

ELECTRIC UNIVERSAL SERVICE PROGRAM

Sec. 7-512.1(c) Report

DECEMBER 2005

**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) [providing that the total amount of funds to be collected for the universal service program each year shall be \$34,000,000], 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.

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

Overall, the \$34 million appears to have been an adequate level of funding for EUSP in prior years. Going forward, this level of funding should be maintained.

- **Participation / Funds Expended in FY 2005**

According to information provided by OHEP in its FY 2005 Annual Report, the level of participation in EUSP continues to increase in an upward direction (up from 80,825 in FY 2004 to 88,368 in FY 2005 – a growth of 9.3 percent). In FY 2005, OHEP spent \$30,516,239 of the \$34 million on bill payment assistance, arrearage assistance, outreach, weatherization and administration in FY 2005.

- **Benefits Matrix (Method of Calculation) for FY 2005**

OHEP described that for FY 2005, individual customer EUSP benefits (payments) were calculated using a benefits matrix. The benefits matrix was based on customer income and electrical usage and was designed so that the average benefit would cover approximately 50 percent of the average annual electric bill. The EUSP bill payment matrix for FY 2005 was based on a participant population of 72,000 households and produced an average bill payment assistance benefit amount of \$362.

- **Projected Needs for FY 2006**

For FY 2006, DHR/OHEP will continue using a benefit matrix for providing EUSP bill payment assistance. The benefit matrix has been redesigned to place greater emphasis on consumption, in order to assure more targeted benefits to households most in need. In FY 2006, EUSP customer benefits will vary more than in prior years, depending upon consumption.

The revised matrix uses – on a per customer basis: the actual kilowatt hour usage for the past twelve months; the Statewide average cost per kilowatt hour of electricity; an index to adjust the cost based on service territory differences. The

matrix then establishes the customer grant amount as a percentage of the total estimate usage for the year. Projections for FY 2006 are based on an EUSP expected participation rate of 80,000 eligible households.

- **Surplus / Carryover from FY 2005**

Based on DHR/OHEP's FY 2005 Final Report, \$3,483,761 was listed as potential carryover EUSP funds. Pursuant to § 7-512.1(f)(6), “[a]t the end of a given fiscal year, any unexpended bill assistance and arrearage funds ... collected for that fiscal year shall be retained in the fund and shall be made available for disbursement through the first 3 months of the next fiscal year” The Commission also extend, up to an additional 3 months, the period in which unexpended funds may be made available for disbursement. Unexpended FY 2005 bill assistance funds were disbursed by OHEP through supplemental grants issued to eligible EUSP customers during the periods prescribed in § 7-512.1(f)(6).

- **Bill Assistance**

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

According to OHEP, there are approximately 285,512 households in Maryland which would qualify for EUSP benefits based on the federal government's 150% of poverty benchmark. DHR/OHEP also estimates that the average eligible EUSP customer uses 8,000 kWh, which at current electric rates (typical Standard Offer Service – SOS rates) produces an average annual bill of \$680. (DHR/OHEP FY 2005 Final Report, Attachment F). Staff opines that average customer bills could increase this coming season, resulting in average annual EUSP customer electric bills

of as much as \$850. Based on these figures, the total amount of need for all eligible Maryland households at 150% of poverty for FY 2006 would be approximately \$243 million.

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

Fifty percent of the total need, as determined above would be approximately \$122 million. However, as DHR/OHEP notes in its report, a considerable number of eligible households do not apply for assistance. The currently reported level of penetration overall for EUSP assistance is approximately 29 percent of the eligible population (approximately 75,000 households). The DHR/OHEP EUSP bill assistance benefits matrix is designed to assist EUSP customers in meeting up to 50 percent of the customers' annual electricity bill, that is 50 percent of \$680 or 50 percent of \$850 multiplied by household population estimates ranging from 75,000 to 80,000, yields range from \$26 million to 34 million as the total EUSP need for the upcoming year.

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

DHR/OHEP notes in its report that there are, or may be, many factors that force households into arrearage circumstances. The statutory maximum arrearage retirement amount for EUSP is \$1.5 million. During the prior year, OHEP provided arrearage retirement funds to 3,894 households. The average grant amount per household was \$390. The Commission remains that the statutory amount be maintained.

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

According to OHEP, 126 requests were considered for waiver of EUSP income guidelines during FY 2005. Of that number, 113 waiver requests were approved. During FY 2005, \$36,252 in EUSP bill assistance and \$407 in arrearage retirement assistance was issued in connection with income guideline waivers for a total of \$36,659 in income waiver related expenditures. The average income waiver-related grant was \$321. Based on Staff's projected potential increase in average electric bills for the upcoming year, and in the absence of other forms of assistance, the need for waivers would be expected to increase.* 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**

The EUSP statute provides the use of 150 percent of federal poverty as the guideline or benchmark for EUSP eligibility. This standard is used largely to

* Project Heat Up, an initiative of the Governor's Office, is expected to target the population that might otherwise request EUSP and MEAP income guideline waivers.

coincide with the benchmark for other programs such as MEAP (Maryland Energy Assistance Program). As fuel costs increase, particularly during colder than normal periods – as is expected during the upcoming season – many consumers whose income falls just above the 150 percent level (e.g., in the range from 151 to 175 percent of poverty) are ineligible for benefits that they too clearly need.

- **Project Heat Up - and Outreach**

This year, Governor Ehrlich has created the initiative referred to as “Project Heat Up” to provide benefits to applicants whose household income places them above the current EUSP and MEAP eligibility range (i.e., households in the 151 to 175 percent of poverty income range). The enrollment period for Project Heat Up will be in effect between January 15, 2006 through March 31, 2006. This is part of the Governor’s \$13 million program initiative to help other low to moderate-income customers with their energy bills this winter. The project both increases the funds available to customers slated to receive MEAP assistance as well as expands the eligibility criteria to encompass a greater number of participants, base on expanded income provisions.

Additionally, as OHEP noted in its report, outreach has continued to serve a vital role in implementing EUSP. DHR/OHEP is to be commended for its increased outreach efforts. OHEP reports having reached approximately 217,771 of the estimated 278,000 low-income households in Maryland. The Commission encourages OHEP to continue its progress in expanding outreach Statewide. OPC, the Commission’s Staff, the utilities and non-profit charities alike are also to be

commended for expanding the outreach of EUSP and other energy assistance programs to those in need.

As a testament to the effectiveness of the combined outreach coordinated among OHEP, OPC, Commission Staff and others, in FY 2005, more than 27,000 households over the previous year actually applied for energy assistance. Highlights of OHEP's and other 2005 outreach activities include:

- Energy Assistance Week
- Energy Symposium – In conjunction with the University of Maryland Baltimore County (UMBC) Maryland Institute for Policy and Research (MIPAR)
- Governor's recorded public service announcements, broadcast Statewide during the winter heating season
- Text messages on public assistance notices
- Mailings to hospitals throughout the State
- Mailings to non-profit organizations
- Text messages on State payroll paystubs
- Notifications to all DHR State and local departments
- Printing and distribution of 200,000 program brochures, 12,000 calendars with energy conservation tips, and posters
- Energy Expos in Prince George's and Montgomery Counties and Baltimore City

These and a number of other initiatives demonstrate the commitment by OHEP, OPC, the Commission's Staff and the utilities to get EUSP and other forms of energy assistance to Maryland's low-income populations. Along with Project Heat Up, which will enroll households whose income lies in the range of 151 to 175 percent of poverty (during the period from January 15 – March 31, 2006), every effort should be made to pursue affordability for heating by low-income consumers this heating season.

IV. CONCLUSION

Based upon the foregoing considerations, the Commission recommends continuation of the \$34 million total funding level for Year Seven. No statutory amendments are proposed at this time.

APPENDIX A

DHR/OHEP FY 2005 Annual Report for the Electric Universal Service Program (EUSP)

See Maillog Number 99245

(PSC Official Filings)

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