

Low Income Issues Working Group Report
July 29, 1998

Table of Contents

I.	Introduction	1
II.	Low Income Issues Working Group Activities	2
III.	Consensus Recommendations	4
IV.	Description of Appendices	7

Appendices:

Appendix A -- Further Discussion of Low Income Issues

Appendix B -- Working Group Participants

Appendix C -- Low Income Programs in Arizona

Appendix D -- Arizona Poverty Statistics

Appendix E -- Electric Utility Low Income Rate Discount Programs

I. Introduction

The purpose of this report is to present the findings and recommendations of the Low Income Issues working group. On December 26, 1996, the Arizona Corporation Commission issued Decision No. 59943, which established rules (Rules) designed to provide for a phased transition to a competitive retail power market. The Low Income Issues working group was formed in response to the recommendation of both the Customer Selection working group and the Unbundled Services and Standard Offer working group that the Commission form a working group to explore low income issues related to the introduction of retail electric competition in Arizona.

Low income programs are addressed by the retail electric competition rules in section R14-2-1608 which deals with the System Benefits Charge. The System Benefits Charge was created to ensure that customers who choose to participate in the competitive market will continue to contribute to the funding of public interest programs, such as low income programs, at the same level they would have contributed to these programs if they had stayed on standard offer service. The text of this section of the rules reads as follows:

"R14-2-1608. System Benefits Charges

A. By the date indicated in R14-2-1602, each Affected Utility shall file for Commission review non-bypassable rates or related mechanisms to recover the applicable pro-rata costs of System Benefits from all consumers located in the Affected Utility's service area who participate in the competitive market. In addition, the Affected Utility may file for a change in the System Benefits charge at any time. The amount collected annually through the System Benefits charge shall be sufficient to fund the Affected Utilities' present Commission-approved low income, demand side management, environmental, renewables, and nuclear power plant decommissioning programs."

Prior to the formation of the Low Income Issues working group, the Unbundled Services and Standard Offer working group considered the System Benefits Charge. This group recommended several changes to the rules to clarify issues surrounding the System Benefits Charge. The recommended changes are shown as follows (deletions have a strike through them and additions are double-underlined):

~~"In addition, the Affected Utility may file for a change in the System Benefits Charge at any time.~~ Affected Utilities shall file for a review of the System Benefits Charge every three years. The amount collected annually through the System Benefits Charge shall be sufficient to fund the Affected Utilities' ~~present~~ Commission-approved low income, demand side management, environmental, renewables, and nuclear power plant decommissioning programs in effect from time to time."

II. Low Income Issues Working Group Activities

The first meeting of the working group took place on April 2, 1998. A total of eight working group meetings were held between April 2, 1998 and July 22, 1998. Appendix B shows a list of the organizations that participated in the working group, the representatives of each organization, and the dates working group meetings were held.

Salt River Project and the City of Mesa are not Affected Utilities under the Commission's competition rules. However, these entities participated in the working group and are included in discussions as necessary throughout the report to provide a more complete view of low income activities in the state of Arizona.

The group did not have a specific charge from the Commission beyond discussing low income issues related to the introduction of electric competition in Arizona. However, at the first meeting of the working group, the participants discussed what the goals of the group should be. The group established the following goals:

- Do not leave vulnerable populations behind: "Do no harm"
- Establish recommendations on low income issues and present them in as complete a form as possible to the Commissioners.
- Identify risks and opportunities for low income customers (real world impacts of competition).
- Strive for affordable energy service.
- Consider short, mid, and long term time frames.
- Generate a funding mechanism which would provide a level playing field to support low-income programs (intergovernmental agreements)

To achieve these goals, the group identified a number of actions to be taken.

- Look at optimizing the effectiveness of any new systems.
- Identify and quantify where we are now.
- Identify what other states are doing relative to low-income issues.
- Investigate centralized outreach (a statewide uniform program vs. utility-by-utility programs)
- Create a definition of and guidelines for affordable energy service.

The group attempted to identify low income issues which should be addressed in both the short and long term time frames. Through the process of considering low income issues in the group meetings, the group realized that some of these goals and actions could not be fully addressed within the scope and timeframe of the Low Income Issues working group.

One of the main concerns leading to the formation of this working group is whether low income utility customers will benefit from or at least not be harmed by the introduction of retail electric competition in Arizona. Currently the vast majority of low income customers served by

utilities regulated by the Corporation Commission have one or more low income programs available to them which are designed to make utility service more affordable. However, only 3 of the 11 Affected Utilities that have residential customers offer one or more low income programs. Concerns have been raised that low income customers, who could be perceived as being less desirable customers by potential future energy suppliers in the competitive market, possibly would end up paying exorbitant prices for electric utility service in the competitive market.

The group began discussing this issue in terms of providing universal service to low income customers in the competitive market. However, the group agreed that the term universal service should not be used because it has unneeded connotations, including its close association with Universal Service Fund activities in the telecommunications industry. The group discussed a number of possible terms to use for the overarching concept of addressing low income customer needs in retail electric competition. The term the group reached consensus on was affordable energy service. The group also created a two-part definition for affordable energy service which is: a) providing service to all customers at just and reasonable rates and b) providing non-discriminatory access to service. The group noted that utilities have current line extension policies that in some cases may limit the access of some rural residents to utility service, due to the prohibitively high cost of long line extensions. The group agreed that its definition of affordable energy service is not directed at utility line extension policies, but rather toward the need of current low income utility customers to receive electric service.

III. Consensus Recommendations

The group attempted to reach a consensus on low income issues related to retail electric competition. Consensus was considered to have been reached when all members of the group in attendance at one of the working group meetings agreed on a given consensus recommendation and the consensus recommendation was not changed at later meetings. Following each consensus recommendation is a short statement which provides the context for the consensus recommendation.

1. At a minimum, preserve the existing low income programs and funding for the affected utilities including rate discounts, weatherization, bill assistance, and education.

Prior to the introduction of retail electric competition in Arizona, some low income utility customers benefit from a number of low income programs, including weatherization, rate discounts, bill assistance, and energy education. The level of funding for these programs varies by utility and some utilities do not offer some or all of these programs. Arizona's low income utility customers should not see a reduction in the level of assistance they currently receive, as a result of the introduction of retail electric competition.

1A. Current levels of rate discounts to customers at current benefits levels should continue irrespective of energy supplier.

Low income customers should not see a decrease in their existing rate discount benefit as a result of changing energy suppliers. Current rate discounts typically are given as a percentage off of the customer's bill. In the competitive market, the generation and distribution portions of the customer's bill will be represented separately.

2. Statewide comparability of low income programs has merit and should be encouraged.

Recognizing that this requires ACC and State Legislative action, consistent systems of statewide funding for low income programs and equitable funding from all utility ratepayers should be encouraged. Statewide low income programs, which are consistent from utility service territory to utility service territory, are a complex issue which cannot be fully addressed by the Low Income Issues working group at this time. The working group discussed the pros and cons of such an approach and recognized that to pursue a statewide approach to low income programs, issues such as the multi-jurisdictional nature of Arizona's utility industry should be pursued.

3. *All customers should pay system benefits charges on a non-bypassable per kWh basis.*

The System Benefits Charge was created to ensure that all customers who enter the competitive market will continue to pay for certain public interest programs, including low income programs. Section R14-2-1608.A of the Retail Electric Competition Rules explicitly states that the System Benefits Charge is "non-bypassable" and should be recovered "from all consumers . . . who participate in the competitive market."

3A. *We support adoption of Staff's proposed language in R14-2-1613.I.12 of the July 10, 1998 draft proposed revisions to the retail electric competition rules.*

The proposed wording states that "Transmission primary voltage CT's and PT's may be owned by the Affected Utility only." This language closes the potential loophole to the non-bypassability of the System Benefits Charge of a large end-user beginning to take service off of transmission lines at the 69 kV or higher level. This type of bypass would reduce the amount of funding received through the System Benefits Charge for low income programs and other public interest programs.

4. *We support adoption of Staff's proposed language in R14-2-1608.A of the **June 23**, 1998 draft proposed revisions to the retail electric competition rules.*

The proposed wording states that:

"By the date indicated in R14-2-1602, each Affected Utility shall file for Commission review non-bypassable rates or related mechanisms to recover the applicable pro-rata costs of System Benefits from all customers located in the Affected Utility's service area who participate in the competitive market. Affected Utilities shall file for review of the System Benefits Charge **at least** (emphasis added) every three years. The amount collected annually through the System Benefits Charge shall be sufficient to fund the Affected Utilities' Commission - approved low income, demand side management, environmental, renewables, and nuclear power plant decommissioning programs in effect from time to time."

Adoption of the proposed changes to the rules would clarify this section of the rules, provide for a regular review of the System Benefits Charge and its components, and would allow for adjustments to the funding levels of programs. The July 10, 1998 version of Staff's proposed revisions to the retail electric competition rules deletes the words "at least" in R14-2-1608. The group strongly agrees that this wording should remain in the system benefits section.

5. *A low income customer needs assessment should be conducted.*

One aspect of addressing low income issues during and after the introduction of retail electric competition in Arizona is evaluating the needs of low income utility customers. Consistent with the working group goals, as shown in Section II of this report, a low income customer needs assessment should be conducted on a periodic basis, beginning with a baseline study. The needs assessment should address at least the following issues:

- An analysis of current low income statistics, including the number of utility customers at various levels of poverty.
- The impact of low income programs on the energy burden (percentage of income used to pay energy bills) of low income customers.
- The impact of low income programs on customer bills.
- An assessment of strategies to make energy bills affordable.
- The impact of retail electric competition on low income customers.
- A review of activities in other states related to retail electric competition and low income customers.
- Inclusion of other fuel types such as natural gas, propane, wood, etc., as appropriate.
- An evaluation of current low income programs.

Stakeholders, including affected utilities, utility distribution companies, and non-affected utilities, should participate in the needs assessment. Such an assessment should use existing resources, as feasible, and be done independently, as feasible.

6. *The Standard Offer Service offered by the provider of last resort shall assure that access to electric service by low income customers is not in any way reduced from that currently available.*

Staff's proposed language in R14-2-1606.A of the July 10, 1998 draft proposed revisions to the retail electric competition rules states that "After January 1, 2001 Standard Offer service shall be provided by Utility Distribution Companies who shall also act as providers of last resort." We support adoption of this proposed language. This will ensure that a provider of last resort is available to low income customers in the future.

IV. Description of Appendices

Further discussion of low income issues related to retail electric competition in Arizona is contained in the following appendices.

Appendix A -- Further Discussion of Low Income Issues

Appendix A contains a discussion of low income issues which were not fully addressed in the consensus recommendations. Issues include the affordable energy service, statewide versus utility company service territory low income programs, and the system benefits charge.

Appendix B -- Working Group Participants

Appendix B lists the organizations and individuals who participated in the low income issues working group as well as the dates the group held meetings.

Appendix C -- Low Income Programs in Arizona

Appendix C identifies the current level of funding for Arizona utility low income programs. There is also a complete listing of the low income programs available in Arizona from federal, state, and utility funding sources and a brief description of each program. A listing of all Arizona utilities who serve residential customers and each utility's number of residential customers is provided.

Appendix D -- Arizona Poverty Statistics

Appendix D contains eight tables that summarize poverty statistics at the national, statewide, county, and local levels.

Appendix E -- Electric Utility Low Income Rate Discount Programs

Appendix E lists the low income related rate discount programs offered by Arizona utilities.