

PUBLIC SERVICE COMMISSION OF MARYLAND

Report on
Options for Expanding the Electric Universal Service
Program to Include Assistance to Low-Income Residential
Tenants of Apartments and Condominium Owners

Prepared for
the Senate Finance Committee and
the House Economic Matters Committee
of the Maryland General Assembly

In compliance with
Chapter 560, 2007 Maryland Laws

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I. Introduction and Summary

With the enactment of the Electric Competition and Customer Choice Act of 1999, an Electric Universal Service Fund was established which provided low-income electric customers access to funds for assistance to pay their electric bill. Today approximately 90,000 households take advantage of this program. However, not all low-income customers are directly responsible for paying their electric bills. Many low-income individuals reside in apartments or condominiums where the electric bill comes to a landlord or condominium association, and the tenant or condominium owner pays his/her applicable portion of the electricity bill indirectly; either the amount is included as part of the monthly rental charge or assessed by other methods (such as monthly condominium fees). Consequently, even though these individuals may otherwise meet certain of the eligibility criteria to participate in the Electric Universal Service Program (“EUSP”), because they are not direct customers of an electric company, they have no access to EUSP assistance. Although the expansion of EUSP to these low-income individuals is laudable, expanding eligibility to EUSP to include these individuals will pose administrative challenges, detailed in this report, to the Office of Home Energy Programs, which administers the EUSP. Further, the challenges of assisting the poor to meet their electric bills are exacerbated by rising energy costs. Consequently, expanding eligibility for EUSP also will pose funding problems for the General Assembly if benefits are to be maintained at the current level for all EUSP participants. Consequently, the Commission’s recommendation is that the EUSP program not be expanded to include low-income tenants and condominium owners that are not direct customers of an electricity company, but rather a program similar to EUSP be established for this target group.

This document is the report by the Maryland Public Service Commission (“Commission”) on findings of the Commission, the Office of Home Energy Programs of the Department of Human Resources (“OHEP”), and the Maryland Office of People’s Counsel (“OPC”) on options for expanding the electric universal service program to

include assistance to low-income residential tenants of apartments and low-income residential condominium owners who are not actual customers of an electric company. This report is submitted in compliance with Senate Bill 491, signed into law on May 17, 2007 and effective July 1, 2007. *See Appendix A attached hereto.*

Senate Bill 491 required the Commission, OHEP, and OPC (collectively, “Agencies”) to meet to discuss certain options for expanding the EUSP to include assistance to low-income residential tenants of apartments and low-income residential condominium owners who are not actual customers of an electric company. These individuals, although eligible based on the income eligibility standards of the EUSP, are not eligible to receive EUSP because they have no account with an electric company, but rather pay a portion of the electric bill for the apartment or condominium building in which they live either through their rent or in their monthly condominium association fees. Senate Bill 491 identified eleven specific items that the Agencies were to consider in discussing the expansion options.

Representatives of the Agencies met on May 24, 2007, on July 30, 2007, and on September 12, 2007 to discuss available options, including discussions of the eleven specified items delineated in Senate Bill 491. This document reflects the findings of the Agencies after consideration of the eleven specified items as required by Senate Bill 491. The recommendations are solely those of the Commission.

II. Joint Findings

(1) The estimated number of tenants of apartments and condominium owners who could be income eligible under the electric universal service program;

The Agencies’ representatives believe that the best estimate of tenants of apartments and condominium dwellers who might be income eligible under Senate Bill 491 is 53,760. The representatives note, however, that identification of this target population is difficult and could not be determined directly. The representatives used the findings of a study (not finalized) that was commissioned by a number of public benefit agencies that provided an analysis of their low-income populations. APPRISE, a research firm, is conducting the study entitled *Multi-State Low Income Study*, which is in the process of being finalized

(“APPRISE Study”). According to the study, 84 percent of the 333,600¹ Maryland households that are categorized as low-income are direct billed for electricity. See APPRISE Study at Appendix 1, State Report-Maryland at p. Maryland 4 Table 2C. If this analysis is correct, then potentially 16 percent of low-income households in Maryland, or 53,760 households, have no electricity account on their own and could be included in the category the Agencies have been directed to consider for the purposes of Senate Bill 491. This number would represent the maximum target population because many low-income tenants receive allowances for utility services which would duplicate benefits which might be received under EUSP. For example, the federal Section 8 housing program has such a benefit.

(2) Other programs that are currently available to low-income residential tenants of apartments and low-income residential condominium owners, including the Maryland Energy Assistance Program and rental assistance programs;

Other energy assistance resources are available from federal, State and private sources. Programs that provide some help with energy-related costs include various fuel funds, the Salvation Army and other charities, the Maryland Energy Assistance Program (“MEAP”), various types of subsidized housing that build a utility allowance into the rent, weatherization programs, and the recently implemented Maryland Energy Efficient Affordable Housing Development Grant Pilot Program (“MEAD”).

Other sources of general overall assistance available to low-income tenants and condominium owners include food stamps, purchase of child care, eviction assistance, temporary cash assistance, earned-income tax credits, various county-specific programs, and Emergency Assistance.

(3) How to determine the amount of assistance that could be provided under the electric universal service program to income eligible tenants of apartments and owners of condominiums who are served by a master meter or by a sub-meter;

Determining the approach for calculating the benefit is one of the challenges in serving the expanded population. The Agencies agree that the level of assistance to be provided to the low-income tenants of apartments and owners of condominiums population would have to resemble the existing benefit calculation process. The Agencies recognize that residents of apartment buildings and those purchasing electricity through condominium associations generally pay lower electric rates as commercial customers than they would as residential customers. Although an exact comparison of billings under different rate schedules is complicated because residential and commercial rate schedules have different rate

¹ Number based on data from the U.S. Bureau of Census March Current Population Survey (CPS) and 2000 December Census Table 4 F (N).

structures, the Commission has calculated that on average a residential customer with the same usage could save between \$5 and \$10 a month under commercial rates as compared to taking service on a residential schedule.² EUSP benefits are customized for each individual applicant based on an evaluation of their poverty level and electric usage. It would be cumbersome and complicated to develop individual usage data for use in determining an EUSP benefit for low-income tenants of apartments and owners of condominiums without a separate bill. Therefore, OHEP will have to determine a one-time benefit payment which does not rely on customer specific information but instead uses average consumption data derived from other sources.

(4) How the payment of assistance from the electric universal service program would be provided in a manner that ensures that tenants of apartments and owners of condominiums directly benefit from the assistance;

The Agencies acknowledge that the energy assistance flowing to low-income tenants of apartments and owners of condominiums population would have to be done without disrupting or requiring drastic changes in the existing processes used to provide benefits to the existing EUSP population. OHEP has a small central staff which provides the administrative services necessary to run EUSP but relies on a network of Local Action Agencies (“LAAs”) in each jurisdiction to actually enroll EUSP applicants. These LAAs actually meet with applicants, verify program qualifications, and then send completed applications to the central office. It is a manual process. OHEP tabulates the applicants and their benefits, and provides information to utilities and the Comptroller’s Office on benefits. The Comptroller’s Office disburses the funds directly to utilities for the 93,000 applicants in lump sum payments pursuant to directions from OHEP. The utilities then divide the assistance into monthly portions, crediting the applicants’ accounts with the funds 1/12 per month.

OHEP does provide Maryland Energy Assistance Program (“MEAP”) benefits to this expanded population. MEAP is a federally funded energy program which provides a one-time payment to low-income individuals to assist with paying for energy bills related to heating. The income eligibility requirements are identical to those for EUSP. OHEP issues a one-time payment either to the landlord or the tenant or directly to the residential owner of a condominium. Payment of the grant to the landlord requires that the landlord agree to accept payment on behalf of the MEAP participant and has a mechanism for reducing the rent. Enforcement for MEAP consists of notifying the tenant that the landlord has received the energy benefits on behalf of the tenant.

A similar process could be used to direct benefits to low-income tenants of apartments and condominium owners but it would involve substantial changes in OHEP’s office procedures, computer system, and supplies to support this manual

² For example, Baltimore Gas and Electric Company’s Type 1 commercial rate is 9.8 ¢ per kWh compared to the residential rate of 10.86¢.

processing of benefits. Additionally, such a method of payment lacks any assurance that EUSP assistance would be actually used for the purposes intended.

(5) How budget billing requirements of the electric universal service program would apply to tenants of apartments and owners of condominiums;

The EUSP was enacted to assist low-income electric customers to stay on service by encouraging monthly bill payment. EUSP grants are electronically forwarded to utility companies. The utilities credit the EUSP grant recipient's electric bill monthly with 1/12 of the total grant. The goal of the program is to make the monthly payment reasonable enough that the EUSP recipient pays the bill. If an EUSP recipient ceases bill payment, his/her EUSP grant terminates and the utility returns any uncredited EUSP grant balance back to OHEP.

Implementing a monthly energy assistance grant for low-income tenants of apartments and owners of condominiums would be extremely burdensome and administratively expensive. First, OHEP would have to develop a methodology for calculating a benefit level without customer specific information. Second, OHEP could not disburse the EUSP benefit electronically but would have to mail checks to a landlord or low-income condominium owner directly. Rather than 12 checks, OHEP would most likely issue a single payment. OHEP would need to establish if the landlord was willing to accept payment on behalf of the EUSP recipient and to adjust their rent accordingly. Low-income tenants of apartments and owners of condominiums would most likely receive lump sum payments, which would not have to be refunded if they ceased occupying the apartment or condominium. This raises an equity issue for OPC between regular EUSP participants who must be on budget billing to be in the program and who lose their benefit if they cease bill payments and low-income tenants of apartment buildings and condominium owners who might receive EUSP benefits without such limitations.

(6) The impact on current participants of the electric universal service program of expanding the program to include assistance to tenants of apartments and residential condominium owners;

The benefits of the EUSP program both before and after the expansion of the target population as mandated by Senate Bill 491 will depend on the size of the target population and the funding level of the program. If the funding level is not increased by a sufficient amount, then the benefit level to existing recipients will be decreased and/or the EUSP will run out of money earlier in the program year thereby potentially denying benefits to past EUSP participants. This is discussed in more detail below.

(7) The impact on the current funding level and the need to increase the funding level, of the electric universal service program of expanding the program to

include assistance to tenants of apartments and residential condominium owners;

The impact on the current funding level could be significant. Several factors influence this calculation including the estimated size of the low-income tenant and residential condominium owner population, the actual EUSP funds available in a fiscal year and the number of traditional EUSP participants. In fiscal year 2007, EUSP certified 93,323 applicants for bill payment assistance and referred \$48,315,000 for bill payment assistance, with an average grant of \$519. In fiscal year 2007, OHEP spent \$19.5 million total for bill assistance, arrearage retirement, and administration in excess of the \$37.5 million collected from electric customers in their electric bills. The additional funds came from the general funds of the State.

The cost to EUSP of expanding the eligible population could range from \$7.7 million to \$27.9 million.

- During fiscal year 2007, OHEP reached 27.6 percent of the State's low-income population with EUSP grants (93,000 of 336,000).
- If OHEP reached a similar percentage of the low-income tenants of apartments and owners of condominium population or 14,837 (27.6 X 53,760), an additional \$7.7 million (14,837 X \$519) would have been required to fund the average grant provided by OHEP.
- The maximum cost of \$27.9 million was derived by multiplying the estimated total target population (53,760) by the average grant (\$519).

On the other hand, if the \$48,315,000 in bill assistance money dispersed by OHEP had to be spread over the larger population of eligible applications, the average grant would have been reduced to \$447 ($93,323 + 14,837 / \$48,315,000$), a drop of \$72 ($\$519 - \447) per recipient.

(8) The impact on the operation and administration of the electric universal service program of expanding the program to include assistance to tenants of apartments and residential condominium owners;

As explained in the response to question five, expanding EUSP benefits to residential customers who pay their electric bills as part of their rent or condominium fees will considerably complicate the administration of the program, especially if procedures need to be implemented to encourage regular bill payment of energy charges by low-income tenants of apartment buildings and owners of condominiums. Both the in-take process conducted by LAAs and the administration of the disbursement of funds would need to be changed. Although income eligibility would be the same for current recipients of EUSP and tenants of apartments and residential condominium owners, new information would need to be collected by LAAs for use in disbursing funds such as a landlord's address or residence. This type of resident information is currently verified by providing the utility bill.

OHEP's process for distributing payment to EUSP recipients is highly automated. Funds are disbursed to utilities by the Comptroller's Office in batches and not through paper processing of individual invoices. Utilities process the actual bill credits for each applicant. Sending checks to numerous individual recipients in rental apartments or their landlords and owners of condominiums would require additional staff to verify payments addresses. The procedures would be so different that expanding EUSP benefits to low-income tenants of apartments and owners of condominiums would, in reality, require a separate program.

(9) How outreach programs could be put in place to notify tenants of apartments and owners of condominiums about the electric universal service program;

There are a number of outreach programs that currently exist to notify low income electric company customers about assistance afforded through EUSP. This existing outreach would continue with modifications to collateral material to notify the expanded population eligible for EUSP assistance.

(10) Any administrative and legislative changes that would be needed to expand the electric universal service program to include assistance to income eligible tenants of apartments and owners of condominiums; and

The legislative changes would be relatively straightforward amendments to the eligibility requirements of the EUSP enabling legislation codified at Public Utility Companies Article §7-512.1, *Annotated Code of Maryland*. However, the administrative changes as discussed above would be significant and would require the creation of what is essentially a new program.

The legislative changes necessary would be to expand eligibility for EUSP:

7-512.1(a)(1) . . . electric customers, persons making rental payments or residential owners of condominiums where the electric service is in another person's name, . . .

7.512.1(c)(ii)1 . . . for electric customers, persons making rental payments, or residential owners of condominiums where the electric service is in another person's name, . . .

(11) How outreach programs could be put in place to encourage landlords of apartments and condominium associations to competitively shop for electric supply services for their apartment tenants and condominium owners.

Apartments and condominium buildings pay commercial rates. Most likely buildings of this size would be served under Type II Commercial Electric Service tariffs. There is robust retail competition for these customers. Over 50 percent of Type II customers have already switched to one of the 16 active retail suppliers

within the State. However, additional outreach would be advisable. OHEP could reach this population by reaching out to relevant trade associations, such as the Apartment and Office Building Association (“AOBA”), hoping to inform their membership of the availability and benefits of retail choice or asking other State agencies to include literature in mailings and communications directed to apartment buildings and condominium associations.

III. Recommendations

Rising utility rates place an economic burden on all customers. Low-income customers, in particular, may be ill suited to cope with rising electric costs. Anyone paying for electricity either directly or indirectly contributes to the EUSP. The commercial customers paying the electric bills for low-income tenants and condominium owners pay \$27.7 million of the \$37 million collected from electric customers for EUSP. Expanding EUSP benefits to occupants of rental and condominium units not receiving an electric bill will pose a significant challenge to OHEP. Many of the fundamental characteristics of the EUSP program may have to be abandoned to provide the benefit at an administratively acceptable cost. For this reason, expanding the benefits to this population should be accomplished through a separate program to avoid confusion.

The Agencies also conclude that a more direct way to provide energy assistance to low-income tenants of apartment buildings and condominium owners would be to implement weatherization and energy efficiency measures for such residential premises. Through such means, occupants of those premises would conserve energy and experience lower energy bills, and the State would avoid the fairness, operational, and logistical issues associated with the Senate Bill 491 approach.

The Agencies note that a program for condominium and apartment building owners similar to the recently implemented Maryland Energy Efficient Affordable Housing Development Grant Pilot Program would be a much more direct and effective way to achieve the goals of Senate Bill 491. In the alternative, this issue might be approached through adoption of a general rent subsidy for low-income tenants for whom

such a subsidy is not currently available or a tax credit for low-income owners of condominiums.

Appendix A

Senate Bill 491

AN ACT concerning

Public Utility Companies – Electric Universal Service Program – Residential Tenants and Condominium Owners – Study

FOR the purpose of requiring the Public Service Commission, the Office of Home Energy Programs in the Department of Human Resources, and the Office of People’s Counsel to meet to discuss certain options for expanding the electric universal service program to include assistance to certain low-income residential tenants of apartments and low-income residential condominium owners who are not actual customers of an electric company; specifying items that the Agencies shall consider in discussing certain options; requiring the Commission to report to certain committees by a certain date; and generally relating to a study of expanding the electric universal service program for residential tenants and condominium owners.

SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND, That

(a) The Public Service Commission, the Office of Home Energy Programs in the Department of Human Resources and the Office of People’s Counsel shall meet to discuss options for expanding the electric universal service program to include assistance to low-income residential tenants of apartments and low-income residential condominium owners who are not actual customers of an electric company.

(b) In discussing options, the Agencies shall consider:

1. the estimated number of tenants of apartments and condominium owners who could be income eligible under the electric universal service program;
2. other programs that are currently available to low-income residential tenants of apartments and low-income residential condominium owners, including the Maryland Energy Assistance Program and rental assistance programs;
3. how to determine the amount of assistance that could be provided under the electric universal service program to income eligible tenants of apartments and owners of condominiums who are served by a master meter or by a sub-meter;
4. how the payment of assistance from the electric universal service program would be provided in a manner that ensures that tenants of apartments and owners of condominiums directly benefit from the assistance;

5. how budget billing requirements of the electric universal service program would apply to tenants of apartments and owners of condominiums;
6. the impact on current participants of the electric universal service program of expanding the program to include assistance to tenants of apartments and residential condominium owners;
7. the impact on the current funding level and the need to increase the funding level, of the electric universal service program of expanding the program to include assistance to tenants of apartments and residential condominium owners;
8. the impact on the operation and administration of the electric universal service program of expanding the program to include assistance to tenants of apartments and residential condominium owners;
9. how outreach programs could be put in place to notify tenants of apartments and owners of condominiums about the electric universal service program;
10. any administrative and legislative changes that would be needed to expand the electric universal service program to include assistance to income eligible tenants of apartments and owners of condominiums; and
11. how outreach programs could be put in place to encourage landlords of apartments and condominium associations to competitively shop for electric supply services for their apartment tenants and condominium owners.

(c) On or before October 1, 2007, the Public Service Commission shall report to the Senate Finance Committee and the House Economic Matters Committee, in accordance with §2-1246 of the State Government Article, on the findings and recommendations of the Agencies.

SECTION 2, AND BE IT FURTHER ENACTED, That this Act shall take effect July 1, 2007.