

ELECTRIC UNIVERSAL SERVICE PROGRAM

Sec. 7-512.1(c) Report

DECEMBER 2006

**PUBLIC SERVICE COMMISSION
OF MARYLAND**

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I. OVERVIEW

The Electric Universal Service Program (or “EUSP”) is part of the Electric Customer Choice Act of 1999 (“the Act”), and was created by the Maryland General Assembly to assist low-income electric customers with arrearage retirement, bill assistance and weatherization during the restructuring of Maryland’s electric and electricity supply market. Section 7-512.1 of the Act authorized the Public Service Commission (“the Commission”) to establish the program, make it available to low income electric customers Statewide and provide administrative oversight to Office of Home Energy Programs ("OHEP"), the agency within the Department of Human Resources (or "DHR"), responsible for program delivery.

II. LEGISLATIVE REQUIREMENTS

Under the Act, the Commission is required to oversee the program as it is administered by the Department of Human Resources. Section 7-512.1(c) of the Act requires the Commission to report annually to the General Assembly on the universal service program, including:

- (i) subject to subsection (e) ... a recommendation on the total amount of funds for the program for the following fiscal year based on:
 1. the level of participation in and the amounts expended from the universal service program during the preceding fiscal year;
 2. how payments to customers were calculated during the preceding fiscal year;

3. the projected needs of the universal service program for the next fiscal year; and
 4. the amount of any surplus carried over in the universal service program fund under subsection (f)(6)(i) of this section;
- (ii) for bill assistance:
1. the total amount of need, as determined by the Commission, for electric customers with annual incomes at or below 150% of the federal poverty level and the basis for this determination; and
 2. the percentage of need, as determined by the Commission, but at a minimum of 50%, that should be funded through the universal service program and the basis for this determination;
- (iii) the amount of funds needed, as determined by the Commission, to retire arrearages for electric customers who have not previously received assistance in retiring arrearages under the universal service program and the basis for this determination;
- (iv) the amount of funds needed, as determined by the Commission, for bill assistance and arrearage retirement, respectively, for customers for whom income limitations may be waived under subsection (a)(7) of this section, and the basis for each determination;
- (v) the impact on customer's rates, including the allocation among customer classes, from collecting the total amount recommended by the Commission under item (i) of this paragraph; and
- (vi) the impact of using other federal poverty level benchmarks on costs and the effectiveness of the universal service program.

II. DISCUSSION

The Commission's consideration and review of operational plans, proposals, workgroup reports and of filings is conducted, principally, in Case No. 8903. By letter dated September 29, 2006, the Commission requested that DHR/OHEP file its FY 2006 Annual Report in this matter in order to assist the Commission in preparing

its report to the General Assembly. DHR/OHEP filed its FY 2006 Annual Report on October 11, 2006. On October 20, 2006, other parties, including the Maryland Office of People's Counsel ("OPC"), Baltimore Gas and Electric Company ("BGE"), Maryland Industrial Group ("MIG") and the Public Service Commission Staff ("Staff") filed comments in response to OHEP's report.

In its FY 2006 Annual Report, OHEP provided highlights pertaining to the operation of EUSP for the preceding program year, noting the average bill assistance benefit awarded per household, \$410; the average arrearage retirement benefit awarded per household, \$435; the aggregate number of households served, 83,853; and the total amount expended during by the program during the program year, \$34,378,301 million.

Based on the FY 2006 program year experience, the expansion of eligibility to households up to 175% of the federal poverty level, the commencement of market-based electricity rates in various utility service areas and other factors, OHEP opines that increased funding will become necessary in order to achieve the EUSP program goal, i.e., meeting 50 percent of need.

Among the comments filed in response to OHEP's report, OPC supports OHEP's contention that a funding increase may be warranted. OPC, suggest that future funding needs may be greater than the amounts recommended by OHEP. However, OPC does not favor an increased collection of funds from residential customers to support the EUSP fund. Both OHEP and OPC favor modification of the

EUSP arrearage retirement component, particularly to remove the one-time-only eligibility criterion.

BGE also supports OHEP's recommendation that the statutory arrearage retirement cap be removed and that flexibility, with regard to amounts allocated to arrearage retirement, be restored to Commission discretion. BGE made no comment on the total dollar amount allocated to the EUSP fund.

Staff, also, takes no position with respect to the total funding level for the EUSP or the source from which such funds should come. Staff, however, agrees with OHEP that the current statutory amount of funds available for arrearage retirement assistance is insufficient. Staff recommends that a statutory cap, with regard to arrearage retirement assistance, should be maintained – albeit that the amount allocated be raised. Staff does not support repeated awards of arrearage retirement assistance to EUSP participants.

In its response, MIG opposes any increase in the EUSP program at this time. MIG also opposes any suggested proposals to remove requirements that unused portions of funds collected during an EUSP program year be returned to ratepayers.

On November 1, 2006, the Commission held a Public Hearing in this matter. Representatives from OHEP, BGE, Pepco Holdings Company, Pepco Energy Services, Washington Gas Energy Services, OPC and Staff addressed comments to this Commission with respect to OHEP's report. Upon review of OHEP's FY 2006 Annual Report and the comments of the parties, the Commission, at this time,

recommends \$37 million funding level for the Electric Universal Service Program for FY 2007. No statutory amendments are proposed at this time.

III. COMMISSION'S § 7-512.1(c) FINDINGS

During FY 2006, the entire \$34 million appropriated amount for EUSP was expended during the program year as well as a nearly additional \$1.6 million deficiency fund appropriation. Senate Bill 1, enacted during the 2006 Special Legislative Session, increased the level of EUSP funds from \$34 million to \$37 million annually.

- **Participation / Funds Expended in FY 2006**

According to information provided by OHEP in its FY 2006 Annual Report, the level of participation in EUSP continues to increase in an upward direction. An increase of 5.5 percent, up from 83,853 to 93,186 applications in FY 2006. The level of funds expended also increased – from \$30,516,239 in FY 2005 to \$3,594,480 in FY 2006.

- **Benefits Matrix (Method of Calculation) for FY 2006**

OHEP described that for FY 2006, individual customer EUSP benefits (payments) were calculated using a benefits matrix. Benefits are based on customers' income and associated poverty index, coupled with electrical usage. During FY 2006, OHEP utilized poverty levels or bands: 0-75%, 76-110%, and 110-150%, with a fourth – separate level for applicants residing in subsidized housing.

Additionally, usage data collected from each utility on a per customer / applicant basis is used to customize the benefit specifically for each customer. Based

on utility provided information, OHEP calculates the estimated annual cost of electricity for each EUSP applicant. The customer / applicant's estimated annual cost of electricity is considered along with income level. Utility specific usage data allows OHEP to factor price information in the benefits matrix, providing for a more efficient use of EUSP funds.

According to OHEP during FY 2006, the income group at the level 0-75% of poverty received a benefit equal to approximately 75 percent of the their estimated annual bill. Applicants at 76-110% of poverty received a benefit equal to approximately 60 percent of their estimated annual bill; and the group at 111-150% of poverty received a benefit equal to approximately 50 percent of their estimated annual bill.

When the housing subsidy factor is considered; households living in subsidized housing receive a benefit that is 14.5 percent of the estimated annual electricity cost (non-electric heating customers). Subsidized housing MEAP recipient (electric heating customers) received an additional 15% of their estimated annual bill.

- **Projected Needs for FY 2007**

For FY 2007, as noted by DHR/OHEP, a number of factors could affect the amount of need and level funding for EUSP. Among these are: annual increases in enrollment during each of the past five years; legislative increase in the maximum income eligibility guideline; market prices for electricity; increasing electricity demand; weather conditions. Although OHEP proposes an overall increase of approximately \$10 million annual for EUSP funding, the specific need – above the

current statutory funding – for FY 2007 is unknown. There is insufficient data to recommend any change above the amount currently authorized.

- **Surplus / Carryover from FY 2006**

For FY 2006, OHEP reports that no funds were retained from FY 2006 into FY 2007. Rather, a deficiency appropriation in the amount of \$10. Million was approved by the General Assembly to address the FY 2006 EUSP short-fall. OHEP expended \$1,594,480 of the supplemental EUSP funds in FY 2006.

- **Bill Assistance**

- **Total Need (electric customers at or below 150% of poverty)**

According to OHEP, the legislative increase in EUSP legibility from 150% of poverty to 175% of poverty increases the potentially eligible EUSP population from 285,000 to an estimated 345,000 households.

- **Percentage of Need (50% determined by the Commission above)**

The Commission continues to find that a minimum of 50% of the determined need should be funded by the EUSP. According to OHEP, the DHR/OHEP FY 2006 benefits matrix is designed to cover 50 to 75 percent of participating households' electricity bills.

- **Weatherization Funds Needed**

The 2005 General Assembly established \$1,000,000 as the level for EUSP weatherization funds – assigning the administration of those funds to the Department of Housing and Community Development. The current level of funding and responsibility for administration should be maintained.

- **Funds Needed to Retire Arrearages (for arrearages incurred prior to the implementation date)**

The statutory maximum arrearage retirement amount for EUSP is \$1.5 million. During the prior year, OHEP provided arrearage retirement funds to 3,937 households. The average arrearage benefit payment by OHEP was \$435. While the current funding level is less than expended in FY 2006 (an additional \$211,649 from the deficiency fund appropriation was expended for arrearage retirement in FY 2006), the Commission finds that the statutory amount of \$1.5 million arrearage retirement component should be maintained.

- **Funds Needed (Income Limitation Waivers)**

According to OHEP, 273 requests were considered for waiver of EUSP income guidelines during FY 2006. Of those, 252 requests were approved. During FY 2006, \$103,167 in EUSP bill assistance and \$2,430 in arrearage retirement assistance was issued in connection with income guideline waivers for a total of \$105,597 in income waiver related expenditures. At present, the funds needed to satisfy EUSP income waiver request is not known.

- **Impact on Customer Rates / Including the Allocation Among Customer Classes**

The allocation methodology for collecting EUSP funds from customers is based on a 24-step matrix, which is adjusted periodically by the Commission to account for significant changes – as they occur – among customer class sizes. Currently, residential customers pay 37¢ per month. Other customer classes, from

small commercial to large industrial are allocated charges by scale based upon historical usage – consumption.

- **Impact of Using Other Federal Poverty Program Benchmarks**

During the 2006 Special Legislative Session, the General Assembly amended the EUSP eligibility criteria upward to 175% of the federal poverty level. This expanded eligibility, the Commission believes, will provide a buffer for additional customers that would otherwise be ineligible – particularly as market-based electricity rates unfold.

- **Outreach Efforts**

Additionally, as OHEP noted in its report, outreach has continued to serve a vital role in implementing EUSP. Special efforts have been noted by OHEP to encourage and secure participation from persons living in subsidized housing, elderly persons and households with young children. OHEP also noted its emphasis on scheduling multiple smaller energy expos in various locations provide better access by applicants and more efficient processing of applications by local administering agencies (LAAs). These, and other initiatives of OPC, Staff and the utilities, are to be commended for their success in making EUSP and other forms of energy assistance available to Maryland’s low-income populations.

IV. CONCLUSION

Based upon the foregoing considerations, the Commission recommends the \$37 million total funding level for Year Eight. No statutory amendments are proposed at this time.

APPENDIX A

DHR/OHEP FY 2006 Annual Report for the Electric Universal Service Program (EUSP)

See Maillog Number 103377

(PSC Official Filings)

<http://www.psc.state.md.us/psc/>