable prices. This means  
14 that the objective of a universal service program is not exclusively to remedy payment problems.  
15 The research I discussed above found that low-income consumers frequently pay unaffordable  
16 utility bills. Merely because a bill is paid does not make it "affordable." A bill may be paid because  
17 the consumer has taken only three of the five pills he or she was supposed to take during the day;  
18 because he or she is living with winter home heating set at 60° rather than 68°; because he or she is  
19 making unacceptable trade-offs between utility bill payment and the purchase of food; because he  
20 or she has shut off every room of a home except one. My research identified people who have  
21 completely turned off their water heaters, who are burning used tires as an alternative heating

1 source, and who are abandoning their homes for weeks at a time during cold weather so they can  
2 turn off their heat.

3  
4 In light of these observations, "affordable service" should be defined in the same way the Federal  
5 Communications Commission (FCC) defined the term in its May 1997 "universal service" order to  
6 implement the Telecommunications Act of 1996. The FCC decided that the concept of  
7 "affordability" includes both an "absolute" ("to have enough or the means for") and a "relative"  
8 ("to bear the cost of without serious detriment") component. According to the FCC, "both the  
9 absolute and relative components must be considered in making the affordability determination  
10 required under the statute."  
11

12 **B. The Components of a Universal Service Program.**

13 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY WITH THE NEW JERSEY**  
14 **BOARD OUTLINING WHAT THE COMPONENTS OF AN APPROPRIATE**  
15 **UNIVERSAL SERVICE PROGRAM WOULD BE?**

16 A. Yes. I filed extensive testimony on behalf of the Ratepayer Advocate in the Board's proceeding  
17 considering how to implement EDECA's mandate to create a Universal Service Fund and Universal  
18 Service programs, BPU Docket No. EX00020091. My recommendations below restate and  
19 summarize the recommendations made in that proceeding.  
20

21 **Q. WHAT DO YOU CONSIDER TO BE THE COMPONENTS OF A NEW JERSEY**  
22 **UNIVERSAL SERVICE RATE AFFORDABILITY PROGRAM?**



1 A. The initial components of a universal service rate affordability program include the following:

- 2 • Basic rate affordability assistance
- 3 • Arrearage forgiveness
- 4 • Crisis intervention assistance
- 5 • Energy efficiency assistance

6 This is not to say that the other components are any less important than these. It is simply to  
7 indicate that they are considered separately below.

8

9 **1. Rate Affordability Assistance.**

10 **Q. PLEASE OUTLINE WHAT AN APPROPRIATE RATE AFFORDABILITY**  
11 **ASSISTANCE PROGRAM WOULD INCLUDE.**

12 A. As is evident from the data above, with many low-income households, the need for cash assistance  
13 cannot be alleviated simply through reduced bills generated by improvements in energy efficiency.  
14 Efficiency standing alone cannot reduce bills sufficiently far to make them universally affordable.

15

16 **Q. PLEASE DESCRIBE HOW YOU WOULD IMPLEMENT A RATE AFFORDABILITY**  
17 **PROGRAM FOR PSE&G'S LOW-INCOME CUSTOMERS.**

18 A. I recommend the implementation of a fixed credit tariff for low-income customers. The fixed  
19 credit rate would be made available to all low-income customers whose gross household income is  
20 equal to or less than 175 percent of the federal Poverty Level.<sup>41</sup> Other customers would choose to  
21 continue to take service under the standard residential rate.<sup>45</sup>

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4 My testimony in BPU Docket EX00020091 provides a justification for extending benefits up to 200% of

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**Q. PLEASE DESCRIBE HOW THE FIXED CREDIT WOULD OPERATE.**

A. Each step in the rate calculation is explained below.

1. The first step in the fixed credit rate is to calculate an affordable customer payment. Let me illustrate using two assumptions: (1) assume the customer has an annual income of \$6,000; and (2) assume further that the affordable energy burden has been determined to be six percent (6%). The required customer payment is thus \$360. This is simply  $\$6,000 \times 6\% = \$360$ .
2. The second step is to estimate the annual household energy bill. This calculation is to be made using whatever method PSE&G *currently* uses to estimate annual bills for other purposes. I will assume for purposes of illustration that this process results in an estimated annual bill of \$600.
3. The final step is to calculate the necessary fixed credit to reduce the estimated annual bill to the affordable payment. Given an estimated annual bill of \$600 and an affordable payment of \$360, the annual fixed credit would need to be \$240 ( $\$600 - \$360 = \$240$ ). The customer's *monthly* fixed credit would be \$20 ( $\$240 / 12 = \$20$ ).

Under the fixed credit rate, the utility provides a bill equal to the standard residential rate net of the fixed credit. Monthly bills are provided through the Company's levelized budget billing plan. In the illustration above, the customer would receive a levelized monthly budget bill of \$30. The calculation is set forth in Schedule RDC-8. If a customer receives LIHEAP benefits, the fixed credit is coordinated with that program, so that the customer's total benefits are equivalent to the fixed credit amount determined as described above. The LIHEAP payment is intended to reduce the difference between the affordable bill and the actual bill, not to reduce the customer's responsibility for the affordable bill.

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5 Poverty. As I explain immediately below, however, extending benefits to increasingly high income households will yield decreasing benefits.  
Some customers will have energy bills that are sufficiently low that they would not receive fixed credits on their bills. Assume, for example, that a customer with an annual income of \$9,000 has an annual natural gas bill of \$300. Under the proposed fixed credit rate, the affordable customer payment would be \$360 ( $\$9,000 \times 4\% = \$360$ ). Since the affordable payment (\$360) exceeds the actual bill (\$300), no fixed credit would be provided (or,

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**Q. HOW DOES THE COMPANY DETERMINE THE ACTUAL INCOME OF THE CUSTOMER FOR PURPOSES OF ESTABLISHING THE FIXED CREDIT?**

A. I have found in other states, such as New Hampshire and Pennsylvania, that the most effective and cost-effective way for a utility to make this determination is to contract the process out to a third party. In Pennsylvania, the recent round of rate cases involving adoption of "universal service programs" has used a cost of \$36 per person as a reasonable compensation for this process. The \$36 figure represents a cost of \$30 per applicant, adjusted by 20% to account for those persons who do not complete the application process ( $\$30 \times 1.2 = \$36$ ).

**2. Arrearage Forgiveness.**

**Q. PLEASE OUTLINE WHAT AN ARREARAGE FORGIVENESS PROGRAM WOULD INCLUDE.**

A. Arrearage forgiveness serves to help get low-income customers "even" so they have a chance at future success in making payments. It makes no difference to have current bills be affordable if the household is subject to disconnection for preprogram arrears. In addition, it makes no sense if current bills are affordable if the total bill is unaffordable due to the payment obligation to retire past arrears.

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more accurately, a fixed credit of \$0 would be provided).

1 **Q. IS IT COMMON FOR 100% OF PREPROGRAM ARREARS TO BE FORGIVEN?**

2 A. It is common for a universal service program to require a monthly payment toward preprogram  
3 arrears. In this fashion, customers with minimum levels of payment troubles will not receive a  
4 forgiveness of their arrears. In addition, in this fashion, universal service customers will bear some  
5 responsibility for their preprogram debt.

6

7 **Q. HOW DO YOU RECOMMEND THIS CUSTOMER PAYMENT TOWARD PRE-**  
8 **PROGRAM ARREARS BE STRUCTURED?**

9 A. Rather than arbitrarily setting a dollar amount to be paid toward preprogram arrears, I recommend  
10 that the customer payment be set at a percentage of income (subject to a \$5 minimum payment).  
11 In this fashion, the payments toward preprogram arrears are explicitly tied to affordability  
12 considerations. My recommendations for other programs have set the payments toward  
13 preprogram arrears equal to two percent of household income.

14

15 **Q. DOES THIS CUSTOMER COPAYMENT TOWARD PREPROGRAM ARREARS**  
16 **HAVE ANY OTHER IMPACT?**

17 A. Yes. Because some customers will have arrears that are relatively low, the customer copayments  
18 will completely retire these arrears within one year without need of any arrearage forgiveness. The  
19 customer copayments, set at an affordable percentage of income, will prevent universal service  
20 funds from being used to retire these arrears. Assume, for example, that a customer has an arrears  
21 of \$120 and an annual income of \$7,000. This customer's affordable annual arrears copayment

1 would be \$140 ( $\$7,000 \times .02 = \$140$ ). Since the affordable annual copayment exceeds the pre-  
2 existing arrears, this customer would thus not receive an arrearage forgiveness credit.

### 3 4 **3. Energy Efficiency.**

5 **Q. WHAT DO YOU UNDERSTAND THE STATUS OF LOW-INCOME ENERGY**  
6 **EFFICIENCY IN NEW JERSEY TO BE?**

7 A. I understand that the Board has directed New Jersey utilities to pursue low-income energy  
8 efficiency investments through the Comprehensive Resource Analysis of Energy Programs (CRA)  
9 proceeding. Because of that separate order, there is no need to include energy efficiency as a  
10 separate stand-alone component of a universal service program.

11  
12 **Q. WHAT RELATIONSHIP SHOULD EXIST BETWEEN THE UNIVERSAL SERVICE**  
13 **PROGRAM AND THOSE LOW-INCOME EFFICIENCY INITIATIVES MANDATED**  
14 **BY THE CRA PROCEEDING?**

15 A. The universal service programs and low-income energy efficiency programs should operate as an  
16 integrated program. One beneficial impact of energy efficiency should be to reduce the amount of  
17 fixed credit that is needed to make up the difference between the customer's affordable rate  
18 payment and the fully-embedded bill. As a result, the intake for the low-income energy efficiency  
19 program should be integrated with the affordable rate program. Income-eligible customers on the  
20 PSE&G system should be enrolled in the fixed credit rate. Conversely, as consumers are placed on  
21 the fixed credit rate, they should also be screened for usage that would place them into a preferred  
22 status for receiving low-income energy efficiency treatment.

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**Q. WHAT DO YOU MEAN BY SCREENING FIXED CREDIT CUSTOMERS FOR USAGE TO PLACE THEM INTO A PREFERRED STATUS FOR RECEIVING EFFICIENCY TREATMENT?**

A. One targeting decision rule for the low-income energy efficiency investments should be based on a percentage of average consumption by fixed credit participants. Pursuant to such a rule, if the fixed credit customer has consumption placing himself or herself in the top level of fixed credit customers by usage, that customer would be targeted for energy efficiency treatment. A correlation can be expected between high bills and high fixed credits, though that correlation is not likely to be 100%. As a result, each dollar of reduced bill achieved through the energy efficiency investments will be a dollar of reduced expenditure to that household in fixed credits.

**4. Crisis Intervention.**

**Q. PLEASE OUTLINE WHAT A CRISIS INTERVENTION PROGRAM WOULD INCLUDE.**

A. A crisis intervention component, such as that provided through hardship funds, is a needed universal service program component. Given the income of many of the households identified above, virtually *any* energy bill will impose unaffordable burdens. The energy problems of these households are not household budgeting problems. There is, instead, an absolute mismatch between household resources and expenses. Given the energy burdens facing these households, there will be an inevitable need for a crisis intervention fund to prevent the loss of service due to inability-to-pay in some circumstances.

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The federal LIHEAP statute provides that states are to reserve "a reasonable amount" of their total LIHEAP funds for emergency crisis intervention. In complying with that statute, the State of New Jersey earmarks six percent of its overall heating assistance for those purposes. Deferring to the expertise of the LIHEAP agency in deciding what proportion of total funding is necessary to meet crisis situations, I recommend that crisis intervention funding for New Jersey be set at six percent of the total rate affordability assistance.

**5. Assistance in Aggregation.**

**Q. PLEASE OUTLINE WHAT AN ASSISTANCE IN AGGREGATION PROGRAM WOULD INCLUDE.**

A. In addition, New Jersey utilities should solicit competitive energy supplies for their low-income populations. Such efforts have been shown to reduce the cost of low-income universal service programs. Aggregation will allow customers through their aggregators to garner bargaining leverage with suppliers, to make available through aggregators a degree of market expertise not otherwise available, and to significantly reduce the high transaction costs typically associated with smaller customers.

Consider that the State of Ohio has been active in its promotion of low-income natural gas aggregation. The percentage of income payment plan (PIPP) customers of Columbia Gas, for example, were pooled together and bid out to competing suppliers. Columbia purchased the gas for its PIPP customers and retained the meter reading and billing functions. It also continued to

1 provide and charge for transportation services. Arrearages went on Columbia's books, not the  
2 supplier's. The winning bid for the Columbia Gas PIPP customers was 12 percent below  
3 Columbia's Expected Gas Cost. In a report on the initial eight months of the pilot, Columbia said  
4 that PIPP customers saved an average of 7.1 percent off the bill they otherwise would have  
5 received. (The total savings is less than 12 percent since the 12% is off the Expected Gas Cost  
6 portion of the bill, not off of the total bill.) According to state LIHEAP officials, the aggregation  
7 project works "seamlessly" with LIHEAP and PIPP. While PIPP customers still pay their required  
8 percentage of income, the lower gas price means the LIHEAP benefit goes further and more  
9 households can be served.<sup>6</sup>

10  
11 **Q. DO LOW-INCOME CONSUMERS NEED HELP IN FORMING THEIR OWN**  
12 **AGGREGATION POOLS?**

13 A. Yes. There is a need not simply to *permit* aggregation, however, but to affirmatively *encourage* it.  
14 Aggregation will be necessary to ensure that the full benefits of competition are brought to  
15 consumers. Aggregation will not just happen. Instead, specific steps need to be implemented to  
16 allow aggregation to become an important aspect of bringing competitive benefits to low-income  
17 consumers.

18  

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<sup>6</sup> LIHEAP is paid to help offset the difference between the customer's percentage of income payment and the "full" bill. If the full bill is lower, fewer LIHEAP dollars are necessary to help offset that shortfall.



1 "Aggregation" is nearly universally set forth as one of the primary "answers" available to address  
2 the concerns of low-income consumers in a competitive electric industry. Consumer aggregation  
3 is the process by which individual consumers band together to collectively purchase natural gas  
4 and/or electricity. Through aggregation, the reasoning goes, small users (including low-income  
5 customers) will be able to pool their purchasing power in order to exert the influence that might  
6 otherwise only exist for large customers.

7  
8 Aggregation will not "just happen," however. While substantial barriers face the aggregator, those  
9 barriers can be overcome with appropriate assistance. Aggregating low-income load, for example,  
10 is not a simple endeavor. Several layers of expertise are required, including: (1) an expertise to  
11 determine load characteristics for solicitations of proposals; (2) a technical expertise to review RFP  
12 responses; (3) an expertise (and experience) in contract negotiation; and (4) a legal expertise in  
13 developing and reviewing contract documents. The Minnesota state LIHEAP office released a  
14 1998 report on low-income aggregation by local LIHEAP agencies taking into account these same  
15 activities.<sup>7</sup> The purpose of the Minnesota analysis was to determine the efforts necessary for  
16 LIHEAP subgrantees to aggregate low-income clients in a competitive electric and/or natural gas  
17 industry. According to state LIHEAP officials, the LIHEAP program does not have the in-house  
18 resources to support such activities. Moreover, LIHEAP does not have the resources to *procure*  
19 the necessary expertise to successfully "aggregate."

20 **Q. WHAT IS THE APPROPRIATE UNIVERSAL SERVICE RESPONSE?**

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7 Pam Marshall and Roger Colton (1998). *Aggregating Low-Income Consumers: Can Market-Based Solutions Fix Market-Based Problems*, Energy Cents Coalition: Minneapolis (MN).

1 A. The appropriate universal service response is to fund an assistance in aggregation project as part of  
2 the universal service program. Just as many state housing agencies provide legal, technical and  
3 administrative support to negotiate housing tax credits, work through bonding requirements, and  
4 the like, an office providing aggregation assistance can help draft RFPs, analyze responses, and  
5 negotiate contract terms.

6  
7 In New York, for example, the New York State Energy Research and Development Authority  
8 (NYSERDA) administers the state System Benefits Charge (SBC) created by the New York  
9 Public Service Commission. From those SBC funds, NYSERDA has created an aggregation  
10 assistance project. Beginning in 2001, NYSERDA funded three low-income aggregation pilot  
11 projects. An additional round of funding for pilot projects is expected to occur in September 2001.

12  
13 In addition, NYSERDA has convened a technical advisory committee to help aggregators address  
14 and resolve problems that impede successful aggregation. I sit as a member of that committee. I  
15 have attached an excerpt from the “briefing packet” for the August 8, 2001 advisory committee  
16 meeting as Schedule RDC-9.

17  
18 An appropriate New Jersey state agency, with the assistance of the Ratepayer Advocate, could  
19 provide similar services. It could provide training on techniques of packaging energy projects;  
20 provide seminars and help to identify specific aggregation opportunities; assist in the development  
21 of small user aggregation entities; and help aggregators navigate the regulatory and contractual  
22 environment.

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**6. Customer Outreach and Intake.**

**Q. PLEASE OUTLINE WHAT A CUSTOMER OUTREACH AND INTAKE PROGRAM WOULD INCLUDE.**

A. My experience and research in the field of designing and delivering public assistance programs counsels that the lack of information is one of the primary barriers preventing enrollment in programs such as a universal service program. Work I did for the Colorado LIHEAP office and Colorado Energy Assistance Foundation (CEAF), for example, found such lack of information to significantly impede participation. Similar conclusions have been found by other researchers. The lack of "effective knowledge" is the primary barrier to participation in Pennsylvania's Low-Income Home Energy Assistance Program (LIHEAP).<sup>8</sup> In a study of LIHEAP participation in Pennsylvania, Penn State University's Drew Hyman found that "while most consumers indicate awareness of energy assistance, in general, their knowledge is not sufficient to allow them to act. Almost half of those who say they `know about' energy assistance cannot name a single program."

In addition, it is not simply knowledge of the program, but knowledge of the requirements of the program, which is important. I am currently working for two state LIHEAP offices to design new program outreach and targeting efforts. In that work, I have found study after study of public assistance programs (of all types: food, energy, health care) which conclude that one of the primary reasons eligible households do not participate in assistance programs is because those households

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8 Drew Hyman, *Consumer Budget Priorities and Utility Payment Problems in Pennsylvania*, prepared by Consumer Services Information System Project (Penn State University) for the Pennsylvania Public Utility Commission (1988).

1 had misperceptions regarding their eligibility for the program. Of households who think they are  
2 ineligible, some mistakenly believe that their income or assets are too high or that some other  
3 program requirement precludes their participation.

4  
5 **Q. HOW SHOULD PROGRAM OUTREACH BE STRUCTURED?**

6 A. My work on developing refined targeting and outreach mechanisms for Iowa and New  
7 Hampshire's LIHEAP programs has led to the conclusion that program outreach should occur  
8 using two different tracks, with each track based on the particular expertise that the institutions can  
9 bring to bear on outreach.

10  
11 Responsibility for the first outreach track should be assigned to the affected public utilities.  
12 Through this effort, while *eligibility* for the universal service program should be open to all low-  
13 income consumers utilities know to have income at or below 175% of the federal Poverty Level,  
14 the utility's outreach for the program should be targeted based on the following order or priority:

- 15 • A customer has been disconnected for nonpayment one or more times in the immediately  
16 preceding 12 months;
- 17  
18 • A customer has defaulted on at least one deferred payment arrangement in the immediately  
19 preceding 12 months;
- 20  
21 • A customer has failed to make full and timely payment in six or more of the immediately  
22 preceding 12 months;
- 23  
24 • A customer has failed to make full and timely payment in from three to five of the  
25 immediately preceding 12 months;
- 26  
27 • A customer has a current arrears of more than 90-days in age.
- 28

1 This first outreach track, in other words, builds upon the special knowledge that the utilities can  
2 bring to outreach efforts, i.e., the knowledge of low-income payment problems. It makes perfect  
3 sense to identify low-income payment-troubled customers and to target those customers for  
4 universal service assistance.

5  
6 As I discuss above, however, what does *not* make sense is to target payment-troubled customers  
7 exclusively, or to define eligibility in terms of payment-troubled status. Accordingly, a second  
8 outreach track should involve enlisting community-based organizations (CBOs) to help enroll  
9 customers meeting certain targeting criteria. CBOs should be paid a modest fee to perform  
10 outreach to, and enroll, low-income customers. Not only are CBOs more effective and efficient at  
11 identifying low-income customers exhibiting such characteristics, but a fee paid to such  
12 organizations represents a modest cost relative to the outreach costs that would otherwise be spent  
13 to direct information to the low-income community.

14  
15 I recommend two primary targeting criteria: (1) extremely low-incomes; and (2) extremely high  
16 (45%+) shelter burdens. I have identified a variety of organizations that can target outreach to  
17 particular population groups (e.g., disabled, elderly, school age children, non-school age children)  
18 because of the involvement of such organizations with providing different program benefits to  
19 those targeted populations.

20  
21 **Q. CAN YOU PROVIDE AN EXAMPLE OF HOW THE COMMUNITY-BASED**  
22 **NETWORK MIGHT OPERATE WITH RESPECT TO OUTREACH AND INTAKE?**

1 A. An excellent example involves the incorporation of the disability community into the universal  
2 service program. The New Jersey Department of Human Resources, Office of Disability Services,  
3 provides counseling, advocacy, intervention, and information and referral services to disabled New  
4 Jersey residents. This office represents the first call for help for many disabled consumers. It  
5 operates a statewide information and referral service for disabled persons. In addition, the office  
6 works with a statewide network serving the disability community, including twelve separate  
7 independent living facilities around the state -- despite their name, disabled persons do not live in  
8 these facilities, but rather receive services through them -- and county disability offices in 17 of  
9 New Jersey's 21 counties.

10

11 In addition to working on housing and life-skill issues, the office routinely receives inquiries from  
12 disabled customers who either cannot afford their current bills or who have accrued arrearages that  
13 threaten continued service. The funds I propose to be made available to community-based  
14 organizations serving particular populations would be ideally suited to fund, through the Office of  
15 Disability Services, in-house paid program staff to enroll appropriate disabled consumers into the  
16 universal service program. In addition, it would be appropriate to funnel disabled persons who  
17 might surface through other intake mechanisms to the Office of Disability Services for universal  
18 service intake as well as the provision of other appropriate disability-related services. The universal  
19 service fund, of course, would fund only the universal service intake process.

20

1 Other similar networks, outside the traditional fuel assistance delivery network, operate for older  
2 persons as well as for children.<sup>9\</sup>

3  
4 **Q. IS THERE ANY OTHER ASPECT TO UNIVERSAL SERVICE OUTREACH AND**  
5 **INTAKE THAT YOU RECOMMEND?**

6 A. New Jersey should use the same automatic enrollment process for its universal service  
7 program as has been adopted by utility regulators in New York and Ohio for their telephone  
8 Lifeline programs. Regulators in both of those states have adopted processes for their  
9 telephone lifeline programs, through which customers participating in designated programs  
10 are automatically enrolled in the telephone lifeline program. In directing expansion of this  
11 automatic approach to all telephone companies in 1996, the New York Public Service  
12 Commission (PSC) stated that:

13 we support the automatic enrollment/removal programs for Lifeline service being  
14 implemented by New York Telephone Company and Rochester Telephone, and we  
15 will direct staff to pursue their expansion to other companies. This program provides  
16 assistance to eligible consumers in an efficient manner and ensures that only those  
17 who are eligible continue to receive assistance.<sup>10\</sup>

18  
19 In addition, in extending a pilot program to become a permanent program for Ameritech's

20 "USA" Lifeline, the Ohio Commission explained:

21 The current pilot automatic enrollment program enrolls customers in qualifying  
22 programs (Medicaid, Food Stamps, Ohio Works First, Disability Assistance) based on  
23 data provided by the [Ohio Department of Human Services]. The current pilot  
24 program is based on a file of eligible persons supplied by ODHS using social security

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9 See, e.g., Roger Colton (September 2000). *Outreach Strategies for Iowa's LIHEAP Program: Innovation  
in Improved Targeting*, Iowa Department of Human Rights: Des Moines, Iowa.

10 New York PSC, Opinion and Order 96-13, Docket 96-13, I/M/O Issues Related to Continuing Provision of  
Universal Service and to Develop a Framework for the Transition to Competition in the Local Exchange  
Market, at 11, May 22, 1996.

1 numbers as the validation field. Ameritech performs the automatic enrollment process  
2 no less than once per quarter or within 30 days of receiving updated information from  
3 ODHS. . In addition to the statewide extension of the USA Plan 1 automatic  
4 enrollment program described above, Ameritech has also agreed to conduct a USA  
5 Plan 1 automatic enrollment pilot in an NPA, to be identified by Staff with input from  
6 the consumer groups supporting this Stipulation, that includes additional qualifying  
7 USA programs (HEAP, E-HEAP, or an equivalent successor program, Ohio Energy  
8 Credits, SSI, and Federal Public Housing Assistance and Section 8) subject to the  
9 availability of the necessary data. The pilot will be conducted in the same manner as  
10 the current 614 NPA automatic enrollment pilot program.<sup>11\</sup>  
11

12 **Q. HAS ANY UTILITY COMMISSION APPROVED SUCH INTAKE PROCEDURES**  
13 **OUTSIDE THE TELECOMMUNICATIONS LIFELINE PROGRAMS?**

14 A. Yes. The Pennsylvania PUC has endorsed such an approach. The Pennsylvania PUC has  
15 specifically said within the context of Customer Assistance Programs (CAPs) for natural gas and  
16 electric utilities that "we have found that automatic referrals to CAP when a customer calls to  
17 make a payment arrangement and intake certification by government agencies are simple to  
18 administer and cost-effective." (1999 CAP Policy Statement, at 6, codified at 52 Pa. Code section  
19 69.261, et seq.) (Order, Re. Revisions to the Customer Assistance Program Made Pursuant to 52  
20 Pa. Code, Chapter 69, Docket No. M-00991232). Virtually every natural gas utility agreed to  
21 move to such an intake process for their universal service programs during their recent natural gas  
22 restructuring proceedings.  
23

24 **Q. WHY DO YOU SUPPORT CATEGORICAL ELIGIBILITY ALONG WITH**  
25 **AUTOMATIC ENROLLMENT?**

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11 Ohio PUC, Opinion and Order, at 7 - 8, In the Matter of the Application of Ameritech Ohio (Formerly known as the Ohio Bell Telephone Company) for Approval of an Alternative Form of Regulation, Case No. 93-487-TP-ALT, April 27, 2000.



- 1 A. At least three reasons support a categorical eligibility determination:
- 2 1. There is no reason for a utility to engage in the time and expense of certifying income
- 3 for a population whose income is already certified by existing public benefits
- 4 programs;
- 5 2. Requiring low-income households to apply to their local utility, and lay out their
- 6 household income to an institution that frequently stands in the role as a creditor, will
- 7 make the program inherently self-limiting; and
- 8 3. The very act of requiring a "sign-up process" limits program participation, irrespective
- 9 of the type of program offered (and by whom). To the extent that such processes can
- 10 be minimized, participation rates will be maximized.

11

12 **Q. IS THIS USE OF CATEGORICAL ELIGIBILITY AN ACCEPTED MECHANISM**

13 **FOR ENROLLING PERSONS IN PUBLIC ASSISTANCE PROGRAMS?**

- 14 A. Yes. Categorical eligibility is commonly referred to as "adjunctive eligibility." Adjunctive
- 15 eligibility has, for example, been adopted to link SSI with Medicaid. Federal law now
- 16 authorizes that enrollment in SSI will automatically establish a person's eligibility for
- 17 Medicaid. In addition, the federal WIC program uses adjunctive eligibility. In 1989,
- 18 Congress authorized WIC agencies to begin to accept an applicant's documented participation
- 19 in Medicaid, Food Stamps and AFDC (now known as TANF) as evidence of income
- 20 eligibility for WIC. Today, fully two-thirds of WIC participants are enrolled through the
- 21 adjunctive eligibility process.<sup>11</sup>

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12 U.S. Department of Agriculture, Food and Nutrition Service, Office of Analysis and

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**7. Additional Program Components.**

**Q. ASIDE FROM THESE BASIC UNIVERSAL SERVICE PROGRAM COMPONENTS, ARE THERE OTHER UNIVERSAL SERVICE INITIATIVES THAT NEW JERSEY SHOULD IMPLEMENT?**

A. Yes. The components I outline above make up the basic universal service program. In addition to this basic program, PSE&G should establish a reporting mechanism to track indicators of the effectiveness of the universal service program. PSE&G should also establish a reporting mechanism to track the impacts of retail energy competition on low-income consumers.

**a. Tracking the Effectiveness of Universal Service Programs.**

**Q. PLEASE DESCRIBE YOUR PROPOSED OUTCOME-BASED UNIVERSAL SERVICE MEASUREMENT SYSTEM.**

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Evaluation, *Study of WIC Participant and Program Characteristics 1996: Final Report*, at 47.

1 A. I propose an outcome-based performance reporting system (OPRS) for customer service relative  
2 to low-income payment troubles. More specifically, I propose that New Jersey's utilities be  
3 required to report on four outcome-based performance measures as follows:

- 4 1. Rate of disconnection for nonpayment (*i.e.*, percent of total customers disconnected for  
5 nonpayment) (DNP Rate);  
6
- 7 2. Rate of arrearage accounts placed on deferred payment arrangements (DPAs) (*i.e.*,  
8 percent of accounts in arrears placed onto DPAs) (DPA Rate);  
9
- 10 3. Rate of unsuccessful deferred payment arrangements (*i.e.*, percent of DPAs that default  
11 before successful completion) (DPA Failure Rate);  
12
- 13 4. The "bills behind" for accounts in arrears (Bills Behind Statistic).

14

15 **Q. PLEASE EXPLAIN WHY YOUR PROPOSED OPRS IS APPROPRIATE TO ADOPT**  
16 **AS PART OF THE UNIVERSAL SERVICE PROGRAM.**

17 A. I have proposed a series of remedies to promote universal service in New Jersey. In addition to  
18 undertaking these activities, however, the state's *performance* should be tracked. I would propose  
19 that "satisfactory" performance occurs when performance relative to the low-income population is  
20 no worse than performance relative to the total residential customer population.

21

22

23 **Q. PLEASE EXPLAIN WHY THE DNP RATE IS AN APPROPRIATE OUTCOME-BASED**  
24 **PERFORMANCE MEASURE.**

25 A. Every residential involuntary termination of service for nonpayment represents a failure of a  
26 company and its customer to adequately address the customer's payment problems. The

1 disconnection of service represents not only a social problem for those households disconnected,  
2 but represents a business problem for the utility as well. A company must spend money on the  
3 physical act of disconnecting service. Moreover, the disconnection of service represents a loss of a  
4 future revenue stream to help offset fixed company costs.

5  
6 If a company is performing well with respect to identifying its low-income customers in arrears,  
7 negotiating reasonable deferred payment plans, providing effective outreach for participation in  
8 LIHEAP, and doing related activities, no reason exists that the DNP Rate for the low-income  
9 population should differ from the DNP Rate for the residential population as a whole.

10  
11 **Q. PLEASE EXPLAIN WHY THE DPA RATE IS AN APPROPRIATE OUTCOME-BASED**  
12 **PERFORMANCE MEASURE.**

13 A. When customers become delinquent on their bills, a company has an incentive to either obtain  
14 immediate payment or to place those customers on deferred payment arrangements (DPAs)  
15 through which the arrears may be retired over time. Households that are in arrears to a company,  
16 but which have *not* entered into a deferred payment agreement, represent a serious risk of loss to a  
17 company. Moreover, by entering into a deferred payment plan, the risk that the household will  
18 ultimately lose its utility service is lessened. If a company is performing well, it will be identifying  
19 its low-income customers in arrears and negotiating DPAs with those customers. No reason exists  
20 that the DPA Rate for the low-income population should differ from the DPA Rate for the  
21 residential population as a whole.

22

1 **Q. PLEASE EXPLAIN WHY THE DPA FAILURE RATE IS AN APPROPRIATE**  
2 **OUTCOME-BASED PERFORMANCE MEASURE.**

3 A. The successful completion of a deferred payment agreement involves a household, which retires its  
4 arrears without need for renegotiation of the agreement and without need for the disconnection of  
5 service. Given that a company presumably only enters into *reasonable* deferred payment  
6 agreements, virtually all DPAs should be successfully completed. More importantly for this  
7 measure, if a company is entering into reasonable DPAs with its low-income population, no reason  
8 exists that the DPA Failure Rate for the low-income population should differ from the DPA Failure  
9 Rate for the residential population as a whole.

10  
11 **Q. PLEASE EXPLAIN WHY THE BILLS BEHIND STATISTIC IS AN APPROPRIATE**  
12 **OUTCOME-BASED PERFORMANCE MEASURE.**

13 A. The "bills behind" statistic calculates a weighted arrears for all households who are not in deferred  
14 payment agreements. This statistic calculates the number of average bills contained in an average  
15 arrearage by dividing the total monthly arrears not subject to deferred payment agreements by the  
16 average monthly customer bill. Hence, if one customer has an arrears of \$400 and an average  
17 monthly bill of \$200, that customer has a weighted arrears of 2.0 "bills behind." If a different  
18 customer has an arrears of \$400 and an average monthly bill of \$140, that customer has a weighted  
19 arrears of 2.86 bills behind. The second customer is considered to be in more serious payment  
20 trouble. A high "bills behind" statistic points to a practice of allowing household arrears to persist  
21 without placing such households on to deferred payment agreements or otherwise placing them in  
22 the collection cycle. If a company is reasonably reaching its low-income population, and offering

1 the same type and quality of customer service as it offers to its total population, no reason exists  
2 that the Bills Behind Statistic for the low-income population should differ from the Bills Behind  
3 Statistic for the residential population as a whole.

4  
5 A weighted "bills behind" statistic is calculated to account for the potential difference in bills  
6 between time periods. Without such a weighted statistic, a comparison of arrears between time  
7 periods can be misleading because of a difference in bills (whether due to rates or weather or some  
8 other factor). A weighted statistic is calculated, in other words, so that the effect of different  
9 average bills is taken into consideration. As the Bureau of Consumer Services (BCS) of the  
10 Pennsylvania Public Utility Commission observes, use of a weighted arrears measure "permits  
11 comparisons to be drawn between companies by eliminating the effects of different customer bills  
12 on arrearages." Without such a measure, "the interpretations of average arrearages, either over  
13 time or in comparison between companies presents some difficulties." (Bureau of Consumer  
14 Services, *Utility Payment Problems: The Measurement and Evaluation of Responses to Customer*  
15 *Nonpayment*, Pennsylvania Public Utility Commission: Harrisburg, PA (October 1983)).

16 **Q. WHY DO YOU INCLUDE ALL FOUR MEASURES IN YOUR PROPOSED OPRS?**

17 A. The four parts are designed to avoid creating unintended incentives for a company to engage in  
18 harmful activities. Thus, for example, if one were to look only at whether a company minimizes  
19 service terminations, the company would have an incentive to reduce terminations while not  
20 improving its collections. If one were to look only at whether a company minimizes arrearages,  
21 the company would have an incentive to disconnect customers rather than to place them on  
22 deferred payment arrangements. If one were to look only at DPAs without looking also at DPA

1 success, the company would have an incentive to place delinquent customers on DPAs without  
2 regard for the affordability of such plans. The four-part structure is necessary for New Jersey  
3 utilities to address *each* aspect of the OPRS.

4  
5 **b. Impact of Retail Choice.**

6 **Q. HAVE YOU HAD OCCASION TO DEVELOP A MECHANISM FOR MONITORING**  
7 **THE IMPACTS OF RETAIL COMPETITION ON LOW-INCOME CONSUMERS?**

8 A. Yes. In 1999, under contract with the U.S. Department of Health and Human Services,  
9 Administration for Children and Families, Division of Energy Assistance, I was retained to identify  
10 information deemed by state LIHEAP directors to be necessary to monitor the impact of electric  
11 and natural gas retail choice on low-income consumers.<sup>13\</sup> The purposes of the HHS paper were  
12 four-fold:

- 13 1. To identify, define and explain a set of quantifiable indicators to use in tracking how
- 14 restructuring the electric industry affects low-income consumers;
- 15 2. To propose a set of specific data through which these indicators can be measured (both
- 16 currently and at periodic intervals into the future);
- 17
- 18 3. To suggest a methodology for collecting the proposed data; and
- 19
- 20 4. To explain the use to which the performance measures can be put.

21  
22 **Q. CAN YOU SUMMARIZE THE REPORT?**

---

13 <sup>13</sup> The final report was titled *Monitoring the Impact of Electric Restructuring on Low-Income Consumers: The What, How*  
and *Why of Data Collection* (June 1999).

1 A. The report concluded that low-income consumers seek, on a non-degraded basis, access to  
2 reasonably adequate service at prices reflecting least-cost. Note the three distinct components in  
3 this statement:

- 4 ♦ **Access:** Low-income consumers seek "access" to service. Access involves the universal  
5 opportunity to connect to and take advantage of the competitive electric system.  
6
- 7 ♦ **Reasonably adequate service:** Low-income consumers seek "reasonably adequate service."  
8 This term encompasses a broad range of requirements involving the supply of kWh and the  
9 provision of supplemental customer services.  
10
- 11 ♦ **Least-cost service pricing:** Least-cost service pricing involves the dollars paid, not only on a  
12 per unit basis, but on a total bill basis as well. Pricing should reflect the least-cost provision of  
13 service consistent with the other two objectives.  
14

15 These three components can help track the performance of a restructured electric industry relative  
16 to a baseline. The factors present an objective, quantifiable, empirically testable performance  
17 standard against which a restructured electric industry can be held. The report then presented  
18 fourteen performance "indicators" to measure these three essential components of service to low-  
19 income consumers. The recommendations contained within this HHS document can provide the  
20 Board with the building blocks to develop a reliable tool to measure the impact of retail  
21 competition on low-income customers. The report indicates that while focused on the electric  
22 industry, it is equally applicable to a restructured natural gas industry as well.  
23

24 **Q. WHAT DID YOU FIND?**

25 A. My final report to HHS concluded that there are specific data reporting requirements that should  
26 be implemented at the state level to monitor the impact of retail choice on low-income consumers.



1 Rather than repeat the findings of my report to HHS in this testimony, I have attached a copy of  
2 that report as Appendix A to this testimony.

3  
4 Reporting mechanisms such as those recommended in my report for HHS are essential for the  
5 Board to assure that low-income customers are not excluded from the market or limited in their  
6 participation by means of exclusionary credit policies or limitations on the nature and the extent of  
7 the service available to them. The reporting mechanism for the impact of retail competition on  
8 low-income customers will help determine whether or not low-income customers are continuing to  
9 receive high quality utility service at reasonable prices, and whether there is a need for additional  
10 funding for low-income affordability assistance, whether there is a need for special assistance to  
11 help low-income customers effectively participate in the competitive marketplace through  
12 aggregation, and whether there is a need for special low-income price protections. These reporting  
13 mechanisms will provide the Board, the utility itself, and other interested parties (such as the  
14 Ratepayer Advocate) with a picture of the impacts of retail competition and the need for a  
15 universal service program to assist the low-income consumer.

16  
17 **PART 4. NET COSTS.**

18 **A. Cost Offsets.**

19 **Q. PLEASE DESCRIBE WHY YOU CONCLUDE THAT A UNIVERSAL SERVICE**  
20 **PROGRAM (WITH FIXED CREDITS, ARREARAGE FORGIVENESS, A CRISIS**  
21 **COMPONENT AND ENERGY EFFICIENCY) CAN BE USED TO IMPROVE THE**  
22 **COLLECTABILITY OF REVENUE FOR PSE&G.**

1 A. That rate schedules, themselves, do in fact improve collections and generate a range of savings to  
2 the utility offering the rate has been confirmed by impact evaluations of other rates. For example,  
3 the impact evaluation of the Columbia Gas Company (Pennsylvania) Customer Assistance  
4 Program (CAP) -- Pennsylvania's low-income rates are generally referred to as CAP -- found that  
5 the company's CAP customers had 61% fewer disputes, 53% fewer *new* payment agreements, and  
6 67% fewer credit hold requests. In addition, the Columbia Gas impact evaluation found further  
7 that, for CAP customers, cancellation of payment plans was reduced by 69%, termination notices  
8 declined by 48%, and shutoff orders were printed 74% less often.<sup>14</sup>

9  
10 Equitable Gas (Pennsylvania) found the same thing with respect to its Energy Affordability  
11 Program (EAP). The Equitable Gas evaluation found that there is a net administrative *cost* to the  
12 low-income rate of \$15.13 after one year of operation.<sup>15</sup> Like many initiatives, however, with  
13 higher administrative costs in earlier years, the evaluation found further that the participants who  
14 stayed on the rate for a second year (70% of the participants) return a \$12.87 *savings* in Year 2.  
15 By the end of Year 3, the total savings had completely paid off the costs from the first year and  
16 yielded a total net advantage of \$10.61 per customer.<sup>16</sup> The Equitable Gas evaluation found that,  
17 based on administrative costs alone:

18 . . .for each 100 customers entering EAP, the 65% retained for three years would return  
19 \$689.65 in net administrative cost reduction (65 x \$10.61). For those who remain in EAP,  
20 these savings would increment over future years.<sup>17</sup>

---

14 Final Pilot Evaluation, Columbia Gas (PA) Customer Assistance Program (CAP), at 13, A&C Enercom  
Inc. (November 1996).

15 Impact Assessment of the Equitable Gas Company Energy Assistance Program. H.Gil Peach and Associates  
(September 1996).

16 Equitable Gas, at 96.

17 Equitable Gas, at 96.

1 The Equitable Gas evaluation found additional *total* benefits (not just administrative savings) to  
2 nonparticipating ratepayers as well through application of a "net back" analysis. Net back  
3 recognizes that the revenue gained by a utility through its credit and collection efforts is only the  
4 total revenue collected *minus* the costs of collection. Hence, if a utility collects \$100, but spends  
5 \$40 in the process of collection, the utility's "net back" is only \$60 (for a net back rate of 0.60).

6  
7 The Equitable Gas evaluation found that that utility experienced a net back ratio (NBR)<sup>18\</sup> of 0.91  
8 for low-income customers without the Equitable Gas rate affordability program. The evaluation  
9 then found that:

10 those who fully participate in one year of EAP show an NBR of 1.41. Those with two full  
11 years of EAP show essentially the same performance, with an NBR of 1.37. Both of these  
12 results are quite favorable compared to the 1989 Reference Group with its NBR of  
13 0.91.<sup>19\</sup>

14 The evaluation then translated these ratios into "dollars returned" (to other ratepayers). Without  
15 the program, the evaluation found, "a customer who would have been billed \$1368 at the standard  
16 residential rate would have created a shortfall of \$684 from the standard residential rate, not  
17 including the increased cost of collection."<sup>20\</sup> The evaluation then found:

18 EAP succeeds in recovering (in the sum of customer payments plus grants) dollars which  
19 would otherwise not have been received by the utility. For those in EAP for one full year,  
20 this amount is \$262. For those who remain in EAP for a second year there is an additional  
21

---

18 A net back rate of greater than 1.0 means that the company is not only collecting all of its current bill, but is  
collecting part of the arrears owed by the customer as well. Hence, the company is collecting *more* than its bill for  
current usage. A net back rate of less than 1.0 means the customer is never paying his or her bill for current usage  
and is, as a result, falling further and further into arrears.

19 Equitable Gas, at 115-116.

20 Equitable Gas, at 112.

1 \$206. These added to a total of \$468 for each customer who is retained in the program  
2 for two full years.<sup>121\</sup>

3 The evaluation concludes: "This means that EAP is not only revenue neutral, but revenue positive  
4 in relation to the comparison situation for which it was designed."<sup>122\</sup>

5  
6 **Q. IS THERE ANY OTHER COMPANY THAT HAS FOUND THE COST OFFSETS**  
7 **THAT YOU DISCUSS?**

8 A. Niagara-Mohawk Power Company (New York) also offers its low-income customers an  
9 affordable rate.<sup>123\</sup> The Niagara-Mohawk initiative involves energy efficiency services and a  
10 negotiated bill payment, which can be below the "cost of energy" (what Equitable Gas referred to  
11 as the "standard rate"). Niagara-Mohawk tested four different groups. Group 3 and Group 4 had  
12 an affordable payment plan as a component of the services delivered.

13  
14 According to the evaluation of the Niagara-Mohawk initiative: "Group 3 and 4 participants almost  
15 doubled the total number of payments to the utility during the post-treatment period compared to  
16 the pre-treatment period (from 426 to 849 payments for Group 3; from 368 to 792 payments for  
17 group 4). In contrast, Group 1 actually decreased the number of payments made and Group 2  
18 increased the total number slightly (from 404 to 446 payments)."<sup>124\</sup> Neither Group 1 nor Group 2  
19 had an affordable payment plan. The Niagara-Mohawk evaluation found further that the Company  
20 benefited from these increased payments. The evaluation found:

---

21 Equitable Gas, at 116.

22 Equitable Gas, at 116.

23 Merillee Harrigan (1992) Evaluating the Benefits of Comprehensive Energy Management for Low-Income,  
Payment-Troubled Customers, Alliance to Save Energy: Washington D.C.

24 Niagara-Mohawk, at 47-48.

1  
2 Corresponding to the average dollars per month, the total customer dollars paid to the  
3 utility also increased for the three treatment groups. Again, Group 2 payments increased  
4 slightly from \$844 to \$895. Group 3 on the average increased its payment from \$883 to  
5 \$1174 and Group 4 increased from \$968 to \$1188.<sup>125\</sup>

6 Unfortunately, Niagara-Mohawk undertook its efforts during a time when fuel assistance dollars  
7 were being substantially cut back and fuel assistance dollars dropped for the program participants.  
8 Nonetheless, despite this drop in fuel assistance funding, the evaluation found:

9  
10 The increase in amount of customer dollars, despite the drop in receipt of assistance  
11 dollars, resulted in an increase in total dollars paid to the utility of \$31 for Group 3 and  
12 \$91 for Group 4, compared with *decreases* in total dollars of \$26 for Group 1 and \$102  
13 for Group 2.<sup>126\</sup> (emphasis added).

14  
15 National Fuel Gas Distribution Company (New York) operates what it calls its Low-Income Rate  
16 Assistance (LIRA) program.<sup>127\</sup> The impact evaluation of the NFG program developed a  
17 mathematical model for calculating whether the program was cost-beneficial to the company (and  
18 thus to nonparticipants). The impact evaluation refers to the fact that "the cost effectiveness model  
19 measured cash in-flows and out-flows with and without the LIRA program over time."<sup>128\</sup> The  
20 impact evaluation stated further that: "cash flows were computed using collected revenue, billed  
21 revenue, collection expenses, and carrying charges for both the participants and the  
22 nonparticipants."<sup>129\</sup>

---

25 Niagara-Mohawk, at 48.  
26 Niagara-Mohawk, at 49.  
27 National Fuel Gas (PA) Low-Income Rate Assistance (LIRA) program. Barakat & Chamberlin (March 1999).  
28 National Fuel Gas, at 23.  
29 National Fuel Gas, at 23.

1 Part of this model recognized that only \$939 of each \$1,276 bill is paid before LIRA. Under  
2 LIRA, however, the impact evaluation found, low-income customers pay \$772 of each \$811 bill.  
3 According to the National Fuel Gas evaluation: "Several indices were selected as robust measures  
4 of the impact of the program. These included change in the number of payments made, change in  
5 the percentage of bill paid, change in the amount paid, change in the number of disconnections, and  
6 change in the amount of outside aid received by participants. . . The program has been successful in  
7 moving most of the indices in the *right* direction."<sup>30\</sup> (emphasis in original). The impact evaluation  
8 reported the following "list of changes in the right direction":<sup>31\</sup>

- 9 • The number of payments made by the participants increased by 30% (an average of 2.2  
10 payments per participant);
- 11 • The percentage of the bill paid per participant increased by 10%;
- 12 • The number of service disconnections decreased by "slightly over 80%."
- 13
- 14
- 15

16 The National Fuel Gas impact evaluation reported that:

17  
18 the [net present value] of the participant's pre-program cash flow was computed at  
19 (\$3,805,936). This means that, had the program not existed (pre conditions remained the  
20 same), NFG would have been expected to under collect over \$3.8 million (present valued  
21 over the next five years). Based on the post program conditions, NFG is still expected to  
22 under collect, but only by approximately \$2.3 million. In other words, the program's gross  
23 impact is an improvement in collections of \$1.5 million (nearly a 40% improvement over  
24 the next five years).<sup>32\</sup>

25 The impact evaluation concluded that "this indicates a cost-effective endeavor."<sup>33\</sup>

26  
27 **Q. WHAT DO YOU CONCLUDE?**

---

30 National Fuel Gas, at 23.

31 National Fuel Gas, at 23.

32 National Fuel Gas, at 20.

33 National Fuel Gas, at 20.

1 A. I agree with the findings of the Pennsylvania Public Utility Commission. After reviewing the  
2 experience of utilities in implementing pilot programs, along with the impact evaluations of those  
3 pilots, the Pennsylvania PUC found in its March 1999 order directing the adoption of low-income  
4 rate affordability programs in that state:

5 The results of CAP impact evaluations show that participants enrolled in a CAP increase  
6 the number of payments they make while maintaining the same level of energy usage. .  
7 .More importantly, the results of two impact evaluations show that CAPs support the  
8 principles found in the CAP Policy Statement, namely that an appropriately designed and  
9 well-implemented CAP, as an integrated part of a company's rate structure, is in the public  
10 interest. Further, the results show that CAPs can be a more cost effective approach for  
11 dealing with issues of customer inability to pay than traditional collection methods.<sup>34\</sup>  
12

---

34 *Order Re. Revisions to the Customer Assistance Program Policy Statement Made Pursuant to 52 Pa. Code Chapter 69*, Docket No. M-00991232 (March 1999).

1 **B. Mitigating the Reverse Subsidy.**

2 **Q. ARE THERE OTHER BASES FOR CONCLUDING THAT LOW-INCOME**  
3 **CUSTOMERS PROVIDE A REVERSE CONTRIBUTION?**

4 A. Consider that natural gas rates today are almost universally based upon costs that are averaged  
5 over all customers. Averaged costs over-allocate costs to low-income residential customers in at  
6 least the following ways. First, the Company's investment in distribution equipment is placed into  
7 rates on an average cost basis. Assume, for example, that there are some individual service drops  
8 that are 20 years old, on the one hand, and other individual service drops that are 20 months old on  
9 the other hand. Despite the difference in age, all service drops are placed into rates at the *average*  
10 cost of the two groups. These older service drops create a lesser revenue requirement for a utility  
11 because the drops were purchased at earlier dates and thus had a lower initial cost. In addition, the  
12 older service drops have also been depreciated. Their original cost is, therefore, no longer the  
13 expense which is included in rates. As a class, low-income New Jersey consumers  
14 disproportionately tend to live in older homes. As a result, because service drops are placed into  
15 rates on an average cost basis, low-income consumers living in older homes are paying a  
16 contribution to higher income consumers who live in newer homes.

17  
18 The same rationale applies on a neighborhood basis. Because the distribution network serving  
19 older neighborhoods has a lower original cost, which has been depreciated over the years, the  
20 revenue requirement attributable to those older neighborhoods would be lower than the revenue  
21 requirement attributable to newer neighborhoods. An examination of the Census demographics of  
22 New Jersey communities, combined with building permits, shows that as a class, low-income New



1 Jersey consumers tend to live in older neighborhoods. As a result, because rates are offered on an  
2 average cost basis, the residents of older neighborhoods are paying a contribution to the newer  
3 housing developments.

4  
5 Finally, as a class, low-income New Jersey customers, however, tend to live in the urban areas of  
6 the Company's service territory, where the customer density (*i.e.*, number of customers per mile of  
7 line) is higher. The low-income customer living in an individually-metered multi-family building in  
8 an urban neighborhood, however, will pay the same costs for distribution line as the suburban  
9 customer living on a one-acre lot. As a result, because distribution plant is placed into rates on an  
10 average cost basis, low-income consumers living in denser neighborhoods are paying a reverse  
11 contribution to higher income consumers who live in less dense neighborhoods.

12  
13 **Q. IS THERE ANY PROPOSAL IN THIS PROCEEDING THAT WILL EXACERBATE**  
14 **RATHER THAN ALLEVIATE THESE REVERSE CONTRIBUTION PROBLEMS?**

15 A. Yes. The Company has proposed to increase its reconnection fee from \$20 to \$75. The Company  
16 seeks to justify this proposal by asserting that its actual cost per shutoff is \$79.40 and, based on the  
17 number of customers actually reconnected, the cost per unit is \$133.21.

18  
19 There can be no question but that a reconnect fee would be imposed on low-income customers  
20 more than on non-low-income customers. As I discuss above, low-income customers have service  
21 terminated at a rate four times higher than their non-low-income counterparts.

1           There is little question, too, but that the high proposed reconnect fees will tend to exacerbate bills  
2           that are unaffordable to begin with. Consider how the extraordinarily high winter natural gas bills  
3           from the 2000/2001 winter heating season have affected consumers. In a response to a survey by  
4           the National Energy Assistance Directors' Association (NEADA), for example, PSE&G reported  
5           that after the 2000/2001 winter heating season, it had \$271 million in arrears, an increase of 14%.  
6           Moreover, PSE&G had sent shutoff notices to 276,715 customers, an increase of six percent  
7           (6%).

8  
9           What we thus find is an average natural gas bill that has increased by nearly 35% in the past year  
10          (from \$695.63 to \$933.45); a resulting increase in arrears of 14%; a set of low-income customers  
11          who are charged 20% of their income and more simply for their home heating (without taking into  
12          account electric bills and before adding other service charges); and, as a result, this set of low-  
13          income customers having their service disconnected at a rate four times that of the non-low-  
14          income population.

15  
16          The addition of the proposed reconnect charge makes it less and less likely that the low-income  
17          customers will be able to retain service. Indeed, in the absence of a universal service program such  
18          as I have proposed above, PSE&G should not be allowed to further contribute to the loss of  
19          service, to the ongoing payment problems, and to the unaffordability problems I have identified  
20          above.

21  
22      **Q.     DOES THIS CONCLUDE YOUR TESTIMONY?**

1 A. Yes it does.

**Schedule RDC-1**

Poverty Level by Household Size (2001)						
Poverty Level Range	Household Size					
	1	2	3	4	5	6
25%	\$2,148	\$2,903	\$3,658	\$4,413	\$5,168	\$5,923
50%	\$4,295	\$5,805	\$7,315	\$8,825	\$10,335	\$11,845
75%	\$6,443	\$8,708	\$10,973	\$13,238	\$15,503	\$17,768
100%	\$8,590	\$11,610	\$14,630	\$17,650	\$20,670	\$23,690
125%	\$10,738	\$14,513	\$18,288	\$22,063	\$25,838	\$29,613
150%	\$12,885	\$17,415	\$21,945	\$26,475	\$31,005	\$35,535
175%	\$15,033	\$20,318	\$25,603	\$30,888	\$36,173	\$41,458
<b>SOURCE:</b>						
100% federal Poverty Level: 66 <i>Federal Register</i> 10695 - 10697 (February 16, 2001).						

**Schedule RDC-2**

Distribution of Persons in New Jersey By Poverty Range		
	No. of Persons	Percent of Persons
Under 50%	286,059	3.8%
50% - 74%	129,466	1.7%
75% - 99%	157,627	2.1%
100% - 124%	184,210	2.4%
125% - 149%	186,274	2.5%
150% - 174%	228,724	3.0%
Total below 175%	1,172,360	15.5%
SOURCE: Table 121, Summary Tape File 3A, 1990 U.S. Census.		

**Schedule RDC-3**

Number of Households with Incomes Below \$5,000 New Jersey: By County (1989 Census)	
County	No. Households with Incomes Below \$5,000
Atlantic	4,162
Bergen	7,723
Burlington	2,612
Camden	7,520
Cape May	1,586
Cumberland	2,861
Essex	19,891
Gloucester	2,451
Hudson	15,248
Hunterdon	621
Mercer	4,038
Middlesex	6,631
Monmouth	4,980
Morris	2,014
Ocean	5,146
Passaic	7,218
Salem	1,391
Somerset	1,259
Sussex	779
Union	6,655
Warren	991
Total State	105,777
SOURCE: U.S. Census Bureau, Summary Tape File 3A, <a href="http://www.census.gov">http://www.census.gov</a> .	

**Schedule RDC-4**

New Jersey LIHEAP Recipients by Income by Year: 1990 – 1995					
Year	Total LIHEAP Recipients	Percent of LIHEAP Recipients by Annual Income			
		Below \$2,000	\$2,000 - \$3,999	\$4,000 - \$5,999	Total Below \$6,000
1990	137,000	9.0%	16.0%	42.0%	67.0%
1991	147,086	8.9%	12.5%	34.5%	55.9%
1992	161,689	9.5%	12.2%	32.3%	54.0%
1993	164,071	9.3%	10.9%	31.1%	51.3%
1994	167,856	9.3%	10.4%	29.8%	49.5%
1995	164,918	9.2%	10.7%	28.7%	48.6%
<p>SOURCE: Annual LIHEAP Report to Congress (1995 Report last one published).</p>					

<b>A LIVABLE WAGE FOR NEW JERSEY</b>	
Food	\$6,398
Transportation	\$2,921
Housing	\$9,672
Day Care	\$3,136
Health Care	\$3,818
Clothing / Personal	\$3,117
Telephone	\$777
Taxes	\$8,093
Total	\$37,923
SOURCE: National Priorities Project, <i>Working Hard, Earning Less: The Story of Job Growth in New Jersey</i> (1999).	



SCHEDULE RDC-6  
OCCUPATIONS IN NEW JERSEY WITH THE LARGEST GROWTH RATE

		Occupation	Wage	% of Livable Wage	Annual Growth	Growth Rank
Below Livable Wage	Half Livable Wage	Waiters and waitresses	\$11,419	30%	1,236	4
		Teacher aides & Edu. Assistants	\$11,928	31%	818	12
		Cashiers	\$13,541	36%	1,027	7
		Food preparation workers	\$14,810	39%	550	19
		Salespersons, retail	\$14,997	40%	1,027	8
		Guards	\$15,330	40%	927	9
		Child care workers	\$15,850	42%	695	16
		Janitors, cleaners, maids, housekeepers	\$16,099	42%	1,559	2
		Home health aides	\$16,515	44%	1,218	5
	Nurse aides, orderlies, attendant	\$18,470	49%	1,395	3	
	Receptionists & information clerks	\$19,926	53%	755	14	
	Adjustment clerks	\$25,979	68%	705	15	
	Truck drives, heavy & light	\$26,458	70%	773	13	
	Supervisors, marketing and sales	\$34,715	92%	1,177	6	
Clerical supervisors & managers	\$35,443	93%	686	17		
Above Livable Wage	Securities and financial services	\$40,290	106%	600	18	
	Correction officers	\$41,120	111%	514	20	
	Registered nurses	\$44,970	119%	827	10	
	System analysts	\$58,656	155%	2,027	1	
	General managers and top executives	\$81,411	215%	823	11	

**Schedule RDC-7**

Low-Income Natural Gas Burdens At Various Poverty Ranges PSE&G (\$933 annual bill)			
Poverty Range	Household Size		
	1	2	3
25%	43%	32%	26%
50%	22%	16%	13%
75%	14%	11%	9%
100%	11%	8%	6%
125%	9%	6%	5%
150%	7%	5%	4%
175%	6%	5%	4%

Gas bill obtained from "Comparison of Typical Bills, Impact of Commodity Price Changes, Rate Schedule RSG.

**Schedule RDC-8**

Illustration of Calculation of Monthly Bill Under Fixed Credit Rate Tariff	
Annual bill	\$600.00
LIHEAP benefit /a/	\$0
Adjusted annual bill	\$600.00
Months in year	12
Levelized monthly bill without fixed credit	\$50.00
Payment owed by customer	\$30.00
Fixed credit	\$20.00
/a/ LIHEAP assumed to be \$0 for purposes of illustrating calculation of fixed credit.	

**NYSERDA  
Low-Income Aggregation Advisory Committee  
Briefing Packet**

**Background on NYSERDA's Aggregation Activities:**

Last year, NYSERDA issued a solicitation seeking contractor(s) to design, implement, and monitor a number of low-income aggregation pilot project(s) that would attempt to use the untapped market power of aggregated low-income energy buyers to secure competitive prices for electricity, natural gas, fuel oil, and propane; while supplying energy conservation services to reduce demand.

The objective of this solicitation was to launch multiple pilot projects to determine the efficacy of using aggregation to secure competitive energy prices and help to reduce the energy burden of New York's low-income residents by providing a comprehensive approach to the procurement of low-income households' energy needs.

Due to the funding source (SBC I), the solicitation sought proposals for pilots to be operated in the service territories of Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., and/or Orange and Rockland Utilities, Inc. The pilots are targeting the State's low-income consumers, classified as those being below 80% of the State's median income. Although the pilot projects should show concrete benefits to the State's low-income consumers, the aggregated consumer pool is not limited to low-income residential households.

NYSERDA's current aggregation activities are based on the underlying assumption that monetary energy subsidies alone are not sufficient to address the persistently high energy burdens faced by a large percentage of New York State's low-income households. Low-income households face a myriad of barriers to reducing their energy burdens and achieving energy self-sufficiency; therefore any solution must be comprehensive. To address the needs and barriers facing this population, eligible low-income households must have the opportunity to participate in a competitive market as an aggregated collective capable of negotiating optimum fuel prices. In addition, eligible households need to reduce their fuel costs permanently, without risking health, safety, or comfort, through access to coordinated energy efficiency measures, education, and counseling.

The pilot projects are addressing multiple energy-related problems that hinder efforts toward low-income self-sufficiency. Permanent mechanisms, similar to those demonstrated under these pilot project(s), will be needed to resolve the energy problems of low-income households and must be developed as part of a greater holistic approach to the customers' overall poverty-related needs.

The following are key project elements and issues of concern for NYSERDA:

**Lack of Market Power** B The availability of reliable electric service for low-income residential customers in a deregulated energy environment is of great concern to low-income advocates across the nation. The relatively small volume of consumption and low purchase of other services that may be packaged with energy, combined with the reality or perception of being a payment troubled<sup>®</sup> is likely to make many low-income households undesirable customers in the evolving, competitive energy market.

**Lack of Capital and Borrowing Power** B Since the energy burden for low-income households can range

from 20-30%, compared to 3-8% for upper-income households, there is no significant disposable income available for purchases of energy efficiency measures. Energy efficiency financing programs have not benefited low-income households because they are reluctant to incur additional debt on top of crushing bills.

**Service Network Deficiencies** B Public energy subsidies in New York State are estimated to total over \$500 million. These dispersed funds are channeled through a variety of government agencies and are not optimized to obtain wholesale fuel costs. Currently, there is no outreach or education targeting low-income customers regarding the opportunities and risks associated with a more competitive energy market. No systematic bulk purchasing mechanisms for securing lower prices and adequate supplies of heating oil or propane on behalf of low-income residents exists in any meaningful way. Nor are there organized plans for addressing anticipated market barriers to the aggregation of payment-troubled and other at-risk low-income customers and communities, while assuring continued access to the necessary public subsidies.

**Access to Information** -- Typically, low-income consumers have limited access to information regarding energy savings opportunities and available energy services. Consequently, lost opportunities for energy efficiency improvements are prevalent in this population.

As a result of the solicitation, contracts were awarded to the Association for Energy Affordability (AEA), Navigant Consulting, and EME Group. These three pilots are currently underway. A component of all three pilots projects is to identifying regulatory, institutional, and market barriers that are preventing low-income consumers from participating in the competitive market, and defining possible solutions that may help change the current situation.

### **Summary of Pilot Projects:**

**EME Group:** The pilot project team consists of EME Group, Citizens Conservation Services, and Luthin Associates. This project aims to enable low-income residents in Public Housing Authorities (PHAs) and other assisted housing to enroll in an aggregated electric and gas procurement program and aggressive energy efficiency campaign. The pilot incorporates an innovative approach of using an Aggregation Exchange Database and Website to facilitate interaction between the PHAs and assisted housing residents and the ESCOs who may serve as their competitive energy suppliers. In addition, the pilot will conduct a review of residents=utility allowances to ensure, to the extent possible, that residents keep a portion of their savings through accurate adjustments. The project team has conducted a number of preliminary interviews with ESCOs and PHAs to gauge their interest in this approach and to ensure that the pilot design takes into consideration their goals and objectives. The project team reports that there is a considerable amount of interest in both the ESCO and PHAs contacted to date. Outreach is ongoing, however, at the present time the project team=s outreach has resulted in interest from 23 PHAs, totaling 306 buildings and 4,991 apartment units.

**Navigant Consulting:** The pilot project team consists of Navigant Consulting and Community Power Network of New York State, Inc. This project is targeting the four-county service territory of Central Hudson Gas & Electric. The pilot aims to create a locally owned and operated not-for-profit, named Hudson Valley Energy Savers (HVES), to provide safe, affordable, and reliable energy to low-income customers and other small and under-served customers. HVES will use the existing community based organizations as its outreach mechanism. Due to current market conditions, the pilot is focusing its efforts on procuring fuel oil for an aggregated customer pool. The pilot's intention is to use fuel oil as an initial offering and move to electricity, natural gas, and propane as market conditions allow. The pilot has conducted interviews with a number of organizations in the targeted area to evaluate the likelihood and interest in housing HVES. At the present time, the project team is in discussions with Dutchess County Community Action Association (DCCAA) to explore the potential to partner with HVES.

**AEA:** The pilot project team consists of AEA, Affordable Energy Solutions (AES), and MSB Associates. This pilot builds upon AEA/AES' experience with aggregation efforts conducted under the REACH project, funded through the U.S. Department of Health and Human Services (HHS). Primary activities conducted under REACH included: CBO grants and contracts for outreach and promotional activities, business planning for AES, participation in deregulation proceedings and ISO activities, activities outside of NYC, Westchester, and O&R. Activities undertaken in NYSEERDA's pilot project are complementary, not duplicative, to activities conducted under REACH.

AEA/AES has researched and conducted interviews with all ESCOs eligible to provide service to residential customers in the Con Edison Service territory. Following these preliminary interviews, AEA/AES underwent an extensive Request for Proposals (RFP) process to secure bids for electric supply in the Con Edison service territory. Resulting from this process and subsequent negotiations, offers have been received and accepted by 1<sup>st</sup> Rochdale and Strategic Energy. Currently, this pilot project is beginning to roll out their marketing/outreach program which includes outreach through the Weatherization Assistance Program (WAP). This pilot project is working to establish AES as an Aexpert shopper® for those interested in competing in the deregulated energy environment. In addition, this pilot project is taking a close look at evaluating and implementing the use of advanced metering technology, to the extent possible, in coordination with NYSEERDA's Comprehensive Energy Management (CEM) Program.

### **Role of Advisory Committee**

NYSEERDA is convening an Advisory Committee to most effectively implement the aggregation pilot projects. Members of the Committee represent diverse interests pertaining to low-income advocacy and energy markets. Advisory Committee members currently include:

Bruce Bowdy -	Office of Temporary & Disability Assistance (LIHEAP)
Roger Colton -	Fisher, Sheehan & Colton
Anne Curtin -	Consumer Protection Board
Michael Gorman -	Division of Housing & Community Renewal
Stacey Rantala -	National Energy Marketers Association
Lea Anne Rosenthal -	NYS Public Service Commission
Randi Smith -	New York State Community Action Association