BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Proposed Policies Governing Restructuring California's Electric Services Industry and Reforming Regulation	)	**R.94-04-031 (Filed April 20, 1994)**
Order Instituting Investigation on the Commission's Proposed Policies Governing Restructuring California's Electric Services Industry and Reforming Regulation	)	**I.94-04-032 (Filed April 20, 1994)**

LOW-INCOME WORKING GROUP REPORT

KATY OLDS

Facilitator for
LOW-INCOME WORKING GROUP

California/Nevada Community Action Association
926 J Street, Suite 408
Sacramento, CA 95814
Telephone: (916) 443-1721
Facsimile: (916) 325-2549

Dated: October 1, 1996

FUNDING AND ADMINISTERING
PUBLIC PURPOSE LOW-INCOME PROGRAMS
THE REPORT OF THE LOW-INCOME WORKING GROUP

TABLE OF CONTENTS

Page

EXECUTIVE SUMMARY....ES-1
Identifying and Funding the Need....ES-1
Program Design Proposals....ES-2
Baseline Rate Proposals....ES-2
Transition Issues....ES-3
Legislative Issue....ES-3
Preface....ES-3

ACKNOWLEDGMENTS....ACK-1
Recognition....ACK-1
Active Members....ACK-1
Active Working Group Organizations....ACK-3

INTRODUCTION....IN-1
CPUC Directive....IN-1
Fundamental Low-Income Ratepayer Issues....IN-2
The Group Process and Operating Principles....IN-2
The Structure Of This Report....IN-4

CHAPTER I: NEEDS MITIGATED BY CARE AND LIEE PROGRAMS....I-1
Introduction....I-1
Methodology....I-2
Size of Low-Income Population....I-3
Energy Burden....I-3
Use of "Participation" and "Saturation" Rates in This Report....I-4
CARE Program Data....I-5
CARE Participation Levels....I-5
Expanded CARE Data....I-6
LIEE Program Data....I-7
Background....I-7
LIEE Saturation Levels....I-8
Programs and Benefits Beyond Reducing "Energy Burden"....I-10
The Need for Appliance Service Ability....I-11
The Need for Greater Comfort or Functionality....I-11

Table of Contents
(continued)

CHAPTER I: NEEDS MITIGATED BY CARE AND LIEE PROGRAMS (continued)
The Need for Safety I-12
The Need For Community Benefits I-12
Other "Hard to Qualify" Needs and Benefits 1-12
Recommendations I-13

CHAPTER II: PROGRAM DESIGN PROPOSALS II-1
Introduction II-1
Recommendations II-1
Guiding Principles II-2
CARE Program Design Options II-3
Introduction II-3
Guiding Principles II-3
CARE Design Alternatives II-3
Fixed Percentage Discount Options II-4
Option 1A: Fixed Percentage Discount on the Entire Bill II-4
Option 1B: Fixed Percentage Discount to Fixed Charges II-4
Option 1C: Two Tiered Discount II-5
Option 2: Fixed Dollar Discount II-6
Option 2A: Fixed Dollar Discount II-6
Option 3: Set Minimum Price for Service To Low-Income Households (Lifeline Rates Model) II-7
Option 4: Energy Stamps II-7
Option 5: Sliding Scale Discount Based on Income II-7
Option 6: Aggregation Model: All Customers Served by A Single Carrier II-8
Further Considerations and Studies II-8
Full Implementation by January 1, 1998 ..... II-9
Long Term Implementation II-9
LIEE Program Design Options II-9
Introduction II-9
Guiding Principles II-10
Evaluation Criteria II-10
LIEE Frameworks II-11
Option 1: Audit Based Programs II-11
Option 2: Measured Based Programs II-12
Option 3: Performance Based Programs II-12
Transition Plan II-12
Energy Education Program Design Options II-13
Introduction II-13

Table of Contents
(continued)

CHAPTER II: PROGRAM DESIGN PROPOSALS (continued)
Current Programs II-13
Guiding Principles II-13
Evaluation Criteria II-14
Energy Education Design Proposals II-14
Option 1: Maintain The Status Quo II-14
Option 2: Extend Energy Education to the CARE Eligible Population and Include Consumer Protection Information In Energy Education Programs and Services II-15
Option 3: Augment current Program by Adding Consumer Protection; Serve Same Client II-16
Option 4: Pilot Program II-16
Transition Plan Proposals II-17

CHAPTER III: PROGRAM FUNDING AND SURCHARGE PROPOSALS III-1
Introduction and Summary III-1
Methodology III-2
Current Needs and Funding Levels III-3
Low-Income Funding Between Now and 2002 ..... III-5
California Alternate Rates for Energy III-5
Low-Income Energy Efficiency III-5
Legislative Provisions for Surcharge and Funding III-7
Low-Income Surcharge III-7
Electric Rate Freeze III-10
Surcharge Collection III-10
Uniform Surcharge III-10
Implementing a Uniform Surcharge III-11
Low-Income Balancing Account III-11
Need for a Balancing Account III-12
Surcharge Cost Allocation Methods III-12
Cost Allocation Methods III-12
Rationale for Different Electric Surcharge Methods III-16

CHAPTER IV: ADMINISTRATION IV-1
Introduction IV-1
Functions for Proposal Review IV-2
Policy Guidance IV-2
Governance IV-2
Budgeting Funds IV-2

Table of Contents
(continued)

CHAPTER IV: ADMINISTRATION (continued)
Program Planning and Development IV-2
Program Implementation IV-2
Summaries of Proposals IV-3
California Department of Community Services and Development IV-4
Environmental Marketing Group IV-5
Residential Energy Services Companies' United Effort/SESCO IV-6
The Greenlining Institute/Latino Issues Forum IV-7
Pacific Gas & Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company IV-8

CHAPTER V: CONSUMER PROTECTION AND EDUCATION ISSUES V-1
Introduction and Summary V-1
Consumer Principles for Restructuring V-2
Right to Know V-2
Right to Choice V-2
Fair Dealing V-3
Right to Redress V-3
Required Codes of Conduct and Oversight V-3
Customer Participation V-4
Right to Privacy V-4
Quality of Service V-4
Right to Affordable Electric Service V-4
Improvement over the Status Quo V-5
Transaction Costs V-5
Consumer Education V-5
Restructuring Education Trust V-5
Educational Material Programs V-6
Recommendations V-6

CHAPTER VI: BASELINE RATE PROPOSALS VI-1
Introduction VI-1
Proposals for the Near Term VI-1
Proposals for the Long Term VI-2
Option 1: Eliminate Baseline VI-2
Option 2: Statewide Baseline VI-3
Option 3: Incentive to Offer Baseline (Covering IOU Provided Services Only) VI-3
Option 4: Maintain the Status Quo VI-3
Option 5: Baseline Differential in Transmission and Distribution Rates VI-3

Table of Contents
(continued)

CHAPTER VI: BASELINE RATE PROPOSALS (continued)
Conclusion VI-4
Legislative Recommendations VI-4

CHAPTER VII: TRANSITION: OTHER CARE IMPACTS, ISSUES AND RECOMMENDED PROCEDURE VII-1
Introduction VII-1
Proposed Transition Procedures VII-1
1997 Actions VII-2
Funding and Surcharge Transition VII-2
Administrative Transition VII-2
CARE Rule Making VII-3
Low-Income Energy Efficiency (LIEE) Rulemaking VII-3
Need Analysis VII-3
1999 Actions VII-3
CARE VII-4
2001 Issues VII-4
Complete Review VII-4
Program Design VII-4

CHAPTER VIII: LEGISLATIVE REQUIREMENTS VIII-1
Introduction VIII-1
Chapter II: Program Design Proposals VIII-1
Chapter III: Program Funding and Surcharge Proposals VIII-1
Chapter V: Consumer Protection and Education Issues VIII-1
Chapter VI: Baseline Rate Proposals VIII-1

Table of Contents
(continued)

Appendices

Appendix A: Regulatory and Legislative Directives Impacting the Work of the Low-Income Working Group
Appendix B: Legislative and Regulatory History of Baseline Rates
Appendix C: Legislative and Regulatory History of Low-Income Energy Efficiency Programs
Appendix D: Legislative and Regulatory History of Low-Income Rate Assistance Programs
Appendix E: Energy Education Background and History
Appendix F: CSD Administration Proposal
Appendix G: EMG Administrative Proposal
Appendix H: Rescue/SESCO Administrative Proposal/A Tale of Two DSM Low-Income Residential Performance Bidding Projects in Oregon (K. Bell and D. Meek)
Appendix I: The Greenlining Institute/Latino Issues Forum Administrative Proposal
Appendix J: Pacific Gas & Electric, San Diego Gas & Electric and Southern California Edison Administrative Proposal
Appendix K: Consumer Principles for Electric Restructuring or Consumer Bill of Rights
Appendix L: SCG Position on the Recommendations Proposed in the Report of the Electric Restructuring Low-Income Working Group
Appendix M: CSD Comments of Utility Company Self-Certification Study
Appendix N: Acronyms
Appendix O: Low-Income Working Group Meetings and Accomplishments

EXECUTIVE SUMMARY

The California Public Utilities Commission's (CPUC) policy decision on electric restructuring proposes the development of a nonbypassable surcharge to recover public purpose low-income assistance program expenditures. In response, the Low-Income Working Group (Group) formulated this report, which provides background data and recommended approaches for addressing the essential components identified in the CPUC's restructuring order. The evaluations and recommendations presented on program design options, administration of funds, and legislative action are based on maximizing the effectiveness of low-income energy assistance programs. In General, they are meant to assure that all who are eligible receive equitable benefits which best suit their needs, and experience no loss in the benefits they currently receive.

The group has reviewed both the objectives of the low-income programs and their success in achieving them. Based on this analysis, the group concludes there is a need to continue both the CARE rate discount and the energy efficiency programs for this population segment. The funding levels for these programs needed to meet the needs cannot be determined precisely. Funding issues that could meet these needs in 1998 are discussed in Chapter III.

The Group also considered various potential impacts of AB 1890 on low-income issues, including funding and consumer protection concerns. Parties had different perspectives on how the provisions of AB 1890 will affect these areas.

The principal recommendations of this report, are summarized in this section.

IDENTIFYING AND FUNDING THE NEED

Most of the Group determined that assessing the need for these programs required at least three steps; identify the current program objectives, review program progress in meeting these objectives; and assess the need for future-funding, based on how the remaining need might change over time.

These Parties believe the group made good progress in identifying both past and current objectives but in some cases did not have enough evidence to quantify past progress or quantify future needs. Instead, these parties have relied on expert judgment to determine the need for current programs and to propose new or revised program designs if the needs of this segment were expected to change. They recommend that the CPUC provide for a comprehensive needs assessment for each program element, California Alternate Rates for Energy, Low-Income Energy Education and Energy Efficiency (CARE, LIEE, and EE) and each program's impact. This should help fine-tune the required 1998 funding levels and provide insights into the effectiveness and value of current and future program designs.

The data used by the Group indicate that in April 1996 statewide participation of the estimated low-income households in the California Alternate Rates for Energy (CARE) program was 58 percent (*see page* II-4) and was about 56 percent of the estimated income eligible households (*see page* II-9) for the Low-Income Energy Efficiency (LIEE) program. About 56 percent of the low-income household have received some level of LIEE treatment at some point in the past. The Group cannot assess future funding needs for gas and electric low-income programs without further analysis. For illustrative purposes only, the Group decided to present data for CARE assuming 85 percent of the eligible population participated in the program.

The Group focused on the structure and administration of a surcharge to fund the low-income programs of gas Investor Owned Utilities (IOUs) and Customer-Owned Utilities (COUs) because the CPUC instructed the Group to consider gas pursuant to SB 678. Most Parties recommended a nonbypassable state-wide surcharge be implemented and that low-income customers be exempt from the surcharge. Some Parties recommended that some customer classes and sub-segments be excluded from paying the surcharge. Some Parties offered structure for the administration of public purpose low-income program funding and recommended that the Commission evaluate how each proposal would perform each of the following key functions: policy guidance, governance, budgeting, program planning and development, and program implementation.

PROGRAM DESIGN PROPOSALS

Parties did not reach consensus on any of the program design proposals for CARE, LIEE or Energy Education. Seven benefit delivery mechanisms are presented and discussed for the CARE program. However, for any alternative chosen, the Group recommends using an income eligibility guideline set at 150 percent of the federal poverty level for enrollment, and a uniform process to determine initial eligibility of applicants and to re-certify participants. The Group also proposes three alternative approaches for delivering energy efficiency programs to low-income households. The Group also identifies options for designing an energy education program to increase customer understanding of low-income assistance programs and energy efficiency measures. In line with these educational purposes, some Parties also recommend redevelopment of a Consumer Protection Program which will provide low-income electric customers with sufficient information to assist them in avoiding unscrupulous providers, choosing between available services, and accessing regulatory oversight and redress. Other Parties do not support one specific low-income consumer protection program, but do support the consumer protection provisions developed for all residential customers, reflected in the August 30, 1996 Direct Access Working Group Report. Still other Parties believe that current tariffs work well to protect consumers and any consumer education program must be cost effective while balancing consumer rights-to-information with consumer responsibility.

BASELINE RATE PROPOSALS

Under current statute, baseline rates and allowances apply only to energy utilities regulated by the CPUC; therefore, baseline is limited to the IOUs. Baseline rates provide lower volumetric

charges for all residential customers for usage within the baseline allowance, which benefits low-usage customers. In the near term, as most residential users will continue to receive their energy service from IOUs, some Parties recommend that the baseline provisions remain unchanged and that any rate reduction be across-the-board to retain the same essential baseline relationship as at present for electricity rates. Other Parties recommend that the CPUC phase out baseline rates as soon as possible and compensate low-income customers for any overall bill increases, if necessary, by slightly increasing the CARE discount rate by a proportionate amount. In the long-term, should volumetric costs decline and fixed charges make up a higher proportion of residential bills, the following are given as options: (1) eliminate baseline rates; (2) establish statewide baseline rates; (3) establish incentive to offer structure; (4) maintain the status quo; or (5) establish baseline differential in transmission and distribution rates.

TRANSITION ISSUES

The Group cannot predict whether its recommendation, if implemented by the CPUC, will have unintended impacts. In addition, the outcome of ongoing regulatory proceedings may affect the Group's recommendations. Some Parties suggest the CPUC provide for additional phase(s) in this proceeding for refining program components, establish an advisory board on low-income issues, and be prepared to respond as electric and/or gas rate unbundling is achieved and/or when AB 1890 sunsets.

LEGISLATIVE ISSUES

Implementing some of the recommendations in this report will require legislative action. For example, to implement a uniform statewide nonbypassable surcharge covering gas customer owned utilities (COUs), non-utility providers, and alternate fuels such as propane, butane, and fuel oil will require legislation. Extending CARE, LIEE and/or baseline rates to COUs and /or non-utility providers will require legislation. Amending the provisions of AB 1890 will also require legislation.

PREFACE

The Group met 9/23 and 9/24 to finalize this report. These meetings resulted in substantial revisions to the report in order to incorporate all Parties' positions and comments. Due to the need to meet the October 1 filing deadline, there was no opportunity for members of the Group to review the final version of the report and for some Parties to obtain their managements' or organizations' final sign-offs. Parties will address any impacts of the schedule in their comment on the report.

ACKNOWLEDGMENTS

RECOGNITIONS

The Low-Income Working Group (Goup) extends special thanks to California/Nevada Community Action Association for providing Katy Olds who facilitated and coordinated several meetings. In addition, she ensured others were kept informed through electronic communications. The California Energy Commission (CEC) sponsored the Web Site and Bob Aldrich faithfully placed all report drafts and the final report on the Internet.

Randi Greenspan of the Commission Advisory and Compliance Division (CACD) joined the Group in May, as Moderator. Her efforts and patience in coordinating and keeping on track such a large, diverse group of low-income experts representing broad perspectives were appreciated.

Several associations representing community based organizations gave many hours to this report and provided valuable input throughout the Group meetings, especially the Association of Southern California Environmental and Energy Programs (ASCEEP), Appliance Recycling Centers of America (ARNCEP) and Latino Issues Forum/The Greenlining Institute.

All of the Group participated and contributed personally through the subcommittees. Each subcommittee was responsible for a particular section or chapter in the report. Thanks to Toward Utility Rate Normalization (TURN), Division of Ratepayer Advocates (DRA) and Natural Resources Defense Council (NRDC) for their complete support during these meetings.

There were many details involved in setting up meetings and coordinating facilities. Our thanks to those organizations who hosted meetings.

Finally, to the Editing Committee for their efforts in meeting the deadlines and providing participants the ability to have their opinions expressed.

ACTIVE MEMBERS

Active members of the Low-Income Work Group who have played a major role in shaping the current report are listed below:

Patricia Aldridge	Hugh Fowler	Sharon Lee-Balderas	Lee Riggan
Jeff Beresini	Dennis Fukumoto	Saul Lisken	Gene Rodrigues
Rick Breeze-Martin	David Gamson	Rick Madrid	Michael Shames
Nancy Brockway	Beth Garcia	Val Martinez	Richard Shaw
Diana Brooks	Cheryl Goble	Harriet McCanta	Faye Smothers
Susan Brown	David C. Gonzalez	Mary McNally	Sara Steck Myers
Tom Burhenn	Joan Graham	Jim McNamara	Frances Thompson
Bob Burt	Denise Grant	Daniel Meek	Lynda Timbers
Joe Cabrera	Randi Greenspan	Michael Messenger	Zigmund Vays
Dave Clark	Dennis Guido	Bill Miller	Yvette Vazquez
Michelle Cooke	Tim Haines	Peter Miller	Marissa Vierra
Mary Coyle-Shepherd	Marie Hayes	John Nall	Sandra Vinson

Barbara Cronin
Toni Curtis
Richard Esteves
Rick Ferguson
Bob Finkelstein
Kathy Ford
Rick Hobbs
Jim Hodges
Bill Hunt
Glynnis Jones
Anne Keegan
Yvonne Ladson Webb
Will Nelson
Katy Olds
Karen Pascal
Patrick Petersilia
Janis Poppe
Philip Quadrini
Patricia Wallace
Segretta Woodard-Baisden
Joy Yamagata
Lisa Yamamoto
Dale Yates

ACTIVE WORKING GROUP ORGANIZATIONS

Appliance Recycling Centers of America
Association of Rural Northern California Energy Providers
Association of Southern California Environmental and Energy Programs
California Energy Coalition
California Energy Commission
California Legislative Conference
California Public Utilities Commission, Commission Advisory & Compliance Division
California Public Utilities Commission, Division of Ratepayer Advocates
California/Nevada Community Action Association
Chase Shannon
Community Action Commission of Santa Barbara
Community Enhancement Services
Community Resource Project
East San Gabriel Valley Consortium
Economic Opportunity Commission of San Luis Obispo
Environmental Marketing Group
Home Improvement Center
Insulation Contractors Association
J. Lawrence Communications
Jones, Day, Reavis & Pogue
Ladson Associates
Latino Issues Forum
Los Angeles Department of Water and Power Company
MAAC Project
Maravilla Foundation
National Consumer Law Center
Natural Resources Defense Council
Pacific Gas & Electric Company
Project Go, Inc.
Redwood Community Action Agency
Richard Heath & Associates
Sacramento Municipal Utilities District
San Diego Gas & Electric Company
Save Energy
SESCO, Inc.
Sierra Business Consultants
Sierra Club
Sierra Pacific Power
Sonoma County People for Economic Opportunity
Southern California Edison Company
Southern California Gas Company
Southern California Water Company
State of California Department of Community Services and Development
The East Los Angeles Community Union (TELACU)
The Greenlining Institute
Toward Utility Rate Normalization
Utility Consumer Action Network
Ventura County Commission on Human Concerns

INTRODUCTION

This report of the Low-Income Working Group (the Group), was prepared at the request and under the authority of the California Public Utilities Commission (CPUC) pursuant to Decision Nos. 95-12-063, as modified by 96-01-009 (dated January 10, 1996), and 96-03-022. The Group was initially brought together by the California/Nevada Community Action Association (Cal/Neva). All meetings were coordinated by Cal/Neva. Meeting facilitation was provided by a Commission Advisory and Compliance Division Facilitator at the Group's request.

The purpose of the Group was to meet, discuss and ultimately report to the CPUC their recommendations or positions on the possible impacts that electric industry restructuring would have on current utility sponsored low-income programs. Specifically the programs discussed in this document are those Low-Income Energy Efficiency (LIEE) programs which provide income eligible households with no-cost energy conservation measures and services, and California Alternate Rates for Energy (CARE), which provides utility rate discounts to eligible households.

Submission of this document to the CPUC marks the end of a long process filled with arduous discussion. From the beginning, the CPUC has referred to the Parties in this Group as "stakeholders". All Parties are concerned about the future of low-income programs, which currently deliver equity, hardship reduction and rate relief to a large segment of California's population. The utilities are concerned about the cost of future low-income programs balanced against the need to remain competitive within the free-market and the manner in which funding is provided in the future. One risk was seen as the possibility of program curtailment as an outcome of electric industry restructuring.

Investor-Owned Utilities (IOUs), Municipal Utilities (MUNI), State Government organizations, community-based organizations, private businesses, public interest groups, and several associations dedicated key staff, time and considerable expense to each meeting. Collectively, the individuals in attendance represented the very core of low-income program professionals in this state. As might be expected, there were strong feelings expressed about specific elements or positions.

CPUC DIRECTIVE

The purpose of this workshop effort was to produce this document as a direct response to the CPUC's call for advice and information. The Group was instructed by the CPUC to provide information relative to:

- the needs analysis for CARE and LIEE services;
- alternative funding proposals based on the needs analysis, and allocations among low-income programs;
- recommendations on the level, application, and implementation of the surcharge;
- assessment of the impact of the proposals on the treatment of electric low-income programs of non-respondent investor-owned utilities and gas utilities;

- independent administration proposals;
- baseline rate issues;
- consumer protection; and,
- proposed legislation

The Group has attempted to follow the general policies provided by the CPUC, while addressing additional issues and options as they have arisen. Most of the Group, for example, felt strongly that alternative program design issues needed clarification in the face of a restructured environment. Similarly, as the workshop progressed, transition issues and a need for a transition plan seemed critical to most members of the Group. Separate chapters, as a result, have been dedicated to these added topics. In all matters, the Group took an inclusive approach, to ensure that all Parties' views on relevant issues have been included for the CPUC's consideration.

FUNDAMENTAL LOW-INCOME RATEPAYER ISSUES

Energy burden borne by low-income households is greater than the energy burden borne by most other households in California. California's low-income households are estimated to currently spend roughly 10% of their income on energy bills, compared to the average energy burden of 2.9% for a median income household in California (*Energy and the Poor*: *The Crisis Continues*, National Consumer Law Center, January 1995). In response to this and consequent financial hardships on low-income consumers, the Legislature enacted laws requiring that the CPUC implement rate and energy assistance programs.

Often, because of a lack of income, low-income consumers cannot take advantage of energy saving services and devices that are on the market on a par with most Californians.

Residential Saturation Surveys by California's IOUs have consistently confirmed that low-income consumers tend to reside in older, more structurally-debilitated housing than do other Californians. Such housing is less energy efficient and less comfortable than well constructed and better insulated housing. Also, appliances used by low-income consumers may be less functional or even hazardous. These dual conditions -- poor-quality housing and poorly functioning appliances -- can create health and/or safety hazards for low-income consumers. Such hazards may include inoperable and/or improperly operating appliances, insufficient heat in the winter, insufficient cooling in hotter climates in the state, and misuse of appliances. Lack of income can prevent low-income consumers from correcting these hazards.

THE GROUP PROCESS AND OPERATING PRINCIPLES

The Group first met in April 1996, in anticipation of CPUC direction for stakeholders to evaluate low-income issues. Fifteen meetings were held from April through September, 1996, throughout the state (in Los Angeles, Sacramento, San Diego, and San Francisco) to facilitate the broadest possible participation by interested parties. The Group was open to all interested Parties and was comprised of Parties interested in low-income issues. A list of participants is shown in this report, in the Acknowledgments section.

Once the Group was formed and recognized by the CPUC, it identified the issues it believed needed to be addressed in response to the CPUC's directives. Guiding Principles were established, and future meetings scheduled and noticed through the California Energy Commission's (CEC) Internet Web Page site. All notices were also provided to attendees through the mail and by FAX. Subcommittees prepared initial drafts of the report's chapters. An Editing Committee was formed to assemble the final report. Parties articulated their positions and submitted position papers.

Parties sought to reach consensus on issues wherever possible, and this report identifies the areas where this effort was successful. It also describes areas where consensus was not reached, with discussions of differences and Parties' positions regarding the issues. The use of "most," "some," "a few," or "one Party" was determined by the following: "most" was used when 50%+ of the entities concurred; "some" was used when four to six entities concurred; "a few" was used when two or three entities concurred; and, "one Party" represented one entity's position. In some areas there is still more work required, and some of the administrative proposals call for implementation details that have yet to be determined. The Group believes that the information presented in this report, together with the individual comments to be provided by Parties following the report's completion, will provide the CPUC with adequate information to establish a structure for the continuation of low-income energy assistance activities after electric restructuring is implemented. The Group is prepared to continue in any efforts desired by the CPUC to ensure this result.

When formed, the Group agreed that its primary purpose was to produce a timely and informative report that responds to the major issues related to low-income programs and/or activities identified in the CPUC restructuring order, and to provide recommendations and sufficient background information on related issues to ensure an informed decision could be made by the CPUC.

The Group unanimously agreed to the following guiding principles:

- the California Alternate Rates for Energy (CARE) and low-income energy efficiency (LIEE) programs are established by state law;
- current program structures should be used as the primary basis for consideration;
- CPUC directives were used for guidance and report development;
- low-income customers should have equal access to low-income programs statewide, regardless of energy provider.

Most of the Group agreed to the following additional principles:

- low-income customers should receive equitable benefits under electric restructuring, and program restructuring should not cause a loss in benefits from 1996 budgets and offerings; and,

- positions adopted by the Group pertaining to CARE and LIEE programs should be coordinated with positions adopted by other electric restructuring Working Groups;
- CARE and LIEE programs respond to financial hardship, equity, health, safety, comfort, bill reduction, energy savings, energy conservation, and energy resource cost-effectiveness issues;
- CARE and LIEE programs should be funded though a nonbypassable energy surcharge and not singularly by the ratepayers of regulated utilities, thus promoting a "level playing field" for all energy purveyors and creating an equitable funding basis for low-income programs and services;
- CARE program costs should be needs-based and not capped at current funding levels;
- (gas and electric) low-income programs should be considered together.

SoCalGas' position is that gas and electric low-income programs should not be considered together. This utility suggests that that many of the decisions that may be appropriate to electric utilities would be inappropriate when the needs of gas only utilities are fully considered.

THE STRUCTURE OF THIS REPORT

This report is structured as follows:

Chapter I presents the needs analysis for CARE and LIEE services. It focuses on the human and energy burden needs that are mitigated by these programs, and presents data on current participation levels for CARE and current saturation complexities associated with LIEE programs.

Chapter II presents alternative program design options for CARE and design goals or criteria for LIEE and Energy Education programs. The chapter presents guiding principles and criteria for the CPUC to review and consider while assessing these alternatives.

Chapter III discusses program funding proposals. The chapter identifies various funding levels necessary to continue low-income programs. It compares authorized 1996 CARE funding levels to CARE funding levels if 85 percent of eligible low-income households participate in CARE. It also identifies current LIEE authorized funding. The chapter discusses the surcharge proposals, and quantifies the magnitude, collection, and impacts of the surcharge level on affected ratepayer classes, based on the funding levels ranges. The chapter addresses which customers should pay the surcharge, and the cost allocation method(s) used to recover the funds from ratepayers.

Chapter IV reviews the principle functions and responsibilities of the proposed organizations responsible for the administration and implementation of low-income programs. Summaries of each of the five proposals submitted by proponents are included in the Appendix.

Chapter V discusses consumer protection and education. It presents the principles, guidelines and criteria for the CPUC to consider in assessing its recommendations.

Chapter VI discusses baseline rate issues. It presents proposals, guidelines and evaluation criteria for the CPUC to consider when evaluating these alternatives.

Chapter VII addresses transition issues. It identifies issues requiring further CPUC study, and addresses how and when these issues should be considered. It also contains a brief implementation plan that addresses key issues and decisions the CPUC must make over the next 18 months in order to bring the new administrative structure on line.

Chapter VIII presents the Group's legislative recommendations.

This report has 15 appendices, which are listed on page v of the Table of Contents. The appendices provide additional information on the legislative and regulatory histories for the programs considered by the Group, and also present the position papers, in their entirety, that were submitted by various Parties.

Chapter I

NEEDS MITIGATED BY CARE AND LIEE PROGRAMS

INTRODUCTION

California Alternate Rates for Energy (CARE) and Low Income Energy Education (LIEE) services were created by the Legislature, and implemented by the California Public Utilities Commission (CPUC), to help lower utility bills and reduce economic hardship in the low-income sector. All Parties agree that these important programs should continue. There was no agreement about whether the scope of services currently offered should stay the same.

The Group found that there has never been a statewide needs analysis for CARE and LIEE programs in California. In order to respond to the CPUC request for information relative to a "needs analysis for CARE and LIEE services," and "alternative funding proposals based on the needs analysis" as specified in the CPUC's roadmap decision (D. 96-03-022), the Group found that it was necessary to accomplish what it could, while recommending that a more comprehensive needs analysis be completed.

In summary, most of the Group agreed that the need for continued CARE and LIEE program offerings is a product of:

1. the size of the low-income population,
2. energy burden (defined as the percentage of income spent on energy),
3. the portion of that population that has participated in either CARE or LIEE programs,
4. the effectiveness of these programs in reducing energy burden and providing other benefits to households, and
5. the potential to provide new or additional services to households where the energy burden is still significant.

One Party did not agree that need is a function of "energy burden" or associated with the fraction of low-income households "that has participated in either CARE or LIEE programs." It is this Party's opinion that the need for CARE is not related to previous participation, and that the need for LIEE work has less to do with energy burden than with the physical condition of low-income housing stock. Further discussion of this method of determining need is located at the end of this chapter under Recommendations.

The Group, limited by time and resources, addressed the first three items above, though a full study would provide much greater detail. A full analysis of the effectiveness of each program and program offering, however, was not attempted. Similarly, the need and potential to provide additional services through these programs was left unaddressed.

Most of the Group recognizes that a high quality needs analysis using empirical data requires funding, requires considerable professional expertise, and would take time, especially since

California is a large, diverse state. The Group used the best data available to the Group to conduct a low-income needs analysis, but recommends that a more thorough analysis be undertaken soon, and that the CPUC or some other appropriate entity finance the effort with an adequate budget.

A comprehensive needs analysis would benefit low-income program design by identifying segments of the low-income population for more targeted outreach. Its results could help the CPUC identify reasonable market participation rates for CARE and LIEE programs. The study could also assess the value of the benefits provided by each program in mitigating the energy related hardships of low-income Californians.

Most of the Group believed that both CARE and LIEE services mitigate economic hardship. In addition to providing other benefits, these programs help reduce utility bills and serve to mitigate energy burden.

It was noted by a few members of the Group that much of the need mitigated by LIEE services, and to a certain extent CARE, cannot be easily discussed in purely mathematical terms. Income, obviously, has a direct bearing on energy burden, but some of the Group members noted that in low-income households, basic necessities such as energy, food, medicine, and shelter compete for limited funds. As household income increases, competition decreases and energy burden is diminished. With increasing income, burden is eased and replaced with more emphasis on consumption and consumer goods.

Some noted that the human impacts are the ultimate burden that programs are designed to relieve. For these Parties, CARE and LIEE services are an attempt to alleviate or lift the burden to an acceptable level.

Resource limitations have made it impossible for the Group to collect data and quantify additional important benefits of LIEE Programs. Some Parties, however, offered discussion covering the following areas: (1) basic serviceability of structures and measures, (2) comfort or functionality of structures and measures, (3) safety, and (4) community benefits.

METHODOLOGY

The need for continued low-income program offerings is a function of the size of the low-income population, their energy burden, the fraction of the population that has participated in either the CARE or LIEE programs, the effectiveness of these programs in reducing the energy burden and providing other collateral benefits to households reached, and the potential to provide new or additional services to households where the energy burden is still significant. This report discusses the first three items and suggests a more detailed need analysis to quantify the latter two topics related to program effectiveness and the potential need to modify current programs to respond to changes triggered by restructuring or to simply provide new types of services within a budget constraint.

Size of Low-Income Population

The Group defined "low-income" to be those households living at or below 150 percent of the federal poverty level (FPL). The income-eligibility criteria are adopted each year by the CPUC for the CARE program. The LIEE program uses similar income eligibility guidelines, except for elderly and disabled households, where the income-eligibility standard is 200 percent of the FPL.

The State of California, Department of Finance, Office of Demographic Research (ODR), estimates that as of January 1996, California has 32.2 million full time residents, living in 12.4 million households. The number of households in California living at or below 150 percent of the FPL is estimated to be 2.8 million.

To establish the eligible population for these programs in utility service territories, the Group relied upon data supplied by the investor-owned utilities (IOUs) to the CPUC. Specifically, the Group used data from the *CPUC's Sixth Annual Low-Income Ratepayer Assistance (LIRA) Program Report and Third Annual Expansion Program Report, July 1996*, and data recently supplied by the IOUs to the CPUC for the next report on the CARE program and Expanded CARE program for the period May 1995 through April 1996. (The LIRA program was renamed, and is now the CARE program.)

Based on the data in these reports, an average of 22 percent of the IOU's residential ratepayers were eligible for the CARE program. The IOU estimates were derived by using data from a variety of sources, including the 1990 United States Decennial Census (1990 Census). The municipal utilities (Munis) were unable to report similar information on the potential percentage of CARE-eligible customers in their service territories. As an assumption for the purpose of developing the tables presented in this chapter, 22 percent of Muni ratepayers were used to establish comparison estimates of income-eligible households in the Munis' service territories.

Most Parties agree that the group did not have adequate information to make accurate projections of growth in the eligible population. Some parties expect significant growth due to population increases and political and welfare changes. Other parties noted that the estimated CARE eligible population has fallen slightly over the last two years. The difficulty of making accurate projections underlines the need for CPUC funding of a comprehensive needs analysis for future budgeting purposes.

ENERGY BURDEN

The energy burden numbers presented in this chapter represent the annual cost of household energy (electricity and natural gas combined) when divided by annual household income. Energy burden in certain areas of California can vary significantly because California has many different climates. Also, housing stock, fuel source, household size, heating and cooling system types, appliance efficiency, and lighting characteristics influence energy burden and need.

Data provided by California Energy Commission (CEC) indicate that California's low-income households exhibit a pattern similar to that of the rest of the United States: low-income households have a significantly greater energy burden than other households. The energy burden is approximately three times greater for low-income households than the average income household (10 percent for average low-income homes and 3 percent for median income homes). California data examined by the CEC suggests that energy burden can be as high as 25 percent for some segments of low-income households, and can be as high as 40 percent in individual extreme cases.[1] However, a few Parties questioned how some of the data presented by the CEC specifically relates to the situation in California.

The following table presents some California statistics on the typical energy burden for selected California groups[2].

Table I-1

Household Income	Percent Energy Burden
Median Income Family (3 members)	2.9%
Supplemental Security Income (SSI) Couples	5.4%
Minimum Wage Household	9.1%
Social Security (Retired)	9.7%
AFDC	9.8%
SSI Individuals	10.0%
Social Security (Widows/Widowers)	10.2%

One Party suggested that the need for CARE and LIEE programs is not a function of energy burden. This Party suggested that need be gauged by examining the billing histories of dwellings in neighborhoods found to be predominately peopled by low-income households, further asserting that the need for LIEE work has less to do with energy burden than the physical condition of low-income housing stock.

Use of "Participation" and "Saturation" Rates In This Report

The participation rates for the CARE program were based upon data submitted by the IOUs to the CPUC, and were defined as the number of eligible customers on CARE rates expressed as a percentage of the total eligible census population.

Participation rates for LIEE were not calculated in terms of any short-term snapshot of a single year. Instead, data was developed to reflect LIEE services from the various program dates of initial program inception to approximately June 1996. This information was termed saturation,

---

[1] Conclusions drawn from several sources, including: National Consumer Law Center, CSD, California Energy Commission (CEC), 1990 Census, and American Association of Retired Persons (AARP).

[2] *Energy and the Poor: The Crisis Continues*, National Consumer Law Center, January 1995.

and expressed as a percentage of the total current income-eligible population[3], as a reference point. This type of analysis, it was recognized, clearly discounts the fact that the eligible LIEE population is not static and shifts over time. The assessment was further complicated by the fact that the predecessor agency to the State of California Department of Community Services and Development (CSD) has installed measures in low-income homes since 1976, and Munis also offered various LIEE measures across natural gas IOU service territories.

Discussion of LIEE saturation rate was problematic, as well. A wide and changing variety of LIEE measures have been offered through the years by each IOU and CSD, to supplement measures required by state and federal law.

CARE PROGRAM

CARE Participation Levels

Because of several factors, the Group believes that it would not be reasonable to expect 100 percent participation in the CARE program. Households may not be interested in enrolling for a number of reasons such as: fear of the utility and other agencies as a governmental entity, pride, and avoidance of outstanding utility bills. In April 1996, the IOUs reported CARE enrollment statewide was 1.7 million, roughly 58 pecent of California's eligible number of households statewide. Actual participation levels across the IOUs varied considerably, from 39 to 76 percent. Data shown below indicate the participation level for the CARE program as of April 1996.

Table I-2

Utility	Estimated Number of Income Eligible Households	Number of CARE Participants	Participation Levels for CARE
PG&E	879,422	342,097	39%
SoCalGas	1,050,000	766,807	76%
Edison	791,400	473,444	60%
SDG&E	216,148	114,885	53%
All Other IOUs	38,702	17,012	44%
TOTAL CA.	**2,975,672**	**1,714,245**	**58%**

Data for April 1996 as reported to the CPUC by the IOUs in their 1996 Annual CARE Progress Reports. The data for 'All Other IOUs' are estimated since not all IOUs had submitted their reports to the CPUC.
Note: since utility service territories overlap, adding the data would overstate the "true" total.

From April 1990 to April 1996, CARE participation increased by over 1 million customers (1,048,124). Following are participation numbers, and annual participation rates, summarized for all IOUs:

[3] Some of the utilities include other factors such as technical potential (defined as homes which need at least one mandatory measure) and structural feasibility when defining its market potential for LIEE programs.

Table I-3

Annual CARE Participation Levels and Saturation Rates

Year	Total Participants	Absolute Change	Rate of Change
April 1990	666,121	not applicable	not applicable
April 1991	919,205	253,084	38%
April 1992	1,040,686	121,481	13.2%
April 1993	1,119,839	79,153	7.6%
April 1994	1,320,455	200,616	17.9%
April 1995	1,606,303	285,848	21.6%
April 1996	1,714,245	107,942	6.7%

Data, which include sub-metered units, are from the CPUC 6th Annual CARE Program Report and Third Annual CARE Expansion Report, p.6. The following utility companies are included in these data: SoCalGas, Edison, PG&E, SDG&E, Southwest Gas, Pacific Power Light, Sierra Pacific Power, Southern California Water Company, and Washington Water & Power. April 1996 numbers are as reported to the CPUC in CARE update reports, with minor estimations added to cover two 'other' IOUs which did not report new information.

Some parties contend that compared to other low-income assistance programs, the CARE participation rate is low. For instance, the Pacific Bell's Universal Lifeline Telephone Service (ULTS) program, which provides fixed-price telephone services to low-income households, has an 85.4 percent participation rate. A few members of the Group, however, noted that ULTS does not attempt to document or verify income. In Minnesota, 74 percent of eligible Northern States Power's customers participate in a 50 percent automatic discount program, and in Rhode Island, 54 percent of eligible customers participate in Naragansett Electric's Percentage of Income Payment Plan.[4] However, other Parties caution against use of these comparisons without taking into account the differences in the way these programs are designed or implemented.

For the purpose of this report, the Group assumed that the maximum upper limit of CARE participation is 85 percent of eligible Californians. A few Parties felt that there was no valid basis upon which to state any upper limit.

Expanded CARE Data

For the expanded CARE program 2,976 non-profit group living facilities and facilities providing agricultural/farmworker/employer-provided housing were participating in CARE statewide as of April 1996 (which includes both electric and gas facilities). This represents a 16.3 percent

[4] . Stanford Research Institute International, *A Study to Assess Customer Eligibility and Recommend Outreach Activities for ULTS*, November 1993, p.5. Telephone conversation with Pam Marshall, Energy CENTS Coalition, Minneapolis, Minnesota, September 28, 1995. Telephone conversation with John Rao, Rhode Island Legal Services, Providence, RI, October 4, 1995.)

increase from the previous year. The IOUs estimate that these facilities provided services to over 17,000 low-income individuals and households.

Table I-4

Year	Number of Facilities	Absolute Change	Percent Change
1993	2,818	not applicable	not applicable
1994	2,347	(444)	-15.8%
1995	2,564	217	9.2%
1996	2,976	417	16.3%

Because of factors such as the absence of licensing requirements for some facilities, confidentiality concerns, the recent expansion to include migrant farm worker, agricultural employee and other employee housing, the Group found it difficult to determine market potential for the CARE expansion program.

LIEE PROGRAM DATA

Background

LIEE (or weatherization) programs began in California in 1976 and were federally funded. IOU-sponsored weatherization programs began in 1982 for SDG&E, 1983 for PG&E and SoCalGas, and 1984 for Edison. These original programs installed "Big Six" or basic weatherization measures, which are: (1) attic insulation, (2) caulking, (3) weather stripping, (4) low flow showerheads, (5) water heater blankets, and (6) duct wrap. Minor home repair (door and building envelope repairs which reduce air infiltration) became an integral part of weatherization from the start.

In 1990, Senate Bill (SB) 845 was enacted which added Section §2790 to the Public Utilities (PU) Code and directed the CPUC to require gas and electric corporations to provide home weatherization services to low-income customers if the CPUC determined that a significant need for such services existed in the IOU's service territory, taking both the cost-effectiveness of the services and the policy of reducing low-income hardships into consideration**.** Section §2790 redefined "Big Six" weatherization measures to include minor home repairs and excluded duct wrap. It also determined that weatherization may include other building conservation measures, energy-efficient appliances, and energy education programs determined by the CPUC to be feasible, once again, taking into consideration both the cost-effectiveness of the measures and the policy of reducing the hardships facing low-income households. In response, IOUs incorporated the requirements outlined in the legislation into new or revised low-income weatherization programs which serve as the basis for current utility low-income energy efficiency programs.

During the regulatory proceedings which established incentive mechanisms for the Demand Side Management (DSM) programs, it was determined that because the Big Six measures were

viewed as mandatory as a result of SB 845 they would not qualify for shareholder incentives. However, IOUs were authorized to receive shareholder incentives on other measures that improve energy efficiency such as: cooling measures, appliance repair and replacement, gas furnace replacements, and in-home energy education.

One Party noted that shareholder incentives are awarded not on the basis of cost-effectiveness or actual energy savings achieved but as a percentage of funds expended. Other Parties noted that low-income programs are not evaluated solely based on cost-effectiveness criteria.

By 1994, the list of measures installed by IOUs and CSD pursuant to LIEE programs included:

- Refrigerator Replacement
- Fluorescent Bulbs
- Evaporative Cooler Installation
- Evaporative Cooler Covers
- Evaporative Cooler Maintenance or Repair
- Blower Door Directed Duct Sealing
- Blower Door Directed Shell Sealing
- Furnace Filter Replacement
- Furnace Tune-up or Repair
- Furnace Replacement
- "Other' Appliance Replacement
- Heat-Pump Installation
- 'One-Warm-Room' Room Heaters
- Air Conditioner Tune-up or Repair
- Air Conditioner Replacement
- Set-Back Thermostats
- Shadescreens
- Storm Windows
- Residential Security Lighting

LIEE Saturation Levels

The saturation rate for LIEE “basic” weatherization services (i.e., the number of homes weatherized in each service territory from program inception to 1996, when compared to today’s "income eligible" customers) is shown below. Important to understanding these numbers is that “weatherized” units have had one or more of the “Big Six” measures installed, as feasible. Homes weatherized in conformance to SB 845 and in conformance to program policy which predated SB 845, have received all of the “Big Six” measures, previously defined, unless pre-existing conditions or other feasibility limitations precluded installation of that specific measure.

Table I-5

Utility or Program	Income-Eligible Households	"Big Six" Weatherized Units	Saturation Rate for "Big Six"
PG&E	879,422	679,077	75%
SoCalGas	1,050,000	395,798	39%
Edison	**124,000	23,160	18%
SDG&E	216,148	71,396	31%
All Other IOUs	33,301	2,587	6%
LA Department of Water & Power	320,189	0	
Sacramento Municipal Utility District	105,450	8,287	7%
All Other Municipal Utilities	204,572	429	0.2%
Community Services & Development	2,776,824	368,450	13%
TOTAL	**n/a**	**1,549,184**	**56%**

Data for 'All Other IOUs' are rough estimate only; the units completed could be lower.
**This data for Edison reflects low-income all-electric homes, and not all of Edison's low-income customers. Comparable data for the electric municipal utilities are not available.

These figures, however, may overstate the number of eligible customers for the following reasons:

1. Some of the utilities share common service territories. Adding the figures together would overstate the true number of households eligible for low-income programs;

2. Most Muni customers obtain natural gas from an IOU. There are, however, three natural gas Munis: Long Beach, Coalinga and Palo Alto;

3. Most Munis which provide only electricity tend to count "Big Six" LIEE program eligibility in terms of the number of customers with electric heating. This practice greatly reduces the eligibility numbers for such programs. The numbers are further reduced when electric utilities count only "all electric" homes as electric heated; and,

4. Some of the utilities include other factors such as technical potential (defined as homes which need at least one mandatory measure) and structural feasibility when defining market potential.

As shown, installation work for the "Big Six" programs from the various inception dates of the programs to approximately June 1996 (with or without additional measures added to it), has resulted in 1,549,184 units being weatherized; which is approximately 56 percent of *today's* income- eligible households. However, weatherization policies in California require that the utility providing heating fuel must help weatherize the structure. For this reason, electric "only" utilities cannot be compared directly with gas-only utilities or to dual-fuel utilities because most low-income households in California use natural gas as a heating fuel. Edison believes there are 124,000 all-electric low-income homes in its service territory, as reflected in the table above. By contrast, there are 791,400 CARE eligible households in Edison's service territory. It can also be

assumed that some portion of the completed units in the table above are the same homes, because of return visits, overlapping service territories, etc. A more sophisticated analysis of statewide LIEE saturation levels statewide is therefore recommended by most of the Group.

A complication in this analysis is that IOU sponsored LIEE programs have grown far beyond the original six measures. In some cases additional measures have been added to the basic weatherization program, and in other cases separate LIEE programs have been created to accommodate appliance or lighting programs. (Table I-7)

Most Parties agree that the LIEE market is dynamic due to changes in household income and that the saturation rate is a function of program design. Most Parties also believe that changes in program measures should permit a return to previously served homes, and that homes weatherized a decade ago may be in need of refurbishing. Such factors increase the need for LIEE.

As shown on Table I-7, the data provided the Group shows that 1.5 million homes have been weatherized. However, fewer homes have received additional energy efficiency measures which IOUs began offering in recent years. For example 86,000 low-income households have received replacement high-efficiency refrigerators. In many areas, the refrigerator can account for up to 30 percent of a household's electric bill. Compact fluorescent light bulbs have been installed in over one million homes, and 24,000 homes have received furnace maintenance or repair services. Programs that allow a return to dwellings in order to install additional measures seem to have fewer market related saturation problems, because they allow only additional measures to be installed in previously weatherized structures. Most of the Group did not see the rate of saturation as a limiting factor to design or scope of future LIEE program considerations, but at least one utility believes that market saturation has already occurred in some parts of their service territory.

PROGRAMS AND BENEFITS BEYOND REDUCING "ENERGY BURDEN"

All Parties agree that the most important reduction in hardship for LIEE programs is anything which serves to reduce the size of the energy bill. One Party noted that income alone may not necessarily indicate one's financial status, because it does not include other assets such as savings accounts, and that there needs to be a distinction between income and wealth in eligibility criteria. Some Parties believe that lack of adequate supplies of money tends to shift priorities away from maintenance, heating or cooling requirements, lighting levels, general comfort and health.

Resource limitations have made it impossible for the Group to collect data and quantify these additional benefits of LIEE Programs. A few members of the Group believe that there should be little or no discussion of these issues without supporting data, believing further that all benefits to low-income customers should be subject to a test of DSM type cost-effectiveness. One Party noted that some of the needs mitigated by IOU low-income programs are the legal responsibility

of landlords.[5] This party believes that it is appropriate to enforce existing civil codes regarding these responsibilities and not have them be solely borne by utility ratepayers. Most Parties believed that the following issues are important to a full discussion of low-income needs and program benefits:

The Need For Appliance Serviceability

Many of the non mandatory programs provide for appliance repair or replacement. Most programs of this sort are restricted to owner-occupied dwellings, since landlords of low-income housing usually own the appliances and, in general, are required by law to keep them serviceable. When an appliance is repaired or replaced, the bill is sometimes reduced when the new appliance provides greater efficiency than the old appliance. But the primary benefit to the recipient is that the appliance is now functional. This usually increases energy use and therefore increases the bill. There is an obvious health and safety benefit when a natural gas appliance, which is emitting carbon monoxide, is repaired or replaced.

Other program elements can also increase basic serviceability. Most building envelope repair reduces air infiltration and serves to make the structure more functional and confortable.

Most members of the Group believe that these needs and benefits cannot be quantified with simple cost-benefit analysis. A few believe that such benefits can be quantified or at least stated in terms of economic value to the customer. Most agreed that at the very least, repair of a non-functional appliance is worth the cost of the added fuel used, by virtue that the recipient considers it a benefit to be able to use the appliance. Presumably, the value of the function to the customer must be greater than the cost of the fuel.

The Need For Greater Comfort or Functionality

Many Parties argued that greater comfort is a significant benefit. Comfort inside a structure is primarily a function of difference between temperature of the surrounding walls, ceiling and floor and body temperature. Many in the Group believe that a weatherized structure causes a greater sense of well being, even with the same thermostat setting. Most members of the Group believe that most low-income people endure some discomfort in the effort to keep their energy bills down. Where an energy efficiency measure allows the same comfort at a lower cost, that is a significant benefit to the customer, and some of the Group believes that benefits can be incorporated into a “customer value-based” system of analysis. One reason for the widespread popularity of door weatherstripping, for example, is that the reduced flow of cool air causes a significant increase in comfort in that room, even though it may not have much impact on reducing the energy bill.

For persons with disabilities that are aggravated by excessive heat or cold, such a benefit can be far more important than the bill savings. Certainly where specific medical problems are avoided, the avoided cost of treatment is a benefit.

---

[5] California Civil Codes Sections 1941, Subsection 1941.1 and Section 1942

Current CPUC procedures to evaluate energy efficiency programs are related to the resources saved. Most members of the Group believe that Takeback[6] should be a valid part of low-income cost-effectiveness evaluation. Takeback can be defined as the phenomenon that occurs when the beneficiary of an energy efficiency measure, considering the lower bill, elects to take some of the benefit in the form of greater functionality. For example, the recipient might set the thermostat a little higher during the winter. Current CPUC measurement and evaluation protocols consider Takeback to be detrimental because it reduces the amount of energy that is saved. For analysis of programs intended to defer resources, this is fully appropriate. However, most members of the Group believe that when low-income programs are evaluated, Takeback should be considered a benefit because the low-income beneficiary is not going to indulge in Takeback unless the cost of the higher consumption is considered worth it.

The Need For Safety

As mentioned earlier, lowered risk of carbon monoxide poisoning when an improperly functioning heating appliance is repaired or replaced represents a program cost that cannot be easily subjected to cost-effectiveness studies. There are other potential safety needs and benefits, however, that most of the Group believes to be worth considering. For example, one possible use of the Takeback phenomenon is to provide outside lighting that reduces the likelihood of crime in the vicinity.

The Need For Community Benefits

Some in the Group believe that community needs met by low-income energy efficiency programs are very real, but even more difficult to quantify than those already listed. To the extent that low-income persons are used for the work, the programs put earned income in the community that might not otherwise be there. Training programs have had the effect than many low-income people qualify to perform weatherization work. Some believe that any effort that improves the neighborhood environment has a beneficial effect on the morale of those who live there. A few members of the group, however, question the appropriateness of using ratepayer funds to help create new jobs or greater employment benefits in any community.

Other "Hard to Quantify" Needs and Benefits

A recent study by Cambridge Systematics, Inc. (under contract to New York and New England electric utilities) investigated many of the collateral benefits associated with LIEE programs, to determine which could be quantified. They concluded that the items shown in the table below, could be quantified for any utility cost-effectiveness analysis of LIEE programs. It was noted by the authors of this referenced report, however, that the cost of this type of analysis may be prohibitive.

---

[6] The Electric Power Research Institute (EPRI) - TR101158 Project 1940-25, Final Report, Demand-Side Management Glossary, October 1992, defines "takeback" as "the situation where a customer, after undergoing a conservation action, changes energy use patterns so that some or all of the initial saving are lost."

Table I-6

Item or Issue	Can be qualitatively measured at utility level	Can be quantitatively measured at utility level	Can be monetized at utility level	Quantification and monetization needs to be a state or national level
• Reduction in arrearages, reconnections, and collection costs		√	√	
• Reduced foreclosures, evictions, and delaying elders movement out of own homes				√
• Health and Safety	√			
• Housing stock	√			√
• Neighborhood preservation	√			√
• Economic impact		√	√	

RECOMMENDATIONS

Although it is difficult to predict the need for future low-income energy assistance using available data, all members of the Group believe that it is evident that the need exists and that these programs need to continue. It is also clear that the type of assistance required will vary as low-income household population and economic circumstances varies.

The more data obtained about these various needs and how programs provide value to low-income households, the better future programs will become. Based on these findings, most of the Group recommends the following:

1. LIEE services and CARE need to continue in a workable manner.

2. Low-income program design should be predicated on the primary need to reduce energy burden and hardship.

3. Most Parties believe the CPUC should adopt a methodology and undertake a comprehensive needs analysis that will:

   · Identify sub-segments of the low-income population regionally across the state considering sub-segment vulnerability, language, culture, and IOU service territory;

   · Assess energy burden structures and needs (by selected groups, county, and IOU service territory);

   · Develop and clarify affordability issues associated with energy related hardship, and establish a reasonable range of relief to mitigate that hardship;

- Measure saturation by specific LIEE measure, by county and IOU service territory;
- Analyze impacts by LIEE measure and groups of measures (as a function of location, weather, structural issues, heating and cooling equipment, and cost of fuel). The analysis should include short and long-term monitoring of measures under controlled conditions, plus long term aggregate bill analysis after accounting for household change; and,
- Analyze impacts of energy education through a carefully-constructed experimental design.

It should be noted that a few Parties do not support every concept outlined in the above need analysis specification. Two Parties supported the concept of expanded need analysis, but felt that there should be no inappropriate differentiation such as by county, age, or ethnicity, since they believe that all low-income customers should be treated equally. These same Parties also consider an impact analysis of measures to be expensive and not very useful at this time, warning that such a complex needs analysis could easily be outdated upon completion. Finally, they would prefer that a comprehensive needs analysis model be designed and agreed to by UDCs and other parties.

Other Parties suggested it was vital to collect data on the needs and structures of different sub-segments of the population in order to provide tailored services and programs that meet their specific needs and not assume that one design fits all. This analysis would provide the administrator with the necessary data to both improve program design and reduce costs.

One Party noted that cost-effectiveness studies have been performed on the IOU's low-income weatherization programs as part of the Annual Earnings Assessment Proceedings. Thus, it would appear that a portion of item 5 above is already available.

This same Party disagrees with the contention that "energy burden" is an indicator of need for LIEE services, and instead recommends a statewide analysis of the bill histories of dwellings in low-income neighborhoods to determine the weather-sensitivity of those dwellings as the primary indicator of need for LIEE treatment. The assembly of neighborhoods could proceed in the manner of the "block qualification" already performed by utilities in several other states (also previously by PG&E in its Energy Partners weatherization program). Certain data from the billing history for each dwelling can show the extent to which that dwelling would benefit from weatherization, in reduced usage and lower bills, by using the data to determine its weather sensitivity, after comparing monthly or bi-monthly usage with local degree-days for the corresponding period. With each succeeding year, another year of billing history data would become available, and the calculations would be repeated. This methodology would provide a continuous assessment of need, along with a method to determine progress to date in reducing energy usage by means of weatherization.

Regardless of the outcome of any future need analysis, most Parties believe there will be a continuing need to provide low-income services or programs. Given these needs, it is important to continuously assess whether or not changes in program design can more effectively meet the

anticipated future needs of the low-income population. The Group addressed the questions of potential improvements in program design for the three main types of low-income programs. CARE, LIEE, and Energy Education in the next chapter.

Table I-7

LOW-INCOME ENERGY EFFICIENCY SERVICES & MEASURES INSTALLED, FROM PROGRAM INCEPTION TO DATE

--By Number of Households Serviced Below 150% of Poverty Guidelines

	TOTALS	Edison	PG&E	SDG&E	SoCalGas	All Other IOUs	CSD	LADWP	SMUD	All Other Muni's
Homes w/ "Big Six" Measures Installed As Feasible * :	1,549,184	23,160	679,077	71,396	395,798	2,587	368,450	0	8,287	429
Homes w/Other EE Measures Installed										**
1. Refrigerator Replacement	86,754	13,340	70,003	1312***					3,411	
2. Homes w/Fluorescent Bulbs	1,095,114	653,500	197,247	46,244				190,000	4,123	4,000
3. Ceiling Fans	8,654						8,654			
4. Evaporative Cooler Installation	45,403	37,470	7,933							
5. Evaporative Cooler Covers	46,742	22,000	14,595		6,441		3,706			
6. Evaporative Cooler Maintenance/Repair	85,860	85,670					190			
7. Blower Door Directed Duct Sealing	4,832		478				4,354			
8. Blower Door Directed Shell Sealing	4,536	370	1,598				2,568			
9. Floor Insulation	352						352			
10. Wall Insulation	197						197			
11. Electric Water Heater Timers	1,282						1,282			
12. Furnace Filter Replacement	87,836		82,824				5,012			
13. Furnace Inspection/Tune-up/Repair	24,104			19,952	3,278		874			
14. Furnace Replacement	37,649		19,395	1,384	15,747		1,123			
15. Water Heater Replacement	2,180		1,949				231			
16. Microwave Ovens	5,152		5,152							
17. Heat-Pump Installation	51,805	1,680						50,125		
18. One-Warm-Room	27,230	27,230								
19. AC Tune-up/Repair	2,634	2,550					84			
20. AC Replacement	2,600	2,600								
21. Set-Back Thermostats	14,884	4,250					10,634			
21. Shadescreens	3,723						3,723			
22. Storm Windows	3,732						3,732			
23. Residential Security Lighting	70	70								
24. Wood Fuel Space Heaters	421						421			
Energy Education Contacts	732,056	11,160	259,318	47,469	137,127	0	63,847	213,000	0	135

includes attic insulation, door weatherstripping, caulking, low-flow showerheads, duct wrap and waterheater blankets, installed as feasible

****numbers are estimates from Municipal Low-Income Weatherization Programs (SB1601) , California Energy Commission, October 27, 1995.***

*****these units are part of a rebate incentive program.***

Chapter II

PROGRAM DESIGN PROPOSALS

INTRODUCTION

The purpose of this chapter is to provide information, options and recommendations on rate assistance and energy efficiency programs and services for consideration by the California Public Utilities Commission (CPUC). The Group reviewed various alternative approaches for delivering programs and services that meet the objectives of the low-income programs as established by the CPUC and the Legislature. The Group decided to examine various criteria and approaches pertinent to the three (3) primary program types currently offered to low-income customers: 1) California Alternate Rates for Energy (CARE); 2) Low-Income Energy Efficiency (LIEE) programs and services; and, 3) Energy Education programs and services.

RECOMMENDATIONS

Most Parties favored some limited redesigns of the current programs to improve effectiveness and adjust for the different rate designs that are expected during the restructuring and the anticipated unbundling of utility rates into various components. One Party believes that program design need not be addressed in this report and the CPUC would benefit from participation of the entity selected to administer these programs.

Most of the Group recommends that:

1. The CPUC assess the alternative low-income program options and designs presented in the report through a subsequent phase of this proceeding;

2. The assessment of the alternatives begin with a working group procedure;

3. A working group be established as soon as possible to commence the assessment;

4. The criteria delineated in this report be used for the assessments;

5. The restructuring of low-income programs be designed and implemented so that low-income customers would not experience increased hardship as a result of restructuring and would receive at least comparable benefits after restructuring as before restructuring;

6. LIEE and CARE pilot programs be developed and implemented after appropriate assessments to fully test selected options contained in this report. One Party disagrees that full implementation of an Independent Administrator (IA) needs to wait until the end of pilot programs; LIEE pilots; see, e.g., Bell & Meek. A Tale of two DSM Low-Income Residential Performance Bidding Projects in Oregon, ACEEE Proceeding 1996. (Vol. 3) (Appendix H); and,

7. The Working Group make their recommendations on or before 10-1-97.

One Party recommends that the Commission establish the IA and delegate program design development with assistance from all interested Parties.

Alternatively, a few Parties recommend the Commission proceed early in 1997 with a funded strategy for implementing low-income program redesign. This approach would includes:

1. Contracting with management consulting firms and firms specializing in field applications of residential energy efficiency;

2. Designating a low-income advisory steering committee of not more than five members, including not more than one Investor Owned Utility (IOU) representative. This Advisory Committee would have modest contract staff and overhead support and would be the lead for coordinating advisory meetings and input from a wider range of resource persons and firms, including existing low-income providers;

3. Closely coordinating low-income program design with the primary Public Goods Charge (PGC) funded residential Energy Efficiency (EE) program. Given its focus and marshaling of program resources, the primary EE program will lead the technical assessment and specification of program design, including LIEE type;

4. Coordinating meetings and close consultation between all policy implementation of the first three activities above will be expected. Communications and low-income status report issuance, and all consulting report issuance should be made through the contract staff/office of the low-income Advisory Committee;

5. A timeline relying on two month benchmark (March 1, May 1, July 1, September 1, and November 1) throughout 1997 should be adopted for implementation of a redesigned program. The administrator should be fully operational by January 1, 1998.

GUIDING PRINCIPLES

Most Parties agreed with a majority of the following guidelines. However, some of the Parties did not agree with all of the guidelines.

1. Eligibility guidelines and processing should be uniform and consistent throughout the State;
2. Eligibility guidelines should be set at 150 percent of the federal poverty level for all low-income programs and services;
3. Both program and application forms and procedures should be consistent throughout the State;
4. Programs and services should be reviewed regularly for re-design and improvement purposes;
5. Applicants must demonstrate their eligibility prior to receiving services;
6. Benefits received by low-income customers in a restructured environment should be no less than the benefits received today; and,

7. Electric and gas low-income programs and services should be considered together for planning and development purposes.

One Party recommends maximum practical use of “block qualification”, which would greatly reduce the need to implement items above.

The use of “block qualification” in California and other states has proven to be an effective and efficient method for qualifying entire low-income neighborhoods for LIEE services. This substantially reduces program administrative costs and results in higher penetration rates by removing the hassle and stigma involved in requiring each individual household to “prove” its entitlement to services.

In general, persons living in low-income neighborhoods are low-income. Otherwise, they would be living somewhere more desirable. Funds spent on individual qualification are significant and this Party’s view largely unnecessary.

CARE PROGRAM DESIGN OPTIONS

Introduction

Most, of the Parties felt that the CARE program should be redesigned. Currently, CARE provides a 15 percent discount on electric rates for low-income customers who enroll in the program. In this section, various alternative methods for delivering CARE benefits are reviewed and evaluated.

Guiding Principles

The guiding premise of the Group was that electric restructuring decisions should not harm low-income customers. Most of the Group agreed to the following guiding principles for the development and implementation of rate assistance programs. These principles include:

1. Low-income energy consumers should be covered by a CARE-like program;
2. The income eligibility guideline should be 150 percent of the federal poverty level;
3. Applicants should be required to provide proof that they meet the income-eligibility guidelines;
4. The process for determining income eligibility should be uniform statewide, and "acceptable" proof of income must be defined and uniformly applied statewide;
5. Re-certification should occur at least biennially; and,
6. Benefits should be no less than today's levels.

CARE Design Alternatives

The Group discussed six options that could provide rate assistance benefits to qualifying low-income households. The options are:

Option 1: Fixed Percentage Discount Options

The current program design utilizes the Fixed Percentage Discount approach by providing a 15 percent discount on the electric and gas rates and monthly customer charges, where applicable. This is referred to as Option 1A. The viability of this structure under new deregulated conditions warrants further review. The Group presents variations on this theme: under Option 1B, the percentage discount is applied to only fixed charges; and, under Option 1C, a tiered discount is offered--the customer gets a higher discount for participating in CARE and energy efficiency and/or energy education programs.

The Group discussed applying the discount to transportation (or transmission and distribution) charges only, to the fixed charges only, or to the entire bill. The Group did not consider applying the discount to the commodity only.

Option 1A: Fixed Percentage Discount On The Entire Bill

Advantages: This structure could be perceived as spreading the cost equitably across all providers and would be easy to administer, especially in the near term or for an interim period.

Disadvantages: The disadvantages are that: (1) the discount is not related to the customer's income; and, (2) as residential customers start getting their energy from providers other than the Investor Owned Utilities it becomes mechanically more cumbersome to administer this option as the customer may actually receive two bills. It would be difficult to impose a discount on a variety of energy providers (but not impossible). Calculating the amount of the discounts in advance would be difficult as the energy portion may fluctuate greatly.

Considerations: It may become feasible to apply the percentage discount to only the transmission and distribution portion of the bill and the fixed customer charges. This would still have the benefit of having the discount related to the consumption, presuming that the transmission and distribution charges are proportional to the amount of energy going through the system or the number of kilowatt hours (kWh) or therms the customer uses. However, the percentage discount would have to be adjusted in order to make it equivalent to the discount rate the customer receives today. Also, AB 1890 now mandates a 10 percent discount to all residential, including low-income, and small commercial electric customers. This legislation should be taken into consideration when evaluating rate assistance programs and services.

Option 1B: Fixed Percentage Discount To Fixed Charges

This is similar to Option 1A, but the percentage discount would only be applied to the fixed charges on the bill (e.g., the monthly customer charges that many IOUs now employ). These monthly customer charges cover access, connection to the grid, metering, and billing. Currently, these costs range from $1 to $10 per month and may increase in the coming years as the IOUs seek to change their rate structures closer to their true costs.

Advantages: This option would be easy to administer and makes the benefit stream more predictable and stable.

Disadvantages: In order to give the low-income customer a discount equivalent to the one received today, the percentage reduction in the fixed charges would have to be higher. Since the percentage discount would not apply to the energy that the customer uses, the benefit is not directly related to specific customer needs or energy burden. A low-income customer that lives in an older house that is not well insulated or has a large family and needs to use more energy, would be somewhat disadvantaged compared to a low-income customer with a smaller family in a newer, well insulated home.

Considerations: If the charge is the same across the state, there may be inequities relating to climate zones. Low-income customers in cold climate zones would receive the same discount as those in warmer coastal areas, even though the latter customers may have different energy needs.

Option 1C: Two Tiered Discount

The Group discussed at length how to apply the discount in a manner that would provide the customer with an incentive to conserve energy and allow the administration to retain the ability to exert some control over the component used to determine the benefit level. Some Parties felt there should be requirements attached to participation such as mandatory energy education, energy efficiency and/or weatherization. Others strongly disagree. This option responds to the first position. It would set a preliminary discount amount, and then as the customer demonstrates commitment to conserve, allow the customer to "stairstep" up to a second, higher level of benefits. If IOUs had difficulty absorbing the increased cost, they could start the initial benefit level lower to allow margin for the customer to "move up".

For example, whereas now a CARE customer receives a 15 percent discount, this option would allow the customer to get an initial 10 percent off their bill and more if they participate in the other programs. They could be rewarded an additional 3 percent discount, for example, for having their home weatherized and 2 percent for attendance in energy education.

Advantages: This proposal would offer CARE customers an incentive to conserve energy, to participate in the energy efficiency programs and receive home weatherization. This model not only gives the customer an incentive to conserve (in a sense, saving dollars on their bill because of lowered energy use), but also allows the customer to receive a higher discount on the remaining kWhs or therms used. The use of energy efficiency and/or energy education helps target those customers that are most interested in having a positive impact on their energy burdens and could reduce program costs.

Disadvantages: Administration would be complicated during a transition period and would discriminate against low-income customers who reside in newer or better maintained housing and would not qualify to participate in low-income energy efficiency programs. It might also violate the principle of providing no lower benefits.

Considerations: Some Parties recommend that an energy education cooperative be organized to certify participants for a greater discount. However, there may not be enough interest in this issue to make a "co-op" work.

Option 2: Fixed Dollar Discount

This option would establish the discount as a specified dollar amount, to be applied to the transmission and distribution portion of the bill (e.g., a flat $10 per month reduction or credit). Program design would require consideration of criteria to determine the dollar amount and how it would be paid out. Would it be applied once a month, for instance, or once a year? Could the amount be "bankable" and used at the customer's discretion during a designated term?

Advantages: Some Parties believe this option is easy to administer, because it provides a predictable benefit stream and that it would be easy to forecast the amount of funds needed to run the program. It could be administered in different ways. It could be paid out month-by-month as a credit against the customer charge. Or, it might be paid once a year, for example on January 1st, and be "bankable" so that the customer could then apply however many of these dollars they choose each month toward their bill. Some customers in colder climate zones have indicated greater needs in the winter months whereas others in the desert areas prefer more assistance for cooling in the summer. There are different mechanisms for delivering this fixed dollar benefit.

Disadvantages: The disadvantage of this system is that it discriminates against larger customers that are above-average energy users. It is not directly related to energy burden or energy use. It has been suggested by the Group that energy education could be offered to high-end users in order to help equalize the energy burden. It was also noted that as rates drop, those high end users will experience lower energy rates and will get some energy (rate) relief.

Considerations: There was no discussion by the Group as to what the fixed dollar amount could be nor what criteria should be imposed for selecting such an amount. The Southern California Gas Company noted that its CARE proposal in its current Beinnial Cost Allocation Plan falls within this category.

Option 2A: Fixed Dollar Discount

A variant of the fixed dollar approach combines the CARE and baseline programs into an “energy allowance” of a fixed number of kWh and therms (or dollars) per household, adjusted for number of occupants. The household would not be charged for the first increment of energy used (perhaps 20 therms per month during the heating season and 200 kWh per month every month, with all unused credits carried forward and applied to future months), with all additional energy priced normally. This would provide assistance to such households, while maintaining the appropriate price signal for implementation of cost-effective energy efficiency techniques (keeping windows closed, etc.) and technologies (use of compact fluorescent bulbs, etc.).

Advantages: Same as Option 2

Disadvantages: Same as Option 2

Option 3: Set Minimum Price for Service to Low-Income Households (Lifeline Rates Model)

This option takes the Universal Lifeline Telephone Service (ULTS or Lifeline rates) model as an example. It would require that the CPUC and/or appropriate agency set a maximum monthly customer charge for low-income customers across the state. This model would apply to the fixed portion of the bill. The benefit level would be the difference between the charge(s) to low-income customers and the tariffed rate(s) charged to other residential customers.

Advantages: Key advantages of this model is that it is simple and the CPUC has experience with it. Low-income customers would all pay the same amount regardless of which IOU provides them energy. It would be easy for the customer to understand, and it controls costs. It does not encourage energy conservation, but could be structured to offset increasing customer charges for low-income households.

Disadvantages: The process of establishing the price could be very contentious and could delay benefits to customers. The benefit the customer receives is not related to energy burden or usage.

Option 4: Energy Stamps

This option would have the CPUC and/or appropriate agency issue Energy Stamps to low-income customers which they could then use to pay their bills. It would be similar to Food Stamps, where the customer qualifies for stamps, which are administered centrally by a government agency or independent entity. The number of stamps could be based on need (household size and income), energy usage, or a fixed amount.

Advantages: Stamps are bankable and can be saved for use when the customer most needs them. The stamp structure could be linked with other options. For example, there may be a way to bank the stamps or apply them to their energy bills when their need is the greatest.

Disadvantages: Stamps are viewed as a politically inferior form of currency which can be stolen or sold on the secondary (black) market. If not delivered through the United States mail, the customer might have to pick them up in person, which may be difficult for some customers and possibly increase administrative costs. Most members of the Group felt that many of the disadvantages inherent to Food Stamps apply here.

Considerations: The question of equity arises: Is it fair for consumers, for example, to use their energy stamps to pay their electric bill if a portion of the benefit received is paid by gas customers? Would interest be accrued on the 'banked' benefits, and, if so, who would be eligible to claim it? The energy provider or the customer?

Option 5: Sliding Scale Discount Based on Income

In this option, the percentage discount varies with the income of the household. For example, a higher percentage benefit would be offered to households with lower incomes. The poorer the household, the more the discount.

Advantages: The benefit of this option is that it better matches customer needs.

Disadvantages: The disadvantage is that it is not related to energy usage and may be difficult to administer. Customers would have to document their income level, particularly as it changes, causing increased verification difficulties. This would make program costs unpredictable. Most of the Group felt this proposal is too complicated and intrusive. It would also increase program costs if benefit levels are no less than today.

Option 6: Aggregation Model: All Customers Served by a Single Carrier

In this model, all low-income customers would be aggregated so that one entity could bid to provide services to them.

Advantages: The advantage of this option is that it would guarantee that low-income customers would not experience high price increases and it might protect them against price spikes. The provider would specialize in working with these customers. Another advantage is that if, for some reason, energy prices rise to high levels, the carrier could be subsidized by surcharge funds to keep the prices at a certain level, or within a specified range, so that customers are not hurt by rate escalation.

Disadvantages: It would be harder for customers to move back and forth if their incomes change and they are no longer eligible to receive benefits. They would then have to switch carriers. Likewise, if their incomes fell and they qualify for CARE benefits, they would have to change their energy provider.

Considerations: Economic and administrative viability is questionable.

Further Considerations and Studies

The CPUC should undertake further studies before it issues a decision that substantially amends the CARE program design. Issues and questions that are not fully resolved include: (1) the dollar impact of providing the "benefit" relative to the entire bill, all rates, transmission rate, etc.; (2) the relative equity (among low-income customers) afforded by the different options; (3) re-casting the benefit as an incentive (i.e., to further consumer protection and/or encourage energy conservation); (4) the impact of a transition period on the interests of all affected Parties; (5) the focus of the programs--low-income customers' bills, rates, or both?; (6) the proposed options and alternative program designs--do they represent an improvement over current programs and services?; (7) the effects of the alternative program designs on subsidizing ratepayers; (8) the cross-subsidization effects of the alternative program designs; (9) the costs and benefits of the alternative program design; and (10) the impacts of the alternative program design on administrative costs[1].

The CPUC should also consider the implications of modifying the design of the CARE program on whether and/or how this design could be adopted by municipal utilities--some Parties were

[1] Southern California Gas Company (SoCalGas) recommends that the CPUC may wish to defer its consideration of a uniform statewide income verification standard until the decision is issued in R.94-12-001. This proceeding is pending. The CPUC may also want to consider the results from the SoCalGas pilot program on up-front income verification before it acts upon when and/or how applicants prove they meet the income eligibility guidelines, and how often applicants re-apply for CARE benefits.

concerned about the feasibility of implementing a uniform low-income rate assistance program on a statewide basis.

Full Implementation by January 1, 1998

Several alternative program designs are proposed. Some are amenable to implementation by January 1, 1998, and others will take more time to implement, given that they radically depart from today's program.

Three options are amenable to near-term implementation: (1) discount on the bill or rate, (2) fixed level benefit, or (3) ULTS model (fixed and variable benefit options). However, a few Parties believe that the ULTS model may require legislation if imposed on IOUs and may not be amenable to near term implementation. The CPUC has experience with the first and third options, and could reasonably transition into the second option if it is viewed as a variant of the ULTS program. Nevertheless, setting the benefit levels for the second and third options is likely to be contentious.

It may not be feasible to have public input and comment on how the benefit levels are established if the CPUC wants to implement a revised program by January 1, 1998.

Long Term Implementation

Three options cannot be implemented quickly nor, most likely, on an interim or transitional basis. However, the CPUC may want to consider implementing them in the long term. They are: (1) energy stamps, (2) sliding scale, and (3) single provider/aggregate bid. The first option would require legislation. The second and third options are likely to require extensive public hearings as the affected Parties will want to debate the merits of the proposals, and particularly the methodologies, respectively, for determining the variable benefit. The third option may be viewed as creating a barrier to competition.

LIEE PROGRAM DESIGN OPTIONS

Introduction

There is a need for a consistent low-income energy efficiency (LIEE) program(s) and service(s) that should provide benefits to all low-income residents in an equitable and efficient manner throughout the state. The Group did not have the time required to research, analyze, and design a comprehensive LIEE program(s). Instead, the Group has delineated the design options and criteria that would be required to develop a successful LIEE program(s). The Group differed that planning and development work be continued by a subsequent planning group. One Party recommends that such planning occur after the selection of an administrative structure.

Guiding Principles

To be effective, a LIEE program(s) must benefit low-income participants while also considering elements that could address the specific regional considerations of low-income residents, including: climate/geography, housing, saturation, local economy, community environment and

other relevant factors. Therefore, most of the Group recommends a two-level program design for LIEE programs. The first level would consist of a basic program with elements or measures applicable statewide. The second level would be comprised of various supplemental elements or measures that could be used to augment the basic program(s) to meet regional or community needs. One Party disagrees to the extent that this implies separate delivery mechanisms for the two-levels.

Evaluation Criteria

All LIEE programs, services, and activities must show that they provide demonstrable benefits to low-income households.

Most of the Group recommends that the following criteria be used to develop and evaluate effective and efficient programs. Four major categories are discussed below: (1) services, (2) customers, (3) operations, and (4) quality control. Most of the Group recommends that the design of any LIEE program be considered in terms of how well the program or programs meet these criteria.

1. Services:

- Offers a variety of services, including energy efficiency measures, appliance replacement and repair, energy education, and building envelope repairs;
- Evaluates and prioritizes measures and services by a method that considers costs, economic benefits to customers and to society (avoided environmental harms), feasibility, health, safety, comfort, and cost-effectiveness;
- Offers some level of basic services to eligible, recruited, and enrolled participants;
- Provides supplemental measures and services based on climate, housing, cost effectiveness, and other related factors;
- Selects value-based measures (i.e. measures that impart value to the customer in terms of reduced economic hardship, reduced energy costs, increased comfort, health benefits, etc.); and,
- Establish minimum installation criteria and feasibility policies, and takes into account environmental benefits and harms when selecting measures and services to be provided.

2. Customers:

- Provides services to eligible residents;
- Provides some level of energy efficiency assistance to eligible customers regardless of energy use and may target the greatest levels of assistance to high energy users;
- Protects customer privacy;
- Measures customer satisfaction; and,

- Resolves customer complaints.

3. Operations:

- Develops cost control procedures, such as bulk purchasing, customer co-payments, or other means;
- Integrates energy education services into the program mix; and
- Measures energy saved and other results in terms of value-based criteria.

4. Quality control:

- Maintains quality controls;
- Safeguards against fraud;
- Establishes mechanisms to hold accountable those responsible for delivering services;
- Assures that vendors meet state licensing requirements; and,
- Provides training or assures that adequate training has been provided in order to promote service quality and consistency.

One Party disagrees that the greatest levels of assistance should be targeted to high energy users. The level of energy use per household is not nearly as important as the weather sensitivity of that use. High energy use per household does not necessarily indicate a need for weatherization or for more efficient appliances; it may indicate only the existence of a large house or occupancy by a large family or group.

LIEE Frameworks

The Group considered three primary approaches for determining the nature and mix for installing energy efficiency measures and making repairs in low-income residences. These options are broad program frameworks. Most Parties believe the administrator should consider all of these options:

<u>Option 1: Audit-Based Programs</u>

Audit-based programs analyze a variety of factors (e.g., customer energy use, local climate, housing characteristics, appliances, costs, etc.) in order to determine and prioritize which measures will be installed and which repairs will be made to reduce energy consumption, specific to each structure. Audits may be computerized or calculated by hand, completed by professionals, or by applicants using do-it-yourself surveys. There are several energy audit systems on the market today, and each has a specific purpose, design, method of operation and cost.

Option 2: Measure-Based Programs

A measure-based program is a more generalized approach to energy efficiency than an audit--based program. Under this approach, energy savings (i.e., reductions in energy consumption) are based on the accumulated assumed effects of the installed measures and repairs, rather than on measured and identified energy savings for each dwelling served. A list of approved measures and repairs is provided to an assessor or work crew, who then identifies the feasibility of the installation of such measures or repairs in a specific dwelling before actual installation takes place. This process is repeated for each dwelling served.

Option 3: Performance-Based Programs

A performance-based program allows a contractor to determine with few constraints what energy efficiency elements to install, based on each dwelling's energy savings potential. The contractor is then paid, based on the measured savings, over one or more years.

One Party believes that the efficiency of true "pay-for-performance" low-income weatherization was demonstrated in Bell & Meek, supra. (document included in Appendix H).

Transition Plan

The Group agrees that a transition period is needed if the current program delivery infrastructure is substantially modified or replaced. The Group recommends no disruption of LIEE services to those in need.

One Party believes that the transition could be fully complete no later than January 1, 1998. For example, PG&E is presently evaluating bids for contracting out its entire low-income weatherization program and has received at least 3 comprehensive competing bids. This Party believes the existing system can be changed rapidly.

ENERGY EDUCATION PROGRAM DESIGN OPTIONS

Introduction

Energy education has the potential to empower individuals who want to reduce their energy burden. It can effectively reduce energy-related economic hardships by teaching practices that will reduce energy consumption. It may also promote consumer protection in a deregulated energy industry.

Most Parties believe energy education should be multi-faceted. Some Parties recommend that energy education not be limited to discussion of the structural aspects of a dwelling, energy efficiency measures, or the occupants' behavior but should also include consumer protection and related information. There should be a variety of programs in a multitude of settings which discuss measures and behavior, energy programs, resource referrals and consumer protection information.

The Group considered alternative delivery mechanisms for energy education that could provide effective energy education to low-income customers. The Group also considered how the expected results might vary with different program designs, which in turn, would influence the ultimate cost of the program. A consensus was not reached on any specific energy education proposal or option.

Current Programs

PG&E, SDG&E, and SoCalGas and Edison currently deliver energy education services in-home during the home assessment stage of their low-income weatherization programs. SDG&E and SoCalGas also utilize community based organizations (CBOs) to deliver energy education to low-income customers in a workshop setting. Workshop participants may or may not choose to participate in utility low-income weatherization programs. However, they may be referred to a weatherization program as part of the workshop education process. Each of the IOU energy education programs provides information on weatherization and other every efficiency measures, energy saving practices, and how they affect on consumers' monthly energy bills. Participants are encouraged to take actions to control their consumption of gas and electricity. The current programs do not include consumer protection information.

Guiding Principles

The Group agreed that low-income energy education programs should address one or more of the following elements: (1) provide information which encourages low-income energy users to take actions which may result in more efficient energy use, increased comfort, health or safety; (2) inform low-income energy users of the potential effect of energy efficiency measures and energy saving practices on the amount of their energy bills; (3) inform low-income energy users of the availability of CARE and other low-income assistance programs; and (4) provide summary information and referrals to assist customers about the effects of energy deregulation on residential consumers. Some of the Group further agreed that a successful low-income energy education program should have positive, measurable results. One Party believes that energy education is most effective when presented during the actual weatherization work.

Evaluation Criteria

Most of the Group recommends the following criteria be used by the CPUC in evaluating the design options: (1) no less information should be provided to low-income customers than is provided today, and should also include information about where to go for complaint resolution and additional consumer education; (2) information should be available to any participant in LIEE programs; (3) consumer protection information should be available to any LIEE or CARE customer upon request. (Such information could be provided via bill inserts and bill messages); (4) administrative costs should be no higher than the average percentage for IOUs' LIEE program; and, (5) income-eligibility guidelines should be the same as for the LIEE and CARE program.

Energy Education Design Proposals

The proposals considered by the Group are summarized below, including their advantages, disadvantages, and issues to be considered if the CPUC decides to implement them. The options

differ in structure and cost-effectiveness (as indicated in the Chapter IV, Funding Proposals). Consensus was not reached on any of the proposals.

Option 1: Maintain the Status Quo

This proposal will maintain current program designs, continue the service offerings as they are today, and keep expenditures comparable to today's levels (i.e., no less than 1996 authorized budget levels). Under this proposal, energy education would include energy efficiency measures, energy usage and practices, provide information to customers so that they could better understand their utility bills. Consumer protection information would not be part of low-income energy education, but rather, would be part of a separate effort to educate residential customers about what to expect in a deregulated electric industry. Energy education comparable to today would continue to be provided through LIEE and Community-Based Workshops. The existing utility/non-utility infrastructure would continue to develop and distribute energy-related information to low-income customers. Quality assurance comparable to today would continue to measure the delivery of the energy education services.

Advantages: (1) Current recipients will be no worse off, since a comparable level of energy education services would be provided to LIEE participants. (2) The existing infrastructure can continue to provide energy education. With no changes in delivery channels and quality assurance, administrative costs will remain low. (3) It might be easier to integrate the new energy service providers into the existing delivery infrastructure, especially since the program's will be comparable to today's, thus making their customers immediately able to receive energy education services. (4) This proposal can be implemented by January 1, 1998.

Disadvantages: (1) Some Parties felt that this proposal discriminates against low-income customers who do not participate in LIEE programs, which is most CARE customers. Effective energy education may lessen their energy burden and potentially reduce the amount of the CARE subsidy to individual households. Some Parties feel this is an advantage because the energy burden is reduced. (2) Some Parties feel low-income customers should receive all services: CARE, LIEE, and energy education. This proposal will not accomplish this. One Party states that this proposal is anti-competitive, as it assigns funds to utilities, regardless of their efficiency or effectiveness.

Considerations: This option may be the easiest to implement, but can also be viewed as a transition option.

Option 2: Extend Energy Education to the CARE Eligible Population and Include Consumer Protection Information in Energy Education Programs and Services.

This proposal is broader than current program design. Under this proposal, energy education would continue to address energy efficiency measures, energy usage and practices, understanding the utility bill, but would include consumer protection information as part of the program. Energy education would be provided upon request to any eligible low-income household, would continue to be provided as part of LIEE programs and services, and would continue to be provided through CBOs. Energy education would not be limited to the IOUs CARE and LIEE customers only, but would be expanded to include customers identified from other sources,

agencies and/or organizations. The quality assurance component would continue to measure the delivery of the energy education services, and could include telephone contact with customers. An organization other than the agency or contractor directly responsible for providing the energy education services should be used for quality control activities.

Advantages: (1) LIEE and CARE recipients would be offered energy education as a means of reducing their energy burden and reliance on assistance (energy education is more effective when heard by motivated individuals, who wish to be part of the information process); (2) The existing infrastructure will continue to provide energy education; (3) Multiple channels of delivering information will provide a test of the results and allow for changes based on results; and, (4) Program evaluation will measure compliance with educational goals and objectives, and determine the customer's awareness of the measures installed, the benefits received, their knowledge of conservation practices, and self-reported behavioral changes.

Disadvantages: (1) The expanded program would cost considerably more than the present program, given the expanded participant pool and the evidence is unclear that the expected benefits will outweigh the increased costs; (2) administrative costs may increase, at least in the near term, to develop the new informational materials and deliver them, and may result in some degradation of LIEE services; (3) this proposal may be difficult to implement by January 1, 1998; (4) the proposal discriminates against customers who do not request energy education information; (5) the program is not related to energy burden or energy use; (6) it may be difficult to integrate the new energy service providers into the existing delivery infrastructure; (7) some Parties feel that the proposal may lead to disproportionate benefits for those customers who receive all services (CARE, LIEE, and energy education); and, (8) some Parties believe that quality assurance should include mail contact with customers, in-person contact with customers, and direct monitoring of the delivery.

Considerations: Some Parties suggested that an energy education cooperative may be a better way to transition into expanded energy education. Ratepayers could provide voluntary contributions specifically earmarked to the cooperative. The cooperative could seek additional matching funds to undertake new, innovative education approaches. The cooperative might also recommend cost effective ways to measure quality assurance for the new approaches. The cooperative would need sufficient backing and support to be viable. However, there was concern by other Parties that a voluntary contribution system to fund energy education would kill an effective program.

<u>Option 3: Augment Current Program by Adding Consumer Protection; Serve Same Client</u>

This proposal would maintain the current program design, but add a new component in order to provide consumer protection information to participants. As a result, the service offerings would be expanded and expenditures would rise somewhat to develop and deliver the additional information to LIEE participants. The existing utility/non-utility infrastructure would continue to develop and distribute energy-related information to low-income customers, but would be expanded somewhat to account for the testing and development of new information and materials on consumer protection geared to the low-income consumer. Quality assurance would continue to measure the delivery of the energy education services, with some augmentation to include evaluation of new materials and information developed on consumer protection.

Advantages: (1) Current recipients will be somewhat better off, since a broader range of energy education services would be provided to LIEE participants. (2) The existing infrastructure will continue to provide energy education. The small expansion in delivered services would keep administrative costs low. (3) This proposal may be implemented by January 1, 1998. (4) Their may be some loss in LIEE services if the expanded consumer protection element turns out to cost more than a minimal amount.

Disadvantages: (1) The proposal discriminates against low-income customers who do not participate in LIEE programs, particularly most CARE customers. Effective energy education may lessen their energy burden and potentially reduce the amount of the CARE subsidy to individual households (2) Some Parties feel low-income customers should receive energy education services from all three programs: CARE, LIEE, and energy education. This proposal will not accomplish this. (3) It may be somewhat more difficult to integrate the new energy service providers into the existing delivery infrastructure, given the expanded services to be provided. If this integration is delayed, it may negatively impact customers and preclude them from being able to immediately receive energy education services.

Considerations: This can be viewed as a reasonable "bridge" option. It would enable the CPUC and other interested Parties time to test and evaluate the effectiveness of consumer protection education geared exclusively to low-income customers, yet still expand the breadth of services offered to low-income customers.

Option 4: Pilot Program

The energy education program should provide an increased amount of consumer protection and LIEE information to a small group of customers on a pilot basis before offering a package system-wide. In the meantime, IOUs should begin marketing the current education packages to CARE participants in order to reduce both the size of CARE costs and customer energy burden. Pilots should be rigorously evaluated to see if energy education is useful to participants and or has an effect on energy use. Any increase in education costs could be offset by reducing the outlays to the direct installation program, if this is a binding constraint.

Advantages: This proposal will probably help slow the growth of CARE expenditures (if energy education actually reduces consumption) and meets the CPUC's goals of beginning to provide more customer protection to vulnerable customer classes. It also allows more time to test the effectiveness of providing this information to a limited sample of customers before rolling out an extensive campaign.

Disadvantages: This proposal could increase the overall cost of energy education programs and of the entire LIEE program in the long run, if customer protection packages prove to be effective. It also assumes that energy education is the best method of delivering customer protection or at least notifying customers of its existence.

This option is supported by the California Energy Commission.

Transition Plan

The Group agrees that a transition period is needed if the current program delivery infrastructure is substantially modified. The Group recommends no disruption of current energy services to those in need.

This chapter has reviewed a variety of program design options. A choice to modify program designs for any of the programs reviewed here would obviously have implications for the funding requirements of these programs. The Group did not have enough time to estimate the funding impact of alternative program designs. Thus the Group decided to assume program designs would not change for the purpose of assessing future funding needs for these programs in 1998 and beyond. This analysis is presented in the next chapter.

Chapter III

PROGRAM FUNDING AND SURCHARGE PROPOSALS

INTRODUCTION AND SUMMARY

This chapter begins with an overview of the recommendations and positions of the Parties on the level of funding for low-income programs and possible surcharge mechanisms in light of the provisions of Assembly Bill 1890 (AB 1890, Electric Industry Restructuring). The chapter then presents historical data on funding and program activity for the California Alternate Rate for Energy (CARE) program and low-income energy efficiency services (LIEE, weatherization, or DAP). Data are presented on current authorized funding for CARE and DAP. Then the chapter discusses legislative provisions of AB 1890 affecting low-income program funding and the surcharge, and the implications for electric and gas investor-owned utilities (IOUs) and community-owned utilities (COUs). The final section presents comparative data for the major Investor-Owned Utilities (IOUs) on 1995 revenues and sales, by customer class, and CARE cost recovery by class. A series of tables present data on the effect, by customer class, of alternative methods of recovering currently authorized CARE and DAP costs, respectively, and compare electric and gas data separately. For illustrative purposes only, comparative data are presented showing the effect, by class, of alternative methods of recovering CARE costs assuming 85percent of eligible participants receive benefits.

The Low-Income Working Group (Group) was unable to make a long-term recommendation on funding levels for low-income programs because the Group did not undertake a comprehensive needs analysis. Most of the Group recommends that the CPUC, on an interim basis, keep funding at no less than 1996 authorized levels for LIEE, and fund CARE consistent with the number of qualified participants. Some of the Group urges the CPUC, in conjunction with the Legislature as necessary, ensure a long-term funding source for uncapped, need-based CARE and funding at least at 1996 levels for LIEE by continuing balancing accounts. ("Uncapped, need-based CARE" refers to providing discounts no less than current levels to any customer who qualifies.)

However, for CARE, some Parties want the amount of the discount re-evaluated in light of the AB 1890 mandate that residential rates decrease by 10percent until 2002. In addition, some Parties are concerned that in light of the rate freeze provision of AB 1890, funding for CARE cannot increase over 1996 levels. Further, the Southern California Gas Company (SoCalGas) believes that funding for its CARE program should not be kept at the 1996 level, but be established in light of the results of its pilot program on up-front income verification, otherwise funding may be set unnecessarily high. Some Parties propose that long-term funding await CARE program re-design, which should follow residential rate unbundling (which may differ for gas and electric IOUs).

The Group offers different recommendations for the surcharge mechanism for gas IOUs and COUs. Several Parties recommend that legislation be enacted to impose a similar surcharge on non-utility natural gas providers and alternate fuels. Where AB 1890 does not specifically direct the CPUC, the Group offered several different recommendations for the electric surcharge. Most Parties want the CPUC to establish a separate, nonbypassable low-income surcharge for all energy service. Some Parties want to incorporate the low-income surcharge into the public goods surcharge, to avoid possible opposition to low-income funding. Most Parties recommend that a uniform statewide surcharge be established. Others do not support this, preferring regional autonomy regarding the collection and disbursement of funds.

Balancing accounts could be used to mitigate various impacts of the electric rate freeze. Some Parties question the continuation of balancing accounts under AB 1890. Several Parties request that the CPUC establish an annual low-income proceeding to review funding levels, surcharge rate(s), balancing account true-ups, and policy issues, among other matters. EMG believes that statewide administration of the surcharge will minimize the need for balancing accounts.

Most Parties recommend that the surcharge exclude two customer groups: (1) low-income customers receiving CARE benefits, and (2) gas purchases by utility electric generators who already charge for their own CARE programs in their rates. Some Parties recommend additional customer classes be excluded, including cogenerators, gas and/or electricity sold as a vehicle fuel, etc. Some Parties recommend a cap on the size of the surcharge paid by large customers if there are no exclusions, while others recommend a cap in addition to the exclusions.

Prior to the passage of AB 1890, the Group planned to recommend legislation that would fund COU low-income programs. AB 1890 seems to preclude this for electric COUs; §385 mandates a surcharge covering all public purpose (including low-income) programs be collected by electric COUs. The mandated charge would be about 2. 6percent of total revenues, considerably more than now spent by any of these COUs except Sacramento Municipal Utility District (SMUD). AB 1890 provides no guidance on how these funds are to be allocated or spent.

METHODOLOGY

As discussed in Chapter II, most of the Group felt that an assessment of low-income customer need was beyond the resources and expertise of the Group; some Parties felt otherwise. Most of the Group felt it could not establish whether or not current authorized funding for low-income utility programs met low-income customer need. The approach taken by the Group was to assemble readily available data (primarily IOU data provided routinely to the CPUC, supplemented by municipal utility data, where supplied) on rate assistance and low-income weatherization activity and funding over several years. Where appropriate, the Group drew conclusions or made inferences based upon trends. The Group also determined currently authorized funding for DAP and estimated 1996 total CARE costs for the large IOUs. Finally, for illustrative purposes only, the Group projected CARE costs if 85percent of eligible household received the average benefits provided to CARE participants today.

CURRENT NEEDS AND FUNDING LEVELS

The statues specify that low-income programs be funded on the basis of need. Decision No. (D.) 95-12-063 (the CPUC's policy decision) at page 166, as modified by D.90-01-009 (dated January 10, 1996), says: "funding for low-income rate discounts recovered through a surcharge should not be capped but should instead be based upon need. "

As discussed in Chapter II, the Group could not undertake any in-depth analysis of low-income needs. Some Parties recommend that the CPUC sponsor and fund an in-depth analysis of the funding requirements for these programs. However, trend data are available, from both a participation standpoint (as presented in Chapter II) and from a funding standpoint. The following tables present historical funding levels for CARE and LIEE.

The CARE participation and eligible household data in Table III-1 on the next page suggest that the statewide participation rate, around 58 percent of eligible households, indicates an unmet need for CARE assistance. (Due to overlapping service territories the "total data" may be overstated, so the true participation rate is unknown.) The table also shows that participation varies considerably across IOUs (from 39 to 76 percent).

Since the CPUC and the Legislature have stated that CARE discounts be provided to all eligible persons who apply, most Parties assume that the CPUC will fund CARE consistent with the number of qualified participants enrolled in each IOU's program.

The low-income weatherization activity and eligible households data in Table III-2 on the next page suggest that about 56 percent of the eligible homes statewide have received any weatherization service. This indicates some unmet need.

At this time, the Group cannot conclude whether the current levels of authorized low-income funding are adequate or not; some Parties recommend that the CPUC undertake a needs analysis to determine if greater levels of annual participation are appropriate. For all of the state's IOUs, 1996 estimates of CARE funding are $109.7 million and for LIEE funding are $52.3 million. SoCalGas believes its situation is unique, given its pilot program on up-front income verification, so funding of its CARE program should be considered independent of the electric and other gas utilities.

AB 1890 §382 states:

> Programs provided to low-income electricity customers, including, but not limited to, targeted energy efficiency services and the California Alternative Rates for Energy Program, shall be funded at not less than 1996 authorized levels based on an assessment of customer need. The CPUC shall allocate funds necessary to meet the low-income objectives in this section.

In D.95-12-063, the CPUC stated that funding for the low-income rate discount be uncapped, based upon need.

Table III-1

Estimated Income-Eligible Households and Number and Rate of Participation in California Alternate Rates for Energy Statewide as of April 1996

	Estimated Number of Income-Eligible Households	Number of CARE Participants	Percentage of Eligible Households Participating in CARE
Pacific Gas & Electric	879,422	342,097	39%
Southern California Gas	1,050,000	766,807	73%
Southern California Edison	791,400	473,444	60%
San Diego Gas & Electric	216,148	114,885	53%
All Other Investor-Owned Utilities	38,702	17,012	44%
Statewide Total	2,975,672	1,714,245	58%

Data reported by utilities to the CPUC in the 1996 Annual CARE Progress Reports.
Data for "All Other Investor-Owned Utilities" are estimates.
The "total" may be overstated by an unknown amount due to overlapping service territories.

Table III-2

Dwellings Eligible for Low Income Weatherization Services Statewide and Dwellings Receiving Any Weatherization Services to Date

	Income-Eligible Households[1]	Units Receiving Any Weatherization Services	Percentage of Eligible Units Receiving Any Services
Pacific Gas & Electric	879,422	679,077	77%
Southern California Gas	1,200,777	395,798	33%
Southern California Edison	124,000	23,160	19%
San Diego Gas & Electric	216,148	71,396	33%
All Other Investor-Owned Utilities	333,301	2,587	1%
Investor-Owned Utility Subtotal	2,753,648	1,172,018	43%
Los Angeles Department of Water & Power	320,189	0	0%
Sacramento Municipal Utility District	105,450	8,287	8%
All Other Municipal Utilities	204,572	429	0%
Municipal Utility Subtotal	630,211	8,716	1%
Community Services & Development	2,776,824	368,450	13%
Statewide Total[2]	2,776,824	1,549,184	56%

[1] Eligible households are used as a surrogate for the number of dwellings eligible for low income weatherization.
[2] Used figure reported by the California Department of Community Services and Development.

Most Parties recommend that both electric and gas low-income programs be funded consistent with AB 1890: at not less than 1996 authorized levels, as long as households fall within income eligibility criteria. Most Parties recommend that CARE funding be provided for all eligible persons who apply. Some Parties urge that low-income customers be assured that they will be no worse off under deregulation than before. Other Parties believe that under the rate freeze established by AB 1890, there is no provision for additional funding over 1996 authorized levels.

LOW INCOME FUNDING BETWEEN NOW AND 2002

California Alternate Rates for Energy

Most Parties felt that CARE participation (and therefore funding) is a function of several difficult-to-predict factors, among them: (1) changing household incomes; (2) locating and/or informing eligible households; (3) households choosing not to participate for various reasons; and, (4) the impact of the political and public policy changes, including welfare reform.

As Table III-3 on the next page shows, CARE funding has increased every year, some years dramatically. Since the inception of CARE until 1995, statewide funding has increased nearly four-fold, from $24.5 million in 1990 to $117.9 million in 1995, an increase of $93.4 million. Since a very small percentage (less than five percent) is used for program administration, most of this money has been received by utility customers in the form of rate discounts. About 70 percent of the statewide CARE funding is for electric subsidies, the remainder are for gas subsidies. In 1995, the annual average assistance received by participants was almost $75, however the average electric subsidy tends to be higher than this and the average gas subsidy is lower than this.

Given the possible program design options considered in Chapter III, and uncertainty about the CPUC's ultimate direction, the Group suggests that it is likely that CARE funding requirements will continue to grow. However, some Parties note that under AB 1890 rates cannot be increased above current authorized levels to provide any additional funding. Another factor complicating any future funding assessment is the open rulemaking (R.94-12-001), and the SoCalGas pilot program on up-front income verification. Either or both of these could influence CARE program design and, consequently CARE funding requirements.

Low Income Energy Efficiency

For purposes of this chapter, the Group assumes that funding for energy education is part of LIEE funding. Given past legislative and regulatory practices regarding funding of low-income weatherization services, the Group assumed that any unmet LIEE needs will not be allocated in any single year or even over three to five years, but will be gradually addressed over ten or more years. Funding for LIEE has varied greatly since the CPUC first authorized IOU funding, when considered by any comparative measure: with respect to the proportion of utility revenues; with respect to the proportion of DSM program costs; with respect to the proportion of funds

devoted to non-mandated measures; and, with respect to the size of the low-income population served. Current statutes mandate some measures (when feasible) and authorize additional measures that

Table III-3

Statewide Electric and Gas Subsidies, Participants, and Average Subsidy per Participant for the California Alternate Rates for Energy Program from its Inception to 1995

	19	90	19	91	19	92	19	93	19	94	19	95
		Rate of		Rate of		Rate of		Rate of		Rate of		Rate of
	Amount	Change	Amount	Change	Amount	Change	Amount	Change	Amount	Change	Amount	Change
Electric Subsidy[1]	$16.7	n/a	$45.4	172%	$58.4	28%	$59.3	2%	$62.1	5%	$81.4	31%
Percentage of Total	68%	n/a	66%	n/a	67%	n/a	68%	n/a	63%	n/a	69%	n/a
Gas Subsidy[1]	$7.8	n/a	$23.5	201%	$28.4	21%	$28.3	0%	$36.8	30%	$36.5	-1%
Percentage of Total	32%	n/a	34%	n/a	33%	n/a	32%	n/a	37%	n/a	31%	n/a
Total CARE Subsidy[1]	$24.5	n/a	$69.0	182%	$86.7	26%	$87.6	1%	$98.9	13%	$117.9	19%
CARE Participants[2]	0.7	n/a	0.9	n/a	1.0	n/a	1.1	n/a	1.3	n/a	1.6	n/a
Subsidy/Participant[3]	$36.8	n/a	$75.0	104%	$83.4	11%	$78.2	-6%	$74.9	-4%	$73.4	-2%

ADMINISTRATION COSTS FOR RESIDENTIAL PROGRAM

IUD	1990	1991	1992	1993	1994	1995	1996	Totals
WPNG	$3,172	$600	$1,709	$7,611	$5,406	$4,353	$4,730	$27,581
EDISON	$624,000	$719,657	$1,039,442	$698,424	$669,889	$723,470	$555,364	$5,030,246
PG&E	$1,930,552	$3,164,830	$1,292,154	$1,191,308	$1,311,135	$1,189,400	$759,528	##########
PP&L	$33,928	$15,613	$15,639	$22,972	$14,987	$12,387	$8,626	$124,152
SDG&E	$330,901	$273,300	$252,535	$449,209	$401,713	$472,544	$499,056	$2,679,258
SPPC	$52,242	$13,871	$5,852	$7,758	$2,108	$3,597	$2,918	$88,346
SO CAL GAS	$1,227,000	$940,000	$744,084	$925,243	$1,011,033	$797,454	$737,465	$6,382,279
SO CAL WTR	$2,602	$1,764	$3,891	$1,919	$2,090	$1,507		$13,773
SWG	$31,900	$22,048	$21,050	$18,963	$18,611	$22,177	$23,327	$158,076
Totals	$4,236,297	$5,151,683	$3,376,356	$3,323,407	$3,436,972	$3,226,889	$2,591,014	##########

n/a means not applicable.
n/s means data were not supplied.
[1] in millions of nominal dollars.
[2] in millions, enrolled as of April 1st of the calendar year indicated.
[3] in nominal dollars.

reduce low-income energy hardship, such as energy education, considering their cost-effectiveness.

Table III-4, shown on the next page, presents historical data for the IOUs and SMUD comparing LIEE and energy efficiency expenditures for electricity, gas, and in total. Between 1988 and 1995, almost $600 million has been spent on low-income weatherization by these utilities, a fifth of what was spent on all energy efficiency expenditures over that period. Gas LIEE expenditures are almost half of what was spent on gas demand side management (DSM); for electric, LIEE expenditures have averaged a little more than a tenth of what was spent on electric DSM.

Table III-5, shown two pages away, presents data on actual 1995 LIEE for the major IOUs. Present systems for fund allocation provide for dual-fuel utilities to apportion funding in proportion to the energy source saved. In 1995, these four IOUs spent over $50 million providing only "big six" weatherization measures: weatherstripping, caulking, low-flow showerheads, water heater blankets, ceiling installation, and minor home repairs. Nearly 73,000 dwelling were treated with at least one of these measures, at an average statewide cost of roughly $700 per dwelling.

Some Parties recommend that gas and electric LIEE programs be treated the same. Most, but not all, Parties recommend that gas LIEE program funding be funded at 1996 authorized levels. Most Parties feel that there will be continuous need for LIEE services, especially if year-to-year activity addresses less than 15 percent of the total estimated need.

LEGISLATIIIE PROVISIONS FOR SURCHARGE AND FUNDING

Low-Income Surcharge

AB 1890 §381(a) states:

> To ensure that funding for programs described in subdivision (b) and Section 382 are not commingled with other revenues, the CPUC shall require each electrical corporation to identify a separate rate component to collect the revenues used to fund these programs. The rate component shall be a non-bypassable element of the local distribution service and collected on the basis of usage. This rate component shall fall within the rate levels identified in subdivision (a) of Section 368.

Some Parties believe that this section can be interpreted to require a single surcharge for all public purpose programs. Other Parties believe this section can be interpreted to require two surcharges, one for all other public purpose programs, subdivision (b), and another for low-income (§382). Still other Parties assert that the CPUC has full authority to design the structure and application of the public goods surcharge (PGC). Most Parties recommend that a separate low-income surcharge be established for gas low-income programs, pursuant to D.95-12-063.

SoCalGas does not believe it is necessary to establish a separate gas surcharge at this time. If the CPUC does establish a surcharge, SoCalGas recommends that it apply only to the residential

Table III-4

Comparative Data on Low Income Weatherization Expenditures of California Investor-Owned Utilities and Sacramento Municipal Utility District from 1988 to 1995

	1988	1989	1990	1991	1992	1993	1994	1995	Total	Average
Electric										
Low Income Weatherization Expenditures[1]	$15.2	$28.0	$28.9	$29.0	$32.0	$28.5	$28.4	$18.3	$208.3	$26.0
Demand Side Management Expenditures[1]	$119.8	$144.9	$186.4	$284.9	$302.6	$316.7	$335.2	$267.0	$1,957.5	$244.7
Weatherization Expenditures as Percentage of DSM Expenditures	13%	19%	16%	10%	11%	9%	9%	7%	11%	12%
Electric Revenues[1]	$13,330	$14,650	$16,030	$16,690	$17,570	$17,430	$18,060	$18,400	$132,160	$16,520
Weatherization Expenditures as Percentage of Revenues	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.2%	0.2%
Gas										
Low Income Weatherization Expenditures[1]	$58.3	$53.9	$40.9	$46.1	$48.2	$44.3	$40.8	$48.9	$381.4	$47.7
Demand Side Management Expenditures[1]	$97.3	$91.9	$90.1	$115.2	$122.6	$125.3	$92.4	$103.7	$838.6	$104.8
Weatherization Expenditures as Percentage of DSM Expenditures	60%	59%	45%	40%	39%	35%	44%	47%	45%	46%
Gas Revenues[1]	$6,350	$6,600	$6,690	$6,130	$5,880	$5,460	$5,030	$5,080	$47,220	$5,903
Weatherization Expenditures as Percentage of Revenues	0.9%	0.8%	0.6%	0.8%	0.8%	0.8%	0.8%	1.0%	0.8%	0.8%
Electric and Gas										
Total Low Income Weatherization Expenditures[1]	$73.5	$81.9	$69.7	$75.1	$80.2	$72.8	$69.2	$67.2	$589.6	$73.7
Total Demand Side Management Expenditures[1]	$217.1	$236.8	$276.5	$400.0	$425.2	$442.0	$427.7	$370.7	$2,796.0	$349.5
Weatherization Expenditures as Percentage of DSM Expenditures	34%	35%	25%	19%	19%	17%	16%	18%	21%	21%
Total Revenues[1]	$19,680	$21,250	$22,720	$22,820	$23,450	$22,890	$23,090	$23,480	$179,380	$22,423
Weatherization Expenditures as Percentage of Total Revenues	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%

[1] in millions of nominal dollars.

Table III-5

Comparative 1995 Data on Low Income Weatherization and Demand Side Management Expenditures for California's Large Investor-Owned Utilities

	Pacific Gas & Electric	SoCalGas	Edison	San Diego Gas & Electric	Total
Electric Low Income Weatherization Expenditures[1]	$20.0	$0.0	$5.9	$1.0	$27.0
Gas Low Income Weatherization Expenditures[1]	$11.0	$11.2	$0.0	$3.1	$25.3
Total Low Income Weatherization Expenditures[1]	$31.0	$11.2	$5.9	$4.1	$52.3
Electric Weatherization Expenditures as Percentage of Total	65%	n/a	100%	25%	52%
Gas Weatherization Expenditures as Percentage of Total	35%	100%	n/a	75%	48%
Electric Demand Side Management Expenditures[1]	$130.4	$0.0	$50.5	$46.7	$227.6
Gas Demand Side Management Expenditures[1]	$27.6	$30.1	$0.0	$7.9	$65.6
Total Demand Side Management Expenditures[1]	$158.0	$30.1	$50.5	$54.6	$293.2
Electric DSM Expenditures as Percentage of Total	83%	n/a	100%	86%	78%
Gas DSM Expenditures as Percentage of Total	17%	100%	n/a	14%	22%
Number of Units Weatherized with Any Measure[2]	43,669	18,782	2,963	7,268	72,682
Cost per Unit to Weatherize with Any Measure[3]	$709	$998	$1,998	$571	$720
Electric Weatherization as a Percentage of All DSM Expenditures	13%	0%	12%	2%	9%
Gas Weatherization as a Percentage of All DSM Expenditures	7%	37%	0%	6%	9%
All Weatherization as a Percentage of All DSM Expenditures	20%	37%	12%	8%	18%

[1] in millions of nominal dollars.
[2] Weatherized using any "Big Six" measure only.
[3] in nominal dollars.

customer class, as these customers benefit from the programs. Other Parties feel that a surcharge should apply to nonresidential customers, too. Some Parties recommend low-income funding be part of the PGC, to avoid creating a target for possible opposition to low-income funding. Other Parties believe this is a requirement of AB 1890.

Electric Rate Freeze

AB 1890 §268 and §361 freeze electric rates effective June 10, 1996, and mandate at least a 10 percent reduction in residential and small commercial rates. Some Parties believe that these PGC and/or low income surcharge(s) are subject to the rate freeze and reduction requirements. If electric low-income funding must increase between now and March 31, 2002, some Parties believe that the increase would become a shareholder burden absent some other solution. These Parties are concerned about the creation of tension between the interests of low-income customers and IOU shareholders caused by this situation.

Another Party believes this trade-off is consistent with the rate freeze limitation on CTC collection embodied by AB 1890.

Surcharge Collection

Currently, the CPUC does not impose the CARE surcharge on all electric or gas usage. In 1988, Senate Bill (SB) 987 amended §739 of the Public Utilities Code directing that the CPUC create a Low-Income Ratepayer Assistance Program (now called CARE). (See Appendix D for more information on the legislative and regulatory history of CARE).

Pursuant to D. 89-09-044, the CPUC decided to fund CARE through an "equal cents per therm or kilowatt-hour" charge. At that time, the CPUC excluded the usage of low-income customers, customers on fixed rate contracts, utility electric generation gas customers, cogeneration gas customers, wholesale gas and electric customers, enhanced oil recovery customers, and street light customers from the surcharge (32 CPUC 2d 408, 416.)

AB 1890 §381(a) requires that the public goods (low income) surcharge be collected on the basis of usage, and is silent on exemptions. Most Parties recommend that the CPUC continue two customer class exemptions: low-income customers and gas sales to utility electric generators who already charge for the CARE program in their rates. Some Parties recommend additional exemptions.

Uniform Surcharge

AB 1890 directs that the CPUC allocate the funds necessary to meet the statutes' low-income objectives. Currently, IOU LIEE programs vary greatly from each other in many respects, and AB 1890 establishes electric LIEE funding at not less than 1996 authorized levels, absent a needs analysis. The CPUC stated in its policy decision that it preferred that the same level of surcharge

be applied across the state (rather than on a service territory basis as occurs today), but recognized that there might need to be a transition period to accomplish this goal.

Implementing a Uniform Surcharge

Some Parties support this as the most equitable way of funding statewide energy assistance, while other Parties think that given the uneven funding levels, regional surcharges should be implemented and are fairer, at least in the near term. Also, some Parties note two consequences for the CPUC's consideration: there will be different program funding levels for each utility (due to both the rate freeze and AB 1890's reference to 1996 authorized funding levels), and (2) a uniform surcharge will cause some regions to gain ratepayer funds and others to lose ratepayer funds.

Some Parties recommend that the CPUC not create a uniform charge for all IOUs because of the added complications it would cause. AB 1890 supersedes the CPUC's policy decision, and does not mention a uniform charge as does the CPUC's policy decision. Further, the AB 1890 rate freeze was not anticipated in the CPUC's policy decision. Together, these reasons argue against, or at least for reconsideration of, a uniform statewide surcharge.

Most Parties support a uniform nonbypassable statewide surcharge.

If the CPUC decides to implement a uniform surcharge, the next issue is how quickly to implement it: on or before January 1, 1998, or gradually between now and 2002. One Party recommends a five-year implementation schedule, with the CPUC cumulatively increasing the surcharge by 20 percent per year to achieve uniform funding among the IOUs at the end of the transition period.

LOW INCOME BALANCING ACCOUNT

Changes in low-income funding will be decided by the CPUC based on low-income need, but the electric rate freeze will not permit any increase in rates beyond those in effect on June 10, 1996 (including the low-income surcharge) until after March 31, 2002. The Group feels that CARE funding needs will increase unless its program design is changed. Some Parties believe that AB 1890 may provide a disincentive to increase low-income program participation levels and/or maintain current benefits levels.

Some Parties believe that the rate freeze implies that increases in the surcharge would require an offsetting reduction in one or more unbundled rate components. This would reduce other utility revenue and result in shareholder funding of low-income programs. Even if program administration is not under IOU control, some Parties believe that the possibility of significantly increased low-income funding seriously adds to the level of IOU risk due to the rate freeze.

Need for a Balancing Account

Most Parties feel it will always be difficult to accurately forecast future funding requirements for low-income programs, especially CARE, making it difficult to estimate (and meet) annual program budgets. Such an effort may be counter-productive: surplus funds at year end may exert pressure to needlessly spend, and shortfalls might result in program shutdown. The latter is inefficient if the program will restart the next year.

Some Parties believe that a balancing account, which would permit future recovery through a continuing surcharge, could help. These Parties recommend that the CPUC authorize balancing account treatment for the IOUs' low-income programs.

SURCHARGE COST ALLOCATION METHODS

Some Parties preferred to take no position on low-income surcharge rate design, favoring uniformity with whatever rate design the CPUC elects for the PGC and for the CTC.

Most Parties recommend similar treatment of gas and electric programs. However, this section , among other things, discusses gas surcharge options for SoCalGas, which does not support similar treatment of gas and electric programs at this time. Some Parties believe that AB 1890 leaves room for discussion on electric surcharge mechanisms, so this section also presents data for the CPUC to consider.

Once a funding level is set, the method of collection must be decided. Some Parties believe that the electric rate freeze means that some of the surcharge options the Group considered are now irrelevant for electricity until 2002. These options contemplated unbundled rates that may not exist until after March 31, 2002. The time to consider these options is 2001, when electric rate design (and unbundling) will be decided. Gas unbundling might occur before then. If so, it would be appropriate to consider the various surcharge options for gas at that time.

Cost Allocation Methods

There are many possible ways to collect the funds from the various customer classes. The five methods discussed by the Group are: (1) equal cents per therm or kWh; (2) equal percentage of marginal cost, (3) equal percentage of the bill; (4) allocation entirely to residential class; and (5) cap on surcharge (limit to first to 250,000 therms or three million kilowatt-hours usage).

The CPUC adopted an equal-cents-per-unit (kWhs or them) allocation when the CARE (then-LIRA) program was first established, finding that such allocation was the most equitable. More recently, the CPUC has rejected efforts to change the existing allocation (for example Edison's General Rate Case decision, D. 96-040-050).

Tables III-6 and III-7, on the following two pages, present data, respectively on electric and gas revenues and sales in 1995 by customer class for the major IOUs. The data indicate that

percentage of revenues and sales attributable to electric residential customers are similar, and tend to be less than 40 percent of total electric revenues and sales. The gas data indicate that the percentages of revenues and sales attributable to residential customers diverge; residential gas revenues are at least 60 percent of total revenues, while residential sales range from 26 to 46 percent of total sales.

Table III-6

Comparison of 1995 Revenues and Sales, Adjusted CARE Sales, Imputed Surcharge, and Revenues Collected by Customer Class for California's Large Electric Investor-Owned Utilities

	1995 Revenue ($000)	% by Class	1995 Sales (millions kWh)	% by Class	1995 Adjusted CARE Sales (millions kWh)	1996 Imputed CARE Surchg[1] $/kWh	CARE Revenue Collected[2] ($000)	% by Class
PG&E:								
Residential	$2,980,000	39%	24,391	34%	22,719	$0.00041	$9,769	32%
Commercial	$2,965,000	39%	27,014	37%	26,870	$0.00041	$11,554	38%
Agricultural	$396,000	5%	3,478	5%	3,478	$0.00041	$1,496	5%
Industrial	$1,161,000	15%	16,879	23%	16,879	$0.00041	$7,258	24%
Street Light	$56,000	1%	425	1%	n/a	n/a	n/a	n/a
Total	**$7,558,000**	99%	**72,187**	99%	**69,946**		**$30,077**	100%
Edison:								
Residential	$2,932,952	37%	22,763	26%	19,288	$0.00051	$9,837	23%
Agricultural	$93,659	1%	834	1%	834	$0.00051	$425	1%
Light & Power	$3,872,809	49%	50,699	58%	50,699	$0.00051	$25,856	60%
Large Industrial	$973,296	12%	13,237	15%	13,237	$0.00051	$6,751	16%
Total	**$7,872,716**	100%	**87,533**	100%	**84,058**		**$42,869**	100%
SDG&E:								
Residential	$635,318	42%	5,736	37%	5,291	$0.00041	$2,170	35%
Agricultural	$19,962	1%	216	1%	216	$0.00041	$89	1%
Commercial	$594,142	39%	6,031	39%	6,031	$0.00041	$2,473	40%
Industrial	$259,908	17%	3,466	22%	3,466	$0.00041	$1,421	23%
Total	**$1,509,330**	100%	**15,450**	100%	**15,005**		**$6,152**	100%

n/a means not applicable.

[1] The rate shown is the rate that would fully recover the 1996 estimated CARE costs absent balancing accounts.

[2] This represents the adjusted volumes times the imputed surcharge.

Table III-7

Comparison of 1995 Revenues and Sales, Adjusted CARE Sales, Imputed Surcharge, and Revenues Collected by Customer Class for California's Large Gas Investor-Owned Utilities

	1995 Revenue ($000)	% by Class	1995 Volume (000s therms)	% by Class	1995 Adjusted CARE Sales (000s therms)	1996 Imputed CARE Surchg[1] $/therm	CARE Revenue Collected[2] ($000)	% by Class
PG&E:								
Residential	$1,205,223	66%	1,917,240	46%	1,801,991	$0.00173	$4,882	45%
Small Commercial	$421,397	23%	641,350	15%	641,350	$0.00173	$1,738	16%
Large Commercial	$42,106	2%	140,450	3%	140,350	$0.00173	$381	3%
Distribution	$20,960	1%	360,559	9%	360,559	$0.00173	$977	9%
Transmission	$146,365	8%	1,078,651	26%	1,078,651	$0.00173	$2,923	27%
Total	**$1,836,051**	100%	**4,138,250**	100%	**4,022,901**		**$10,901**	100%
SoCalGas:								
Residential	$1,554,000	59%	2,390,000	26%	2,500,369	$0.00922	$23,053	54%
Commercial/Industrial	$752,000	28%	3,640,000	39%	2,142,820	$0.00922	$19,757	46%
Utility Electric Generation	$205,000	8%	2,050,000	22%	n/a	n/a	n/a	n/a
Wholesale	$129,000	5%	1,290,000	14%	n/a	n/a	n/a	n/a
Total	**$2,640,000**	100%	**9,370,000**	100%	**4,643,189**		**$42,810**	100%
SDG&E:								
Residential	$198,621	69%	313,871	37%	313,871	$0.00321	$1,008	76%
Commercial	$62,905	22%	106,374	13%	3,800	$0.00321	$12	1%
Transportation Only	$9,570	3%	318,762	38%	33,976	$0.00321	$109	8%
Industrial	$16,678	6%	107,739	13%	61,925	$0.00321	$199	15%
Total	**$287,774**	100%	**846,746**	100%	**413,572**		**$1,328**	100%
	bcf	millions$						
Residential	239	1,554						238,127
C/I	364	752						977
Industrial								26,179
UEG	205	104						16,127
Wholesale	129	62						281,410
Total In Rates	937	2,472						
Balancing and Other	-193	2,279						
Total Operating Revenues								

n/a means not applicable.

[1] The rate shown is the rate that would fully recover the 1996 estimated CARE costs absent balancing accounts.

[2] This represents the adjusted volumes times the imputed surcharge.

The tables also provide information on CARE cost recovery by class. For electric, CARE costs are primarily borne by nonresidential customers (at least 65 percent). For gas, CARE costs are primarily borne by the residential class; the percentages range from 45 to 76 percent.

Tables III-8 through III-13, on the following six pages, present current comparative data on alternative methods of allocating low-income program costs among various customer classes for the major IOUs. These tables are solely illustrative and meant to provide information on the range of impacts that could be expected. Two tables (III-12 and III-13) present data on CARE program costs assuming 85 percent of eligible participants were enrolled in the program.

The tables contain some "imputed" figures. The surcharge rates are imputed; they assume there are no balancing accounts, and therefore, fully recover CARE or DAP costs, according to the respective table. The rates by customer class are also imputed: the CARE or LIEE component is subtracted from the rates, and the rates include both the customer charge and volumetric components. For large gas customers, an imputed gas cost is also included in the rates. This result of this effort was to ensure, as best as possible, an "apples to apples" comparison.

The CPUC's current cost recovery method for CARE and LIEE costs is "equal cents per unit" (kWh or therm). LIEE costs are only recovered from core customers (residential and non-residential core customers). CARE electric costs are recovered from electric customers, excluding electric CARE customers and street lighting customers. CARE gas costs are recovered from residential, commercial and industrial customers, excluding CARE gas customers; gas sales to electric generation, cogeneration, enhanced oil recovery, and wholesale customers; and, customers with fixed-price contracts. Recovery of the surcharge as shown in the tables does not entirely conform with current CPUC guidelines.

By its nature, the equal percentage of the bundled rate will result in a uniform percentage burden on all classes. Equal cents per therm or kWh will result in a higher proportion of costs being carried by the non-residential ratepayers. The equal percentage or marginal costs results in more costs being borne by the residential class.

In most services territories, the proportion of total revenues collected from residential gas customers is greater than collected from residential electric customers. This tends to cause greater disparity in the affects of the various cost allocation methods for gas than electric customer classes, according to some.

Several Parties point out that after electric deregulation there may also be a similar phenomenon where utilities will serve a larger percentage of residential customers while large customers buy from other providers. SoCalGas recommends that there be no change in the current system for collection of the gas low-income surcharge at this time.

Rationale for Different Electric Surcharge Methods

AB 1890 requires that the surcharge be collected on the basis of usage, but does not specify the cost allocation method or class issues. If the CPUC accepts that a surcharge cost recovery mechanism can be usage based within classes.

If the CPUC accepts this, then it must then decide how much each class will pay. One Party favors collection based on equal percentage of marginal cost method, which has been favored by the CPUC for rate design purposes generally. Others feel that all customer classes should pay based on usage per kWh or therm especially since the largest cost savings are expected to inure under deregulation to industrial and large commercial customers.

Table III-8

Comparison of 1996 CARE Program Costs Recovered under Different Cost Allocation Scenarios for California's Large Electric Investor-Owned Utilities

	Imputed Rate[1] as of 6/10/96 (minus CARE surchg $/kWh)	Equal $/kWh[2] Surchg $/kWh	Case A Equal $/kWh[2] % of Rate[1]	Case A Equal $/kWh[2] % by Class	Equal % Marg Cost Surchg $/kWh	Case B Equal % Marg Cost % of Rate[1]	Case B Equal % Marg Cost % by Class	Equal % Rate[1] Surchg $/kWh	Case C Equal % Rate[1] % of Rate[1]	Case C Equal % Rate[1] % by Class	Apply Resid Class Only Surchg $/kWh	Case D Apply Resid Class Only % of Rate[1]	Case D Apply Resid Class Only % by Class	3MM kWh Cap Surchg $/Kwh	Case E 3MM kWh Cap % of Rate[1]	Case E 3MM kWh Cap % by Class
PG&E:																
1996 CARE Costs	**$30,077,000**															
Residential	$0.12178	$0.00043	0.35%	32%	$0.00053	0.43%	40%	$0.00052	0.43%	39%	$0.00143	1.17%	100%	$0.00052	0.43%	32%
Commercial	$0.10933	$0.00043	0.39%	38%	$0.00044	0.40%	39%	$0.00044	0.40%	39%	n/a	n/a	n/a	$0.00052	0.48%	38%
Agricultural	$0.11343	$0.00043	0.38%	5%	$0.00046	0.40%	5%	$0.00051	0.45%	6%	n/a	n/a	n/a	$0.00052	0.46%	5%
Industrial	$0.06835	$0.00043	0.63%	24%	$0.00028	0.40%	16%	$0.00027	0.39%	15%	n/a	n/a	n/a	$0.00052	0.09%	24%
Total				100%			100%			99%			100%			100%
Edison:																
1996 CARE Costs	**$43,500,000**															
Residential	$0.12867	$0.00052	0.40%	23%	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s
Agricultural	$0.11204	$0.00052	0.46%	1%	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s
Light & Power	$0.07631	$0.00052	0.68%	60%	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s
Large Industrial	$0.07332	$0.00052	0.71%	16%	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s
Total				100%												
SDG&E:																
1996 CARE Costs	**$6,405,000**															
Residential	$0.11023	$0.00043	0.39%	35%	$0.00051	0.46%	41%	$0.00048	0.44%	40%	$0.00121	1.10%	100%	$0.00050	0.45%	43%
Agricultural	$0.09167	$0.00043	0.47%	1%	$0.00033	0.36%	1%	$0.00040	0.44%	1%	n/a	n/a	n/a	$0.00050	0.54%	2%
Commercial	$0.09794	$0.00043	0.44%	40%	$0.00058	0.59%	55%	$0.00043	0.44%	40%	n/a	n/a	n/a	$0.00050	0.51%	48%
Industrial	$0.07441	$0.00043	0.57%	23%	$0.00005	0.07%	3%	$0.00033	0.44%	19%	n/a	n/a	n/a	$0.00050	0.67%	8%
Total				99%			100%			100%			100%			101%
		0.0														
		19,288.0	15.2		22,719.0	9.8	12.0	11.8						9.7		
		834.0	0.7		26,870.0	11.6	11.8	11.8						11.4		
		50,699.0	40.1		3,478.0	1.5	1.6	1.8						1.5		
		13,237.0	10.5		16,879.0	7.3	4.7	4.6						7.2		
			66.406			30.1	30.2	30.0						29.8		

CPUC adopted volumes, revenue requirement.
n/a is not applicable.
n/s is data not supplied; AB1890 sets rates as of June 10, 1996.
[1] Energy and transport cost, less CARE.
[2] Current cost allocation, but surcharge assumes no balancing acct.

Table III-9

Comparison of 1996 CARE Program Costs Recovered under Different Cost Allocation Scenarios for California's Large Gas Investor-Owned Utilities

	Imputed Rate[1] as of 6/10/96 (minus CARE surchg) ($/therm)	Equal $/Therm[2] Surchg ($/therm)	Case A Equal $/Therm[2] % of Rate[1]	Equal $/Therm[2] % by Class	Equal % Marg Cost Surchg ($/therm)	Case B Equal % Marg Cost % of Rate[1]	Equal % Marg Cost % by Class	Equal % Rate[1] Surchg ($/therm)	Case C Equal % Rate[1] % of Rate[1]	Equal % Rate[1] % by Class	Apply Resid Class Only Surchg ($/therm)	Case D Apply Resid Class Only % of Rate[1]	Apply Resid Class Only % by Class	250,000 Therm Cap Surchg ($/therm)	Case E 250,000 Therm Cap % of Rate[1]	250,000 Therm Cap % by Class
PG&E:																
1996 CARE Costs	**$10,902,000**															
Residential	$0.58383	$0.00271	0.46%	45%	$0.00404	0.69%	67%	$0.00350	0.60%	57%	$0.00605	0.47%	100%	$0.00431	0.74%	71%
Small Commercial	$0.57821	$0.00271	0.47%	16%	$0.00404	0.70%	24%	$0.00347	0.60%	20%	n/a	n/a	n/a	$0.00431	0.74%	25%
Large Commercial	$0.39522	$0.00271	0.69%	3%	$0.00173	0.44%	2%	$0.00237	0.60%	3%	n/a	n/a	n/a	$0.00212	0.54%	3%
Distribution	$0.06044	$0.00271	4.48%	9%	$0.00114	1.94%	4%	$0.00036	0.60%	4%	n/a	n/a	n/a	$0.00013	0.22%	0%
Transmission	$0.12569	$0.00271	2.16%	27%	$0.00035	0.28%	3%	$0.00075	0.60%	16%	n/a	n/a	n/a	$0.00003	0.20%	0%
Total				100%			100%			100%			100%			100%
SoCalGas:																
1996 CARE Costs	**$42,789,000**															
Residential	$0.67507	$0.00922	1.37%	54%	$0.01385	2.05%	81%	$0.01141	1.69%	67%	$0.01711	2.53%	100%	$0.01176	1.74%	69%
G-10 (Small Core)	$0.59175	$0.00922	1.56%	19%	$0.00733	1.24%	15%	$0.01000	1.69%	20%	n/a	n/a	n/a	$0.01141	1.93%	23%
G-20 (Large Core)	$0.34354	$0.00922	2.68%	2%	$0.00276	0.80%	1%	$0.00580	1.69%	1%	n/a	n/a	n/a	$0.01141	3.32%	3%
G-30 (Noncore)	$0.27884	$0.00922	3.31%	25%	$0.00129	0.46%	4%	$0.00426	1.69%	12%	n/a	n/a	n/a	$0.00200	0.72%	5%
Other Non-Core	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total				100%			101%			100%			100%			100%
SDG&E:																
1996 CARE Costs	**$1,663,000**															
Residential	$0.62669	$0.00322	0.51%	61%	$0.00455	0.73%	86%	$0.00365	0.58%	69%	$0.00530	0.85%	100%	$0.00328	0.52%	62%
Commercial	$0.58524	$0.00322	0.55%	21%	$0.00154	0.26%	10%	$0.00338	0.58%	23%	n/a	n/a	n/a	$0.00328	0.56%	21%
Transportation Only	$0.27555	$0.00322	1.17%	7%	$0.00053	0.19%	1%	$0.00159	0.58%	3%	n/a	n/a	n/a	$0.00328	1.19%	5%
Industrial	$0.26321	$0.00322	1.22%	12%	$0.00088	0.33%	3%	$0.00153	0.58%	6%	n/a	n/a	n/a	$0.00328	1.25%	12%
Total				101%			100%			101%			100%			100%

CPUC adopted volumes, revenue requirement.
n/a means not applicable.
[1] Total energy and transportation costs, less CARE component.
[2] Current cost allocation methodology, but assumes no balancing account.

Table III-10

Comparison of CARE Program Cost Recovery If 85% of Eligible Participants Enrolled under Different Cost Allocation Scenarios for California's Large Electric Investor-Owned Utilities

	Imputed		Case A			Case B			Case C			Case D			Case E	
	Rate[1] as of				Equal	Equal	Equal				Apply	Apply	Apply			
	6/10/96	Equal	Equal	Equal	%	%	%	Equal	Equal	Equal	Resid	Resid	Resid	3MM	3MM	3MM
	(minus	$/kWh[2]	$/kWh[2]	$/kWh[2]	Marg	Marg	Marg	%	%	%	Class	Class	Class	kWh	kWh	kWh
	CARE				Cost	Cost	Cost	Rate[1]	Rate[1]	Rate[1]	Only	Only	Only	Cap	Cap	Cap
	surchg	Surchg	% of	% by	Surchg	% of	% by	Surchg	% of	% by	Surchg	% of	% by	Surchg	% of	% by
	$/kWh)	$/kWh	Rate[1]	Class	$/kWh	Rate[1]	Class	$/kWh	Rate[1]	Class	$/kWh	Rate[1]	Class	$/Kwh	Rate[1]	Class
PG&E:																
CARE Costs	**$63,651,000**															
85% Particpation																
Residential	$0.12178	$0.00091	0.75%	32%	$0.00112	0.92%	40%	$0.00111	0.91%	39%	$0.00304	2.49%	100%	$0.00112	0.92%	32%
Commercial	$0.10933	$0.00091	0.84%	38%	$0.00094	0.86%	39%	$0.00094	0.86%	40%	n/a	n/a	n/a	$0.00112	1.02%	38%
Agricultural	$0.11343	$0.00091	0.81%	5%	$0.00097	0.86%	5%	$0.00109	0.96%	6%	n/a	n/a	n/a	$0.00112	0.98%	5%
Industrial	$0.06835	$0.00091	1.34%	24%	$0.00059	0.86%	16%	$0.00057	0.84%	15%	n/a	n/a	n/a	$0.00112	1.63%	24%
Total				100%			100%			100%			100%			100%
Edison:																
CARE Costs	**$60,873,980**															
85% Particpation																
Residential	$0.13074	0.00105	0.80%	23%	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s
Agricultural	$0.11151	0.00105	0.94%	1%	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s
Light & Power	$0.07554	0.00105	1.39%	60%	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s
Lg Industrial	$0.07274	0.00105	1.44%	16%	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s
Total				100%												
SDG&E:																
CARE Costs	**$7,782,000**															
85% Particpation																
Residential	$0.11023	$0.00052	0.47%	35%	$0.00620	0.56%	42%	$0.00058	0.53%	40%	$0.00147	1.33%	100%	0.0006	0.55%	43%
Agricultural	$0.09167	$0.00052	0.57%	1%	$0.00040	0.44%	1%	$0.00049	0.53%	1%	n/a	n/a	n/a	0.0006	0.66%	2%
Commercial	$0.09794	$0.00052	0.53%	40%	$0.00070	0.71%	54%	$0.00052	0.53%	40%	n/a	n/a	n/a	0.0006	0.61%	48%
Industrial	$0.07441	$0.00052	0.70%	23%	$0.00006	0.08%	3%	$0.00040	0.53%	18%	n/a	n/a	n/a	0.0006	0.81%	8%
Total				99%			100%			99%			100%			101%

CPUC adopted volumes, revenue requirement.
n/a is not applicable.
n/s is data not supplied; AB1890 sets rates as of June 10, 1996.
[1] Energy and transport cost, less CARE.
[2] Current cost allocation, but surcharge assumes no balancing acct.

Table III-11

Comparison of CARE Program Cost Recovery If 85% of Eligible Participants Enrolled under Different Cost Allocation Scenarios for California's Large Gas Investor-Owned Utilities

	Imputed Rate[1] as of 6/10/96 (minus CARE surchg) ($/therm)	Case A Equal $/Therm[2] Surchg ($/therm)	Case A Equal $/Therm[2] % of Rate[1]	Case A Equal $/Therm[2] % by Class	Case B Equal % Marg Cost Surchg ($/therm)	Case B Equal % Marg Cost % of Rate[1]	Case B Equal % Marg Cost % by Class	Case C Equal % Rate[1] Surchg ($/therm)	Case C Equal % Rate[1] % of Rate[1]	Case C Equal % Rate[1] % by Class	Case D Apply Resid Class Only Surchg ($/therm)	Case D Apply Resid Class Only % of Rate[1]	Case D Apply Resid Class Only % by Class	Case E 250,000 Therm Cap Surchg ($/therm)	Case E 250,000 Therm Cap % of Rate[1]	Case E 250,000 Therm Cap % by Class				
PG&E:																				
CARE Costs	**$23,172,000**																		0.006	23172
85% Particpation																				
Residential	$0.58383	$0.00576	0.99%	45%	$0.00858	1.47%	67%	$0.00733	1.26%	57%	$0.01285	2.20%	100%	$0.00916	1.57%	71%		1,801,991	$6,312.3	10902
Small Commercial	$0.57821	$0.00576	1.00%	16%	$0.00858	1.48%	24%	$0.00726	1.26%	20%	n/a	n/a	n/a	$0.00916	1.58%	25%		641,350	$2,225.0	
Large Commercial	$0.39522	$0.00576	1.46%	3%	$0.00368	0.93%	2%	$0.00496	1.26%	3%	n/a	n/a	n/a	$0.00450	1.14%	3%		140,350	$332.8	
Distribution	$0.21044	$0.00576	2.74%	9%	$0.00243	1.15%	4%	$0.00264	1.26%	4%	n/a	n/a	n/a	$0.00027	0.13%	0%		360,559	$455.3	
Transmission	$0.27569	$0.00576	2.09%	27%	$0.00074	0.27%	3%	$0.00346	1.26%	16%	n/a	n/a	n/a	$0.00006	0.02%	0%		1,078,651	$1,784.2	
Total				100%			100%			100%			100%			100%		**4,022,901**	$11,109.7	
SoCalGas:																				
CARE Costs	**$59,234,000**																			
85% Particpation																				
Residential	$0.67507	$0.01276	1.89%	54%	$0.01917	2.84%	81%	$0.01580	2.34%	67%	$0.02369	1.71%	100%	$0.01628	2.41%	69%				
G-10 (Small Core)	$0.59175	$0.01276	2.16%	19%	$0.01015	1.72%	15%	$0.01385	2.34%	20%	n/a	n/a	n/a	$0.01579	2.67%	23%				
G-20 (Large Core)	$0.34354	$0.01276	3.71%	2%	$0.00382	1.11%	1%	$0.00804	2.34%	1%	n/a	n/a	n/a	$0.01579	4.60%	3%				
G-30 (Noncore)	$0.27894	$0.01276	4.57%	25%	$0.00179	0.64%	4%	$0.00590	2.34%	12%	n/a	n/a	n/a	$0.00277	1.10%	6%				
Other Noncore	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a				
Total				100%			100%			100%			100%			100%				
SDG&E:																				
CARE Costs	**$2,504,000**																			
85% Particpation																				
Residential	$0.62669	$0.00485	0.77%	61%	$0.00684	1.09%	86%	$0.00546	0.90%	68%	$0.00798	1.27%	100%	$0.00494	0.79%	62%				
Commercial	$0.58524	$0.00485	0.83%	21%	$0.00232	0.40%	10%	$0.00521	0.90%	23%	n/a	n/a	n/a	$0.00494	0.84%	21%				
Transportation Only	$0.27555	$0.00485	1.76%	7%	$0.00081	0.29%	1%	$0.00240	0.90%	3%	n/a	n/a	n/a	$0.00494	1.79%	5%				
Industrial	$0.26321	$0.00485	1.84%	12%	$0.00133	0.51%	3%	$0.00230	0.90%	6%	n/a	n/a	n/a	$0.00494	1.88%	12%				
Total				101%			100%			100%			100%			100%				
	1,801,991	10,379			15,461			13,203						16,506						
	641,350	3,694			5,503			4,654						5,875						
	140,450	809			517			697						632						
	360,559	2,077			876			952						97						
	1,078,651	6,213			798			3,732						65						
	4,023,001	23,172			23,155			23,238						23,175						

CPUC adopted volumes, revenue requirement.
n/a means not applicable.
[1] Total energy and transportation cost, less CARE component.
[2] Current cost allocation method, but surcharge assumes no balancing account.

Table III-12

Comparison of 1996 Low Income Weatherization Cost Recovery under Different Cost Allocation Scenarios for California's Large Electric Investor-Owned Utilities

	Imputed		Case A			Case B			Case C			Case D			Case E	
	Rate[1] as of				Equal	Equal	Equal				Apply	Apply	Apply			
	6/10/96	Equal	Equal	Equal	%	%	%	Equal	Equal	Equal	Resid	Resid	Resid	3MM	3MM	3MM
	(minus	$/kWh[2]	$/kWh[2]	$/kWh[2]	Marg	Marg	Marg	%	%	%	Class	Class	Class	kWh	kWh	kWh
	DAP Rate				Cost	Cost	Cost	Rate[1]	Rate[1]	Rate[1]	Only	Only	Only	Cap	Cap	Cap
	Component	Surchg	% of	% by	Surchg	% of	% by	Surchg	% of	% by	Surchg	% of	% by	Surchg	% of	% by
	$/kWh)	$/kWh	Rate[1]	Class	$/kWh	Rate[1]	Class	$/kWh	Rate[1]	Class	$/kWh	Rate[1]	Class	$/kWh	Rate[1]	Class
PG&E:																
1996 DAP Budget	**$18,047,000**															
Residential	$0.12178	$0.00025	0.21%	32%	$0.00032	0.26%	40%	$0.00032	0.26%	40%	$0.00086	0.71%	100%	$0.00032	0.26%	33%
Commercial	$0.10933	$0.00025	0.23%	38%	$0.00027	0.24%	40%	$0.00027	0.24%	40%	n/a	n/a	n/a	$0.00032	0.29%	38%
Agricultural	$0.11343	$0.00025	0.22%	5%	$0.00027	0.24%	5%	$0.00031	0.27%	6%	n/a	n/a	n/a	$0.00032	0.28%	5%
Industrial	$0.06835	$0.00025	0.37%	24%	$0.00017	0.24%	16%	$0.00016	0.24%	15%	n/a	n/a	n/a	$0.00032	0.46%	24%
Total				100%			100%			100%			100%			100%
Edison:																
1996 DAP Budget	**$7,300,000**															
Residential	$0.12880	$0.00010	0.08%	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s
Agricultural	$0.11010	$0.00010	0.09%	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s
Light & power	$0.10050	$0.00010	0.10%	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s
Industrial	$0.07080	$0.00010	0.14%	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s
Other Public Authorities	$0.09608	$0.00010	0.10%	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s	n/s
Total																
SDG&E:																
1996 DAP Budget	**$576,000**															
Residential	$0.11076	$0.00004	0.03%	37%	$0.00004	0.04%	42%	$0.00004	0.04%	39%	$0.00011	0.09%	100%	$0.00004	0.04%	44%
Agricultural	$0.09220	$0.00004	0.04%	1%	$0.00003	0.03%	1%	$0.00004	0.04%	2%	n/a	n/a	n/a	$0.00004	0.05%	2%
Commercial	$0.09850	$0.00004	0.04%	39%	$0.00005	0.06%	54%	$0.00004	0.04%	41%	n/a	n/a	n/a	$0.00004	0.05%	47%
Industrial	$0.07500	$0.00004	0.05%	22%	$0.00001	0.01%	3%	$0.00003	0.04%	18%	n/a	n/a	n/a	$0.00004	0.06%	8%
Total				99%			100%			100%			100%			101%

CPUC adopted volumes, revenue requirement.
n/a is not applicable.
n/s is data not supplied; AB1890 sets rates as of June 10, 1996.
[1] Energy and transport cost, less DAP cost.
[2] Current cost allocation, but surcharge assumes no balancing acct.

Table III -13

Comparison of 1996 Low Income Weatherization Program Cost Recovery under Different Cost Allocation Scenarios for California's Large Gas Investor-Owned Utilities

	Imputed		Case A			Case B			Case C			Case D			Case E	
	Rate[1] as of				Equal	Equal	Equal				Apply	Apply	Apply			
	6/10/96	Equal	Equal	Equal	%	%	%	Equal	Equal	Equal	Resid	Resid	Resid	250,000	250,000	250,000
	(minus	$/Therm[2]	$/Therm[2]	$/Therm[2]	Marg	Marg	Marg	%	%	%	Class	Class	Class	Therm	Therm	Therm
	DAP Rate				Cost	Cost	Cost	Rate[1]	Rate[1]	Rate[1]	Only	Only	Only	Cap	Cap	Cap
	Component	Surchg	% of	% by	Surchg	% of	% by	Surchg	% of	% by	Surchg	% of	% by	Surchg	% of	% by
	($/therm)	($/therm)	Rate[1]	Class	($/therm)	Rate[1]	Class	($/therm)	Rate[1]	Class	($/therm)	Rate[1]	Class	($/therm)	Rate[1]	Class
PG&E:																
1996 DAP Budget	**$9,100,000**															
Residential	$0.58383	$0.00219	0.37%	45%	$0.00387	0.66%	79%	$0.00314	0.05%	64%	$0.00488	0.83%	100%	$0.00348	0.60%	71%
Small Commercial	$0.57821	$0.00219	0.38%	16%	$0.00106	0.18%	8%	$0.00311	0.05%	23%	n/a	n/a	n/a	$0.00348	0.60%	25%
Large Commercial	$0.39522	$0.00219	0.55%	3%	$0.00195	0.50%	3%	$0.00213	0.05%	3%	n/a	n/a	n/a	$0.00171	0.43%	3%
Distribution	$0.06044	$0.00219	3.62%	9%	$0.00175	2.97%	7%	$0.00033	0.05%	1%	n/a	n/a	n/a	$0.00010	0.17%	0%
Transmission	$0.12569	$0.00219	1.74%	27%	$0.00217	0.17%	3%	$0.00068	0.05%	8%	n/a	n/a	n/a	$0.00027	0.02%	0%
Total				100%			100%			99%			100%			99%
SoCalGas:																
1996 DAP Budget	**$15,733,000**															
Residential	$0.67012	$0.00340	0.51%	54%	0.00583	0.87%	93%	$0.00421	0.63%	67%	$0.00629	0.94%	100%	$0.00432	0.65%	69%
G-10 (Small Core)	$0.58680	$0.00340	0.58%	19%	0.00107	0.18%	6%	$0.00369	0.63%	20%	n/a	n/a	n/a	$0.00419	0.71%	23%
G-20 (Large Core)	$0.33859	$0.00340	1.00%	2%	0.00005	0.01%	0%	$0.00214	0.63%	1%	n/a	n/a	n/a	$0.00419	1.24%	3%
G-30 (Noncore)	$0.27894	$0.00340	1.22%	25%	0.00025	0.09%	2%	$0.00157	0.56%	12%	n/a	n/a	n/a	$0.00074	0.27%	6%
Other Noncore	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total				100%			100%			100%						101%
SDG&E:																
1996 DAP Budget	**$5,198,000**															
Residential	$0.61860	$0.00763	1.23%	46%	$0.01421	2.30%	86%	$0.01080	1.70%	85%	$0.01656	2.66%	100%	$0.01025	1.86%	60%
Commercial	$0.58660	$0.00763	1.30%	16%	$0.00481	0.82%	10%	$0.01000	1.70%	21%	n/a	n/a	n/a	$0.01025	1.75%	20%
Transportation Only	$0.12470	$0.00763	6.12%	26%	$0.00032	0.26%	1%	$0.00210	1.70%	7%	n/a	n/a	n/a	$0.01025	8.22%	5%
Industrial	$0.26770	$0.00763	2.85%	12%	$0.00201	0.75%	3%	$0.00460	1.70%	8%	n/a	n/a	n/a	$0.01025	3.83%	16%
Total				100%			100%			121%			100%			101%

CPUC adopted volumes, revenue requirement.
n/a means not applicable.
[1] Total energy and transport cost, less DAP.
[2] Current cost allocation method, but surcharge assumes no balancing account. For SoCalGas, currently collect only from core.

Chapter IV

ADMINISTRATION

INTRODUCTION

Summaries of five proposals for low-income program administration were submitted to the Low-Income Working Group by various Parties. The Low-Income Working Group did not discuss these proposals, so no discussion of the advantages or disadvantages of these proposals appears in this chapter.

Most Parties support an Independent Administrator for the low-income programs. These Parties believe that the California Public Utilities Commission (CPUC) should require every serving utility to fully cooperate with the delivery of low-income program services in a way consistent with the CPUC's overall low-income plan and as directed by CPUC's designated Administrator(s). Other Parties support the Administration of low-income programs by utility distribution companies (UDCs) under the oversight of a new statewide board.

Issues about program Administration have been addressed in great detail in the Report of the Energy Efficiency Working Group. Some Parties believe the discussion there about how to structure an entity to achieve energy efficiency is applicable to a system designed to achieve energy efficiency in low-income households.

Most of the Parties support an Administrator(s) that deals solely with low-income programs as compared to one that puts low-income energy efficiency together with all energy efficiency programs. Other Parties believe that the energy efficiency Administration proposals are not relevant or appropriate for California Alternate Rates for Energy (CARE). Some of the Parties believe that due to the unique nature of low-income energy efficiency activities, they would be better served by an Administrator(s) that specializes in low-income issues as opposed to one that focuses on energy efficiency.

Other Parties assert that coordination of Low-Income Energy Efficiency (LIEE) and CARE programs is completely feasible under various administrative proposals, and that the two programs can even be administered separately.

For whatever Administrative structure the CPUC adopts, it should ensure that the Administrator(s) chosen has easy access to income records for low-income households and a demonstrated ability to identify, recruit, and verify low-income participants to the extent appropriate and to monitor the delivery of the cash discounts. In addition, it will be important to ensure that the Administrator has expertise in the design of efficiency programs and services for the low-income segment and the ability to address the local characteristics of low-income households.

The section below defines the relevant functions for the CPUC to consider in selecting an Administrative option.

FUNCTIONS FOR PROPOSAL REVIEW

Developing and delivering low-income energy services should be done in the context of five fundamental functions: (1) policy guidance; (2) governance; (3) budgeting funds; (4) program planning and development; and (5) program implementation. In all proposals, it is accepted that the CPUC retains review, oversight, modification and acceptance responsibility, but advisory or other councils are being recommended to support the CPUC in their analyses and ultimate policy decisions.

Policy Guidance

Policy guidance refers to the setting of overall policy goals for low-income programs statewide. Goals should be consistent with state policy (regulatory and legislative) and most likely resemble the goals of past low-income programs, unless it is determined by the state that past goals are inappropriate.

Governance

This refers to the appropriate oversight functions present to ensure the efficient and effective provision of low-income services to customers. This governance would most likely be tied to the policies established in the Policy Guidance section. The governance function may be provided by one or more parties acting in concert or as a checks-and-balance process.

Budgeting Funds

This refers to the fiscal administration of the funds collected for low-income programs. Funds will be collected, as discussed in Chapter III, but budgeting and disbursing of funds may be specific to the administrative option proposed. How funds will be budgeted under the administrative option should be discussed here.

Program Planning and Development

This is the process by which low-income programs are designed and procedures are developed. This is the unique process or method by which these implementation designs are formulated.

Program Implementation

This is the last step in the delivery process for these programs. It refers to the means whereby the benefit or service is delivered to customers. It identifies the parties involved and the actions that must take place for the delivery to occur.

Independent of the administrative option selected by the Commission, some Parties feel strongly that there will be a need to expand customer protection services. The need for a potential increase in the scope of consumer protection services currently provided by the CPUC as well as more fundamental changes in business rules of conduct for alternative suppliers are discussed in Chapter V.

SUMMARIES OF PROPOSALS

Provided in the following section are summaries of the submitted proposals for low-income program administration, each written by a proponent of the summary. Each of the five following summaries provide the title, the sponsoring Party and any supporting Parties, followed by a description of the elements of their proposal. The complete proposals may be reviewed in their entirety in Appendices F, G, H, I, and J of this report.

Summary of Proposal

A PROPOSAL TO ADMINISTER UTILITY RATE SURCHARGE FUNDED LOW-INCOME ENERGY EFFICIENCY PROGRAMS & CARE (Appendix F)

Sponsoring Party:	California Department of Community Services & Development
Supporting Parties: *as of 9/24 LIWG Meeting*	Association of Southern California Environment and Energy Programs

Summary of Proposal

RESPONSIBLE BOARDS: A MODEL FOR REGULATED RATEPAYER ENERGY EFFICIENCY PROGRAMS IN A RESTRUCTURED ELECTRIC SERVICES INDUSTRY (Appendix G)

Sponsoring Party: Environmental Marketing Group

Summary of Proposal

PROPOSAL OF RESCUE/SESCO FOR ADMINISTRATION OF LOW-INCOME PROGRAMS (Appendix H)

Sponsoring Party:	Residential Energy Services Companies' United Effort/ SESCO
Supporting Parties: as of 9/24 LIWG Meeting	California Energy Commission staff; Toward Utility Rate Normalization, with restrictions

Summary of Proposal

ADMINISTRATION OF THE CARE PROGRAM IN A RESTRUCTURED ENVIRONMENT - UNIVERSAL TELEPHONE SERVICE ACT (Appendix I)

Sponsoring Party:	The Greenlining Institute/Latino Issues Forum
Supporting Parties: *as of 9/24 LIWG Meeting*	Natural Resources Defense Council Toward Utility Rate Normalization

Summary of Proposal

A PG&E, SDG&E AND SCE PROPOSAL FOR UTILITY DISTRIBUTION COMPANY ADMINISTRATION OF LOW-INCOME PROGRAMS (Appendix J)

Sponsoring Parties:	*Pacific Gas & Electric* *San Diego Gas & Electric* *Southern California Edison*
Supporting Parties: *as of 9/24 LIWG Meeting*	*Southern California Gas Company* *Chase Shannon* *Association of Southern California Environment and Energy Programs*

A PROPOSAL TO ADMINISTER UTILITY RATE SURCHARGE FUNDED LOW-INCOME ENERGY EFFICIENCY PROGRAMS & CARE

The Department of Community Services and Development (CSD) has over 14 years of experience administering weatherization programs for low-income persons throughout Southern California and over 6 years providing verification/certification services for California Alternate Rates for Energy (CARE) and other Reduced Rate Programs.

CSD currently administers two federally-funded weatherization programs: The Department of Energy's Low-Income Weatherization Assistance Program (LIWAP) and the Department of Health and Human Services' Low-Income Home Energy Assistance Program (LIHEAP). Both programs provide no-cost weatherization services to low-income households that are at or below 150 percent of federal income poverty guidelines.

CSD currently contracts with 34 community-based organizations (CBOs) or local governmental entities, statewide, to provide weatherization activities.

CSD currently contracts with several utility companies to verify client eligibility for their low-income energy rates.

Central administration by CSD would enhance California's ability to leverage utility surcharge funds with LIHEAP funds. CSD has participated in the Department of Health and Human Services' Leveraging Incentive Program since its inception and has received over $10 million in additional federal funding. Central administration through CSD would allow California to maximize federal leveraging potential.

Administration by CSD would allow additional coordination of weatherization services and greater opportunity for program consistency.

There would be less fragmentation of services and more convenient services available to consumers if there was one administering agency.

A more coordinated effort would result in cost savings, allowing more households to receive the benefits of home weatherization.

Households weatherized by programs administered through CSD are likely to receive added benefits because CSD programs are much broader in scope than current utility LIEE programs and allow for a more thorough home assessment, using new technology, particularly in the area of health and safety.

CSD specializes in serving the low-income population and can focus on their needs and assist in tailoring and streamlining programs to meet their needs. Each program CSD administers is intended to be a step toward reducing dependency on public assistance in California.

CSD proposes to provide statewide administration of LIEE and CARE programs through an interagency agreement with the California Public Utilities Commission (CPUC). The CPUC would retain all oversight and policy making responsibility, and would be responsible for the appropriate collection of revenue from each utility distribution company (UDC). The CPUC would also approve all program budgets consistent with recent state legislation. Reallocation of collected funds through CSD operations would also be approved by the CPUC. CSD proposes that the portion of CARE surcharge funds associated with direct customer discounts and the UDC direct administrative costs should be collected and redistributed back to low-income customers by the UDC. That portion of the CARE surcharge associated with the CSD administrative cost, however, should be turned over to the CPUC, for deposit in a trust account, for redistribution through CSD operations. All LIEE surcharge funds would be turned over to the state for allocated services through CSD.

CSD would assist the CPUC with policy development and would submit all proposed budget details to the CPUC for approval. Program design details would also be submitted to the CPUC for approval.

Technical guidance and recommendations would be provided to CSD and the CPUC through Technical and CARE Advisory Committees. The composition of the committees would consist of CBOs, Associations, government organizations and all UDCs.

CSD would be ultimately responsible for the development of all LIEE programmatic procedures, and would administer LIEE programs from a single base in Sacramento, similar in nature to the existing state LIHEAP operations. Request for Proposals (RFPs) would be issued, statewide, based on CPUC approved allocation formulas, and contractors would be selected from qualified non-profit and for-profit organizations.

Contract management would include penalties for non-performance and would include the transfer of contracted units to other contractors when required to meet production goals.

Quality Assurance for LIEE programs, including post-inspecting, monitoring, energy education follow-up operations and primary program evaluation would be provided by third party contract(s). Programmatic training, as needed, would also be provided by third party contract(s).

CSD would administer CARE by acting as an approval and clearinghouse for all customer candidates for discounted rates. Customer applications would be submitted to CSD for certification. CSD would follow-up with customers for income documentation, and in some cases, income verification, consistent with CPUC policy.

CSD would retain a primary marketing function for CARE which would also leverage LIEE marketing and LIHEAP program operations. Community Based Organizations would be contracted to provide both outreach and intake.

CSD would full staff its operation to handle the total volume of application processing, telephone inquiries, application assistance, processing of correspondence and communication with UDCs.

The automated processing of CARE applications would be managed utilizing a web-enabled (Internet), client server based system. This system would generate pre-printed applications, maintain client information, check for duplicate records, generate "missing information" and "denial" letters as well as recertification notices and be able to transfer data between CSD and the UDCs.

CSD prefers that existing programs managed by IOUs continue without disruption until CSD can facilitate a seamless transfer of program service through central operations. Specifically, the following must occur prior to the start-up of any central administration of LIEE and CARE:

- The exact nature of any specific low-income program surcharge must be clarified and any CPUC decision or state legislation required to invoke the transfer of funds from utilities to a trust or state treasury account must be in place.
- Funds must have been transferred to the state for a short period of time, so that funds are available for program operations.

CSD proposes a transition period that would begin the day CSD is named as the Central Administrator for LIEE and CARE, and end as soon as UDCs have begun to transfer funds to the state. If named the Central Administrator by June, 1997, by the end of 1997 CSD would:

- Formalize an interagency agreement with the CPUC.
- Establish Technical and CARE Advisory Committees.
- Prepare and execute a bid solicitation process.
- Select all necessary contractors.
- Prepare all program procedures.
- Let contracts to begin work by the end of January, 1998.

PROPOSAL OF RESCUE/SESCO
FOR ADMINISTRATION OF LOW-INCOME PROGRAMS

Note: This proposal is endorsed by the California Energy Commission (CEC) staff, with one variation described below. TURN endorses this proposal, insofar as it would achieve independent, non-utility administration of low-income energy efficiency activities--a feature of paramount importance to be achieved as expeditiously as possible.[1]

The Residential Energy Services Companies' United Effort (RESCUE) is a trade organization representing several ESCOs that specialize in residential energy efficiency. One of its members is SESCO, one of the nation's largest residential ESCOs.

RESCUE/SESCO recommends that low-income programs be implemented by one or more independent administrators in a system based primarily upon the proposal of the CPUC Division of Ratepayer Advocates (DRA) to the Energy Efficiency (EE) Working Group. The "Low-Income Administrator(s)" (LIAs) could work under the same structure as the EE Administrator(s). Except where noted, the proposal incorporates the features presented by DRA in *Funding and Administering Public Interest Energy Efficiency Programs* (Report of the Energy Efficiency Working Group), August 16, 1996, pp. 4-10 - 4-11 and Appendix A (DRA proposal therein).

Policy Setting

A Governing Board for Low-Income Energy Assistance (GB-LIEA) of public officials would address policy matters in the use surcharges for low-income energy efficiency (LIEE) and low-income customer equity (CARES).

CEC staff proposes that the CPUC, CEC, and California Department of Community Services and Development (CSD) would each appoint one member to the GB-LIEA. To RESCUE/SESCO, this allocation of the power to appoint is not critical. Alternatives could include (1) appointment of members by the Governor and/or the Legislature or by various combinations of the agencies, Governor, and Legislature, or (2) the CPUC itself acting as the GB-LIEA for activities in IOU service areas.

GB-LIEA members would be subject to the usual financial disclosure and conflict of interest rules applicable to government officials (and would no doubt be subject to scrutiny by the press, as they would be administering hundreds of millions of dollars of public funds).

The GB-LIEA could be the same as the GB for Energy Efficiency (GB-EE or "CEEX Governing Board" in the terms of the DRA proposal for EE administration). Or the GB-LIEA could be separate from the GB-EE, with the boards sharing offices, staff and other resources to avoid duplication. In any event, it should convene an Low-Income Advisory Committee consisting of persons interested in low-income energy assistance issues. As the GB-LIEA would be assuming responsibility for subject matters now addressed by other state agencies (including CPUC and CEC), staffs of those agencies could be reduced (or transferred).

Funding Levels

The annual funding levels for LIEE and CARE would be determined by the GB-LIEA, implementing the criteria set forth by the Legislature in AB 1890 and subsequent legislation.

---

1. While TURN does not yet take a position on the other details of the proposal, TURN fully embraces its timely introduction of independent administration.

The GB-LIEA would ensure that the funds are widely distributed to all regions of the state where the surcharge is paid.

Administrative Management

Administration of EE programs would be handled by one or more independent administrators, including an EE Administrator(s) and Low-Income Administrator(s) (LIAs). Within the low-income area, there could be separate administration of LIEE and CARES. For example, LIEE might be administered by regional LIAs, with CARES administered by a statewide entity, such as CSD. The options below are concerned primarily with administration of LIEE programs.

1. Option A: The GB-LIEA would conduct competitive bidding to select several LIAs, each operating regionally, in order to provide coverage to all residents.

The LIAs should be nonprofit entities and could be formed by existing nonprofits concerned with low-income energy issues. The GB-LIEA should use competition to select LIAs and to assess their relative performance, if more than one such nonprofit entity seeks to perform the role of LIA in a particular region. The GB-LIEA would select several LIAs and sign 2-year contracts with each. After one year, the GB-LIEA would be able to assess the relative performance of the LIAs and adjust allocation funds toward the more effective LIAs, whose activities could then expand. All LIA contracts would be subject to competitive bidding.

All board members of any LIA must be subject to the financial disclosure and conflict of interest rules that would apply to government officials. A financially self-interested LIA board, consisting of persons who could capture unwarranted benefits for themselves or their companies through the administration of public funds for low-income energy assistance, would severely compromise the entire effort by raising in the public mind the likelihood of mutual back-scratching and implicit deals by board members to obtain funding for their own projects or relaxed scrutiny of the effectiveness of their projects. This is a critical feature.

As the utility distribution companies (UDCs) and ESCOs or other commercial providers of EE services are not nonprofit entities, they would not be eligible to administer public funds as LIAs (as their boards of directors would clearly have a financial interest in the allocation of the funds). They could, however, compete with all other qualified energy services providers to win contacts to provide energy efficiency (including education) services to low-income households.

The utilities should not be LIAs, for several reasons. First, as the Sierra Club noted in the Report of the Energy Efficiency Working Group, August 16, 1996, p. 4-13:

> In addition, utilities remaining in the generation business have an inescapable conflict with the growth of competitive efficiency markets. While this conflict might be minimized by giving sufficient Aincentives,@ they serve to protect the utilities from the very competition the Commission has pledged to nurture. Furthermore, experience has shown that such incentives are exceedingly expensive and unreliable.

This conflict would apply to the UDCs, whether or not they remain generators, as their revenue would continue to depend upon the volume of sales to their distribution service customers. The supporters of the proposal to allow the utilities to continue to administer EE funds recognized this potential conflict of interest.

> Current CPUC policy ensures there is no linkage between utilities' recovery of fixed transmission and distribution costs and their retail kilowatt-hour sales. Although the specific mechanism may change as restructuring proceeds, this issue must be addressed for UDC's to avoid conflicting incentives.

Report of the Energy Efficiency Working Group, August 16, 1996, p. 4-18 (statement provided by the utilities' coalition).

Second, if utilities were allowed to compete with other organizations to become LIAs, there would be the threat of anti-competitive use of the utility's regulated resources (cross-subsidization), rendering the competition an empty exercise. Such cross-subsidization may also impair competition in the provision of EE services, which may warrant excluding the UDCs from seeking to provide such services under contract with LIAs. There are numerous EE services providers in California (ESCOs, CBOs, insulation contractors) not linked to utilities.

2. **Option B: The GB-LIEA would conduct competitive bidding to select one nonprofit LIA to operate and subcontract statewide, as in the DRA proposal for EE Administrator.** The statewide LIA would then hire regional or local non-utility entities to implement the low-income programs. CSD would appear to be a strong potential contender for the role of statewide LIA, as would a consortium of CBOs.

3. **Option C: Selection as LIA would be open to utilities and other for-profit entities and would not necessarily proceed by means of competitive bidding.** The CEC staff's variation to the RESCUE/SESCO proposal would allow the GB-LIEA to select utilities or other for-profit entities, such as ESCOs, to be LIAs and would not specify that the GB-LIEA select LIAs by means of competitive bidding. Note: RESCUE/SESCO and TURN oppose this variation.

Program Planning and Development

The LIAs would develop program plans, subject to approval of the GB-LIEA.

Program Implementation

The LIAs would develop programs and contract for work, including (1) implementation of the CARE and other assistance programs and (2) implementation of LIEE work, which would include (1) "pay for performance" competitive bidding or "standard offers," with payment to contractors linked to actual *ex post* measured energy savings achieved in treated dwellings, (2) the offering of a baseline level of EE services to all requesting qualified households (including compact fluorescent bulbs and energy education), and (3) a price consideration for the comprehensiveness of the EE treatments, to discourage superficial treatments and the creation of "lost-opportunities"--EE potential that could not subsequently be realized due to the unavoidable fixed costs of visiting the housing site.

For information about "standard offer" EE programs, see Report of the Energy Efficiency Working Group, August 16, 1996, Appendix A, SESCO p. 3. For documentation that "pay for performance" contracting can dramatically improve the cost-effectiveness of LIEE programs, see *A Tale of Two DSM Low-Income Residential Performance Bidding Projects in Oregon*, American Council for An Energy Efficient Economy (ACEEE) Proceedings 1996, Volume 3 (Appendix ___ to this Report of the CPUC Low-Income Working Group). That report concluded that switching to a "pay for performance" system reduced the cost of saving electricity by a factor of six (compared with the same utility's conventional low-income weatherization program), while more than doubling the amount energy saved per house treated. Compared with a "pay per measure" system implemented by another ESCO, the "pay for performance" system produced 3.7 times more savings per house at less than half the cost of the "pay per measure" system.

The LIAs would also contract for measurement and verification (M&V) services, so that the effectiveness of each contractor can be determined by a party without a financial stake in the findings. The previous work sponsored by CACD and DRA have assisted the development of a

cadre of independent M&V experts available for this purpose. The utilities (or other entities) collecting customer usage information must make the information available to the LIAs and their contractors, to enable assessment of dwellings for weatherization services and to measure the results of treatments.

Existing utility-operated LIEE programs, including the balance of any contracts currently in place, would be transferred to the LIAs before January 1, 1998.

ADMINISTRATION OF THE CARE PROGRAM IN A RESTRUCTURED ENVIRONMENT - UNIVERSAL TELEPHONE SERVICE ACT

Latino Issues Forum and The Greenlining Institute proposed the following administration and structure for California Alternate Rates for Energy (CARE) as electricity is deregulated in California. Our suggestion is based, in great part, on the existing paradigm in telecommunications with Universal Lifeline Trust Service (ULTS).

ULTS History and Operation

California's first ratepayer assistance program was the ULTS which was established by the Moore Universal Telephone Service Act. The objective of the Act was to provide all Californians access to the telephone network. Section 871.5 of the PUC code declared that: "The offering of high quality basic telephone service at affordable rates to the greatest number of citizens has been a long-standing goal of the state." ULTS has been available to qualifying customers since October 1984.

To qualify for ULTS, total household income form all sources must be no more than approximately 150% of the federal poverty level. Customers self certify that they meet the income-eligibility guidelines. There is no verification of a program participant's income level.

ULTS is administered by a trust. This trust is governed by a board comprised of representatives from large and small telephone carriers, long distance carriers and consumer groups. Each telephone carrier administer its own low-income program and is responsible for collecting the ULTS surcharge from its customers. A carrier then remits the surcharge funds to the ULTs trust fund and is reimbursed for the lost revenue (difference between tariffed residential rates and ULTS rates) and incremental administrative program expenses. A uniform statewide surcharge rate, based upon projected revenues of all telephone carriers for the upcoming year, is authorized by the California Public Utilities Commission (CPUC) based on the recommendation of the trust fund board to cover anticipated expenses.

Proposed ULTS Model for CARE Administration

Through general regulatory powers vested in the PUC, all telephone providers are assessed a consumption-based surcharge on calls, which monies are used to fund the ULTS. With electricity, it would be a nonbypassable end-use charge assessed to all providers by the local utility. For CARE, the fund would be uncapped and need-based as specified by the CPUC decision, so the assessment could change over time as need expands or contracts. LIF proposes annual authorizations based on projected revenues and anticipated surcharge rates analogous to ULTS.

Also, as with ULTS, administration of funds would be handled by a non-profit administrative committee whose officers would be appointed by the PUC[2] , with members from various low-income and minority groups and energy providers, including one or more local utilities. During the transition phase of deregulation, the local utilities would be both collectors of the end-use charge and distributors of CARE services, but as deregulation progresses, other licensed energy providers would be able to apply to the CARE trust for delivery of services, as is also the case with ULTS.

The local utilities would initially bear the responsibility for continued outreach and education about CARE programs and eligibility, but ultimately other energy providers and non-profit organizations could be funded to assist in disseminating information and encouraging eligible energy customers to apply for CARE.

Economic criteria for eligibility should remain as they are now and on a state-wide basis. Self-certification should be permitted, with the right to verify either randomly or when circumstances raise questions about an applicant's eligibility. Eligibility should be based on income only, excluding asset testing[3] .

---

[2] PUC appointments should be made in consultation with low-income and minority groups.

[3] Please refer to Comments of The Greenlining Institute and Latino Issues Forum filed in pending rulemaking R.94-12-001.

A PG&E, SDG&E AND SCE PROPOSAL FOR UTILITY DISTRIBUTION COMPANY ADMINISTRATION OF LOW-INCOME PROGRAMS

OVERVIEW

The goal of this proposal is to facilitate the transition to a restructured electric utility industry within the timeframe envisioned by the California Public Utilities Commission (CPUC) and the State legislature while ensuring that the needs of our low-income customers will continue to be met in the restructured environment. This proposal is for utility distribution company (UDC) administration of surcharge-funded Low-Income Energy Efficiency (LIEE) and California Alternate Rates for Energy (CARE) programs that serve the needs of our eligible low-income customers. The framework proposed under this model is entirely consistent with the principles established in AB 1890 and builds upon the capabilities of existing institutions and the CPUC's existing authority.

ADMINISTRATIVE ROLES

Low-income Board

The key feature of this proposal is the creation of a new, statewide Low-Income Board (Board) (similar to and consistent with the Board proposed in the Energy Efficiency Working Group by the Coalition) that facilitates the CPUC's regulatory oversight of surcharge-funded low-income activities and plays a central role in the administrative process. There will be a single, statewide board for both CARE and LIEE programs.

The Board will be comprised of voting and non-voting members. Voting members will be appointed by the CPUC and will consist of one CPUC representative, one representative from each UDC, and one regional low-income customer group representative from each of the UDC's service territories.

The Board will have discretion to offer non-voting membership to others based upon their potential for contribution. One of the Board's first tasks will be to appoint two representatives from community-based organizations (CBOs) and/or other third-party LIEE provider organizations to the Board as non-voting members. Additional/substitute non-voting members will be added by the Board as necessary.

The Board will have discretion to create advisory committees for the purpose of gaining information and advice on specialized areas of interest. One such advisory committee will be the LIEE Technical Advisory Committee described below.

The Board will not have a permanent staff. Instead, the UDCs and other Board members will provide support resources as appropriate.

The Board will draft proposed general policy guidelines regarding the administration and implementation of low-income programs. These draft guidelines will be submitted to the CPUC for its review and approval. Once approved by the CPUC, the guidelines will be used by the Board as the "yardstick" for its annual review of proposed programs/associated budgets. Modifications to approved guidelines will be submitted for CPUC consideration by the Board if and as necessary.

The Board will provide the CPUC with an annual report on program expenditures and results each year. The annual report will be filed concurrent with the Energy Efficiency Board's annual report. The Board will provide the CPUC with an updated needs assessment every three years. The needs assessment will be designed to CPUC specifications.

Conceptually, the new Board is positioned between the CPUC and the UDCs in the administration and regulatory oversight processes. This central position facilitates the CPUC's decision-making process (while reducing CPUC resource requirements and administrative burdens) and provides the UDCs with valuable guidance during the planning process that will be reflected in the Board's recommendations to the CPUC. In addition, the use of one statewide

board ensures that, to the extent appropriate, there will be consistency among the programs offered through the various UDCs.

In general, the policy-making, administration and implementation functions of providing CARE and LIEE services to eligible customers would be structured as follows: 1) The CPUC will retain its existing policy-making, regulatory oversight and authorization (decision-making) functions. 2) The Board will review low-income program plans proposed by UDCs (and others) for conformance with adopted CPUC policy guidelines and provide recommendations and reports to the CPUC regarding the implementation of surcharge-funded low-income programs. 3) The UDCs will be responsible for the administrative functions necessary for the certification of eligible customers, the implementation of CPUC-authorized activities in their own service territories, and the oversight of services delivered by CBOs and/or other third-party providers.

LIEE Technical Advisory Committee

The Board will establish a LIEE Technical Advisory Committee. Committee members will serve at the discretion of the Board. The LIEE Technical Advisory Committee will be comprised of: one representative from the CPUC; one representative from each UDC's LIEE program planning department; one **CBO** or third-party LIEE service provider representative from each of the UDC's service territories; and, one representative from the State Department of Community Services and Development.

The Low-income Board will consider the LIEE Technical Advisory Committee's recommendations when the Board reviews the UDCs' program plans. The Board may solicit the advice and recommendations of the LIEE Technical Advisory Committee on issues ranging from consistency of programs between UDCs, other program design/re-design issues, periodic technical review, the selection and evaluation of services and measures to be provided, installation and technical standards and guidelines, measurement and evaluation criteria and protocols, training and licensing requirements, quality control policies and procedures for services rendered, and related technical and operational issues.

UDCs

In the third quarter if each year, each UDC (and any other interested stakeholder) will submit a proposed program plan/associated budget for the following year to the Board for its review. Each UDC's plan will address programs to be implemented in its own service territory. While regional administration along UDC service territories will provide opportunities to address the unique needs of each UDC's customers, the Board will review the plans with an eye on encouraging uniformity in program offerings across the State as appropriate. (Assuming, of course, that uniformity will be one of the policy guidance principles adopted by the CPUC.) Each UDC's budget will not exceed the amount of low-income surcharge funds it collects from its own customers and surcharge funds collected in one UDC's service territory will not be transferred to another.

If the Board determines that the proposed plan/budget is consistent with the CPUC's policy guidelines, the Board and UDC will jointly file a compliance advice letter with the CPUC that recommends approval. Unless unusual circumstances arise, jointly recommended program plans/budgets are to be approved by the CPUC without modification and without hearings or other unwarranted delay.

If the Board determines that the proposed plan/budget is inconsistent with CPUC policy guidelines, or if any party submitting a proposed plan/budget disagrees with the Board's recommendation, the various proposals and recommendations will be presented to the CPUC for its decision. If hearings are required, they will be expedited so that the CPUC can render a decision before the start of the program year.

For CARE activities, the UDC will administer and implement the program in its own service territory using funds collected from its own customers. For low-income energy efficiency activities, the UDCs will administer and implement CPUC-approved activities and/or oversee those activities that are implemented by CBOs or other third-party service providers. Selection

of low-income service providers will be administered by the UDCs through an open and objective process. As necessary, the results of this selection process will be submitted to the Board for review for consistency with CPUC policy guidelines.

POLICY CONSIDERATIONS

Provides the Necessary Infrastructure and Expertise

The administration and facilitation of the delivery of CARE and LIEE programs require a substantial support infrastructure to be successful. It would be a wasteful exercise and contrary to the CPUC's stated objectives to abandon the valuable infrastructure for the administration of low-income programs that exists today in the utilities. More importantly, the existing utility infrastructure provides the means to ensure that the needs of low-income customers will continue to be met in a restructured environment.

Meets Low-income Customers' Needs

UDC administration allows program design to take into account the unique regional (and sometimes customer-specific) needs of low-income customers while still capturing the benefits of statewide uniformity (where appropriate) that a single Board offers.

Perhaps more importantly, administration on a regional basis by UDCs provides our low-income customers with established and effective avenues for seeking assistance for their energy-related concerns. This customer protection aspect of UDC administration will become all the more important as the restructured environment creates new and unfamiliar issues and opportunities for our low-income customers.

Offers Enforceable Accountability for Results

The UDC will remain subject to the regulatory jurisdiction and oversight of the California Public Utilities Commission; therefore, the State retains the jurisdictional means to ensure that the administrator is truly accountable for the achievement of public policy goals.

Further, the State's jurisdiction over the UDC also provides interested stakeholders with an avenue for addressing concerns about the administrator's and/or Board's performance and, if necessary, a means of seeking recourse.

In addition, if appropriate incentives are provided for rewarding superior performance by the UDC administrator, the combination of enforceable accountability and the potential for earning incentives for superior performance creates a symmetrical risk/reward framework that reduces the need for command-and-control regulatory processes.

The establishment of a new statewide Board described in this proposal is completely within the existing jurisdiction of the CPUC and will not require legislative action to implement by January 1998.

Chapter V

CONSUMER PROTECTION AND EDUCATION ISSUES

INTRODUCTION AND SUMMARY

This chapter outlines low-income consumer protection issues discussed by the Group in relation to the Consumer Principles for Restructuring (or the Consumer Bill of Rights) developed by the Direct Access Working Group (DAWG). Most of the Group support these principles. However, some Parties felt that the consumer principles discussed in this chapter went beyond the scope of the Low-Income Working Group Report. Finally, to assist in preventing these abuses, a proposal for multilingual, multicultural education is discussed.

Most of the Group feel there is a definite need to protect low-income consumers, including the low-income, limited or nonenglish speakers, the elderly, and the disabled, during electric industry restructuring. These customers are particularly prone to the fraudulent behavior of third parties in the provision of electric service due to their lessened ability to defend themselves. This fraudulent behavior has already been demonstrated in the telecommunications deregulation through unscrupulous actions by new market entrants. Low-income customers must be given the information and assistance needed to assist in their self-defense against such practices. Some Parties felt that these issues did not only affect low-income customers but rather were more general issues affecting all residential and small commercial customers, and should more appropriately be addressed in the DAWG's report.

Assembly Bill (AB) 1890, includes several provisions intended to protect residential and small commercial customers (see §394 through §396 of AB 1890). While some Parties believe that the recently adopted statutes adequately protect the interests of low-income electric customers, most Parties feel that the protections of AB 1890 will not be adequate and that established utilities should welcome strong consumer safeguards, before-the-fact, to help protect those least able to protect themselves. Ethical electric providers should also welcome consumer safeguards, because it will decrease the burden the electric providers could experience from increased customer complaints. Some Parties are concerned that, if additional safeguards are not established there will be no consumer protections following the sunset of AB 1890 in the year 2002. It has been found in the telecommunications industry that consumer protections are as necessary today as they were during the early phases of the deregulation.

However, with respect to low-income gas consumers, Southern California Gas Company (SoCalGas) recommends that the provisions contained in AB 1890 not be extended to include gas investor-owned utilities (IOUs) at this time. SoCalGas believes that the current tariffs adequately protect the interests of its residential and small commercial customers, including its low-income customers. Therefore, based on past experience, the need for additional protection does not appear warranted at this time. When the unbundling of gas services is proposed -- by either the gas IOUs or the California Public Utilities Commission (CPUC) -- the CPUC should consider at that time whether it needs to extend the consumer protection provisions specified in AB 1890 to gas low-income consumers.

It is anticipated that current low-income funding, segregated in terms of CARE and energy efficiency programs, will not be affected by these consumer protection principles. Rather, other funding sources from a consumer education and protection fund and CPUC (or other regulatory oversight) mechanisms will handle licensing, registration, oversight and redress functions, education, etc. However, to truly protect the low-income in a deregulated market, those entities that have direct contact with the poor in terms of CARE and energy efficiency programs should be armed with information and referrals so that the poor have access to consumer education and prompt redress for abusive practices. CARE and energy efficiency will mean little, if the low-income are preyed upon and charged the highest electric costs for the least reliable service. Thus, consumer protection is a necessary element to ensure that CARE and energy efficiency are meaningful in a restructured world.

Most Parties believe that in order to prevent unscrupulous practices, which will be directed almost exclusively at the poorest and most vulnerable customers, strong consumer safeguards must be enacted before-the-fact. The low-income community is least able to afford overbilling, scams that end up costing them more than reputable companies would charge for similar services, and unreliable or unsafe services that jeopardize them and their families' basic need for light, refrigeration and heat. Because of poor families' small economic margins, they are the least able to expend time and money to seek redress or take time off work to try to file complaints or claims.

The following Principles are supported by most of the Group. A few Parties have not provided input to the Principles and do not either oppose or support them. These Parties believe that consumer protection issues are appropriately being covered in DAWG and need not be revisited here. For this reason, these parties believe all consumer protection issues should be addressed in the August 30, 1996 DAWG report and the report to be filed October 30, 1996 by the Consumer Protection and Education Committee under DAWG. However, most of the Parties felt that Commissioner Neeper specifically requested the Group to address these issues within this report.

CONSUMER PRINCIPLES FOR RESTRUCTURING

I. Right to Know

Low-income customers must be assured of access to no-cost, accurate, and multilingual informational and educational materials which enable comparison of price, quality, service record, and terms of service offered by each market participant. Such materials must be readily available to all customers. The materials must contain all basic information necessary for customers to make informed decisions about electricity suppliers, including different suppliers' previous experiences in the market and track records.

II. Right to Choice

Low-income customers should have the opportunity to choose between competitive services, including aggregation, in a deregulated market, and barriers which impede free choice, including redlining, must be eliminated. Monitoring mechanisms, analogous to the anti-redlining regulations currently in place for large insurance companies operating in California, should be instituted and

analyzed annually for enforcement purposes. Discrimination by energy providers based on race, gender, ethnicity, and other unlawful categories must be discouraged through appropriate sanctions and penalties.

III. Fair Dealing

All classes of customers should have access to affordable choices and pricing options without discrimination. Service options must be responsive to low-income customer needs and performance must be verifiable. Slamming, misleading or excessive rates, overbilling, and other marketing abuses which exist in the telecommunications area must be prohibited and met with severe sanctions, including license revocation, penalties, full restitution to the customer, and a fund for community education. Energy providers must be made responsible for the actions of their agents. Some Parties believe that rate deaveraging be prevented -- that is, that low-income customers should not be charged higher rates than other customer groups, unless voluntarily and knowingly entered into in exchange for additional services and/or value. Credit terms, including compliance with the Equal Credit Opportunity Act and Fair Credit Reporting Act, must be required, and a provider of last resort, or default provider, should be established at fair and reasonable rates for all customers. The CPUC would continue its role in resolving administrative abuses, as well as filing actions in court on behalf of consumers when necessary.

IV. Right to Redress

Regulatory oversight must continue to ensure that there is a neutral, prompt, no-cost and effective forum for receiving customer complaints against energy providers and instituting investigations where warranted. The forum must provide complaint resolution and redress for all customers, especially low-income or limited and nonenglish speaking customers. Regulatory powers must include enforcement, oversight and levying penalties -- including suspension or revocation of a provider's Certificate of Public Convenience and Necessity (CPCN) or license -- monetary sanctions and full restitution to consumers, including penalties being paid into a fund for consumer education. Consumers must have the right to petition for enforcement actions. Pending resolution of CPUC or other investigations against providers charged with slamming or defrauding large numbers of customers, the CPUC or other jurisdiction may order the provider to post a bond sufficient to satisfy any likely judgment where the provider's place of incorporation or association is outside California or where there is evidence of fiscal instability.

V. Required Codes of Conduct and Oversight

As a condition of registration and continued service rights, all providers must either accept an industry standard code of conduct or offer a comparable alternative code specifying standards upon which their customer service policies and business practices will be based. Any alternative code must be equal or more stringent in terms of the protections that it offers customers and all market providers must meet minimum fiscal responsibility standards or provide a bond. Top management and officers must disclose to the CPUC and keep updated at all times: their legal name(s); business address; state where incorporated or associated, including the date of organization; articles of incorporation or association; and the name, title and address of each officer and director; name, title and telephone number of customer service contact person; name, title and telephone number of the regulatory contact person; brief description of the nature of

business being conducted; and disclosure of any ongoing civil or criminal investigations or convictions against the company or any officer or director of the company for any illegal acts related to the operation of the business for the past seven years by any state or federal jurisdiction.

One party expressed concern that the requirement to disclose ongoing civil or criminal investigations was excessive, and felt that providers should only be required to disclose convictions.

VI. Customer Participation

Customers must be able to participate in the regulatory oversight process of the restructured industry by participation in CPUC proceedings, which should be on going during and after restructuring, including the above-specified right to petition the CPUC and/or other jurisdictionally authorized entities, for redress.

VII. Right to Privacy

Most of the Parties feel consumers should be able to control the release and use of personal information and records. Information disclosed to energy providers may be used only as it relates directly to the provision of energy services. Marketing should not be unduly intrusive. Exercising privacy options should not limit customers' rights to other service options to the extent possible.

RESCUE/SESCO states that individual customer usage information should be available to the Energy Efficiency administrator(s) and their contractors to facilitate targeting of dwellings for enhanced treatment and for measurements of results.

VIII. Quality of Service

Service must be safe and in accord with specific service criteria and applicable rules, regulations, CPUC orders, and state and federal law. Energy providers should be encouraged to offer choice of differentiated levels of service. Service limiters should not be imposed upon low-income customers, except when justified by behavior of that individual customer including his/her failure to honor special payment terms. Redlining must not be permitted either in service options or maintenance.

IX. Right to Affordable Electric Service

To the extent that electricity restructuring results in savings, low-income customers should have access to energy services so that they may reap savings comparable to others in the residential class. Because electricity is a necessary service, it is imperative that electricity restructuring not result in disproportionate rate or bill increases for low-income customers when compared with other customers.

X. Improvement Over The Status Quo

Competition should not jeopardize existing rates, services, and safeguards for low-income customers. Funding for low-income programs must be continued at or above current rates and uncapped for CARE.

XI. Transactions Costs

Market processes should be designed to avoid unnecessary transaction costs. Regulatory policy should be focused upon lowering barriers for market entry. Essential elements of electric service should be non-proprietary and low-income customers without or with modest market choice should be responsible for no more than an equitable share of costs arising from restructuring.

CONSUMER EDUCATION

To inform low-income customers about deregulation and prevent foreseeable marketing abuses targeted at the most vulnerable customers, some Parties believe proactive consumer education is needed. Without encroaching on CARE and energy efficiency funding, those services should provide information and referrals to low-income customers about where to get additional help on customer choices under restructuring, as well as where to go in case of marketing fraud or abuse.

Telecommunications deregulation foretells some of the marketing and other abuses that will come with electric deregulation in California. Not only is it critical that consumer education begin well before-the-fact to inform customers that restructuring is going to happen and what it will mean to them, but they must also be educated to be informed about how to protect themselves from abuses by the unscrupulous. They must be educated both ahead of time and as restructuring progresses about how to evaluate and/or make informed choices among competing energy providers, what credit information may be sought, where to report suspected abuses, what to do if they are overbilled or slammed, where to go for redress, and what their rights are in terms of a provider of last resort.

RESTRUCTURING EDUCATION TRUST

Some Parties advocate a structure similar to the Telecommunications Education Trust (TET) fund, with independent administration and allocation of funds to community organizations who are familiar with slamming and fraud issues, and who also have the confidence of the community. Funds from this trust would be used to educate all small customers, not just low-income consumers. Possible funding mechanisms, proposed by some of the Parties, include provider registration fees, penalties assessed for fraud or other abuses and utility contributions.

A few Parties believe the broad education trust proposal will be costly, and ought to be rolled out in stages. All education expenditures should be based on an assessment of needs for each fuel, and subject to cost-effectiveness review after two years (particularly for gas). Finally, these Parties believe some costs should be borne by the consumers that benefit. On the electric side, this could be funded via the competitive transition cost surcharge, however there is no proposal to fund or administer the gas-portion of the trust to assure that customers of gas-only utilities benefit.

EDUCATIONAL MATERIAL AND PROGRAMS

All materials and programs must be multilingual and culturally appropriate. Again, it must be clear that educational efforts should be directed toward consumer education about the new deregulated world, particularly for the most vulnerable, and also targeted toward prevention in terms of educating consumers about potential abuses and what to do to safeguard themselves.

Community groups who have different communities' trust, as well as the ability to communicate and relate to their problems, must be involved in the educational process. Some Parties disagree strongly with the proposition that no participant to these proceedings should be eligible for funding to educate vulnerable groups. Some of these very organizations are the most knowledgeable about consumer issues attendant to restructuring as they affect vulnerable communities. Furthermore, they are the groups in which many minority groups have confidence and trust. Also, existing precedent in the TET permitted parties to that marketing abuse case, which engendered the TET fund, to receive monies for community education. There is absolutely no evidence of impropriety or problems under that funding structure. Finally, as detailed above, in Section IV of the Consumer Principles, consumer education must include information about how and where to obtain prompt and no-cost redress, including the right to petition the CPUC for enforcement actions.

RECOMMENDATIONS

Some Parties urge the CPUC to adopt the Consumer Protection principles and use them as guidelines when making future restructuring decisions, especially selection of a low-income administrator and establishment of codes of conduct for new energy suppliers. As stated earlier, other Parties believe the CPUC should adopt consumer protection principles through the work done in DAWG.

Apart from its customer education functions of providing consumers with the basic tools to participate in a deregulated market, most of the Group believes the CPUC must augment its duties with respect to preventing marketing abuses, ensuring that vulnerable communities are not targeted by the unscrupulous, ensuring that educational efforts reach those same communities through multilingual and varied media, and monitoring against redlining, slamming, and fraud. Thus, most of the Group recommend the CPUC in conjunction with CBOs and utilities:

1. Provide consumers, before the fact, with the information necessary to make informed choices through multilingual and varied media educational efforts, particularly targeted toward the most vulnerable.

2. Direct education toward informing communities about potential abuses under deregulation, including how to safeguard themselves as consumers and what to do in case of fraudulent practices affecting them; and

3. Monitor and resolve customer complaints and alleged abuses by providers, both in terms of how well educational efforts are enabling customers to report problems and complaints as well as the level of potential fraud or abuse by providers.

4. Ensure all price and quality comparisons for residential or small business service must be available to the low-income, including non and limited-English speaking.

5. Monitor private consumer education by market competitors and non-profits to ensure accuracy of the information.

6. Inform providers that they will be held responsible for any fraudulent, deceptive or other unlawful marketing or billing acts performed by their agents and that license revocation or other sanctions will apply.

In addition to potential needs for customer protection, the CPUC will have to address the potential impacts of changes in rate structure on low-income households. In particular the CPUC has asked the Group to explore if any changes are necessary to baseline rate structure and if there is any way to make these structures compatible with the anticipated competitive market for energy supply services. This topic is covered in the next chapter.

Chapter VI

BASELINE RATE PROPOSALS

INTRODUCTION

Baseline rates apply to all residential customers who are served by utilities regulated by the California Public Utilities Commission (CPUC) and whose service is individually metered or submetered. With the baseline rate design, residential customers are allocated a number of kWhs or therms representing a portion of the reasonable energy needs for the average residential consumer. The per-unit rate for these kWhs or therms is set lower than the per-unit rate for any consumption above that level. The level of consumption that will qualify for baseline rates is set at levels reflecting average residential consumption in the summer and winter in the various climate zones within the utility's service area. In this way the allocation is intended to reflect climate and seasonal factors.

Baseline is not a low-income rate or program, although low-income customers generally benefit from it because their overall energy consumption is typically lower than that of the average residential customer, thus enabling them to stay within the baseline level. Baseline was reviewed by the Low-Income Working Group because the CPUC sought information on how to continue baseline rates in a competitive environment.

Existing statutes (PU Code Sections 739, and 739.4 through 739.6) mandate baseline rates. Among other things, the statutes provide additional baseline allowance quantities for specified medical conditions.

Some Parties believe that the current statutes provide the CPUC considerable flexibility, and the CPUC can require tiered rates for fixed charges. Other Parties do not agree with this interpretation, and believe the statutes limit how the CPUC may undertake baseline rate design. That is, the CPUC must establish a tiered-differential (or lower price) for the first "increment" of usage, and that relationship is specified in the statutes.

PROPOSALS FOR THE NEAR TERM

Most of the Group reached a consensus on its recommendations for baseline rates in the "near term" and recommends that baseline rates/allowances remain unchanged in the "near term". SDG&E is still evaluating the impacts of AB 1890 and has not taken a position on baseline rate issues or the discussion in the rest of this chapter at the present time.

The Group defined "near term" as that period of time during electric industry restructuring when most residential customers continue to be served by the investor-owned utilities (IOUs). Even if residential electric rates are unbundled during the "near term", it is likely that most residential customers will continue to be served by the IOUs.

The duration of the "near term" for the gas industry is less clear. Ten years into gas restructuring, there is little residential gas aggregation. Today, the gas industry still meets the

“near term” definition. It is unlikely that there will be significant gas residential aggregation in the next few years, unless circumstances change dramatically. So, residential tariffed gas service is likely to continue to remain as today.

Assembly Bill (AB) 1890, recently enacted by the Legislature to implement electrical restructuring, seems to effectively require that the “near term” for electricity will last until collection of the Competition Transition Charge (CTC) is terminated on March 31, 2002. For gas utilities, the "near term" is dependent on service unbundling. Some Parties believe AB 1890 does not eliminate existing tariffs, but permits creation of new tariffs. Some of these new domestic tariffs could be designed outside the baseline rate structure if the statutory requirement for baseline rates was removed.

There is no statutory freeze on gas rates, as mandated for electric rates in AB 1890, or rate “cap” as had been proposed in the CPUC electric restructuring policy decision.

PROPOSALS FOR THE LONG TERM

The Group reached no consensus on what to recommend for baseline rates and allowances in the “long term”. For electric service, the Group assumed that the post-2002 period (i.e., the “long term”) may bring about substantial rate design changes. For example, electric generation costs are intended to be market driven.

Some Parties think it is also possible that the proportion of energy service costs recovered from volumetric charges will decline and the proportion recovered from fixed charges, such as monthly customer charges, will increase. The energy bills of low-usage customers (who are often low-income customers) will increase if decreases in volumetric rates are less than the increases in fixed charges.

In addition, a significant part of today’s tariff will no longer be subject to CPUC jurisdiction. The remainder may be collected in the form of fixed charges. This trend is consistent with recent CPUC policies to move to cost-based rates. If, in the “long term”, the volumetric charges are a smaller percentage of the total bill than today, continuation of the current baseline rate design (a lower volumetric charge for the average household energy consumption) will benefit small users less. Under such circumstances, baseline rate design may make less sense.

Whatever determination is made about the “long run” future of the baseline rates, it is clear that the CPUC and the Legislature will need to consider changing the way in which baseline is implemented. There is a wide range of possible approaches that could be adopted, although none of the items listed below received consensus support from the members of the LIWG. Some of these residential rate design approaches are:

Option 1: Eliminate Baseline

Some Parties believe that the circumstances that gave rise to baseline are no longer relevant and should be abandoned. Since rate assistance can be provided to low-income customers through the California Alternate Rates for Energy (CARE) program, and some Parties believe there may be no negative impacts on low-income customers from elimination of baseline rates and allowances.

CARE does not help other residential customers who presently benefit from baseline. Other Parties disagree.

Option 2: Statewide Baseline

Other Parties believe that equity requires that all market participants providing energy service to residential customers, including IOU's, nonutility providers, and community-owned utilities (COUs), provide a baseline rate/allowance comparable to that provided by the IOU's today.

Option 3: Incentive to Offer Baseline

A few Parties suggested the CPUC and/or the Legislature could impose a state-wide charge and use it to fund a pool that would reimburse vendors who offer baseline rates.

Option 4: Maintain the Status Quo (Covering IOU Provided Services Only)

Some Parties also suggested that the IOU could be required to provide a baseline rate structure for the services it provides to customers but, set to only achieve the target differential for the cost of those services. In other words, the IOU would maintain a 15 percent differential for the rates for IOU services only.

Option 5: Baseline Differential in Transmission and Distribution Rates

The IOU would provide a baseline rate structure for the services it provides, but set the rates to achieve the target differential for the overall rate. To illustrate in order to achieve a 15 percent overall differential, the differential for local distribution companies (LDC) rates would be approximately 30 percent (assuming LDC rates compose half the overall rate).

This Option would not require legislation.

Some Parties note, a further issue could arise in a "long run" future in which residential customers not only have meaningful retail choice for their electric generation provider, but also for their distribution service. The introduction of competing LDCs could seriously disrupt the manner in which the baseline rate currently operates. If a disproportionate number of high-usage residential customers leave a utility distribution company for service from a competing local distribution company, the average residential rate and the average level of consumption for the utility distribution company will be altered. The result could be an increase in the baseline rate for those customers who remain with the utility distribution company and a reduction in the amount of energy consumption to which that rate would apply. This potential problem could be addressed by establishing a system to collect revenues from LDCs that serve disproportionate levels of higher-use customers and to distribute those revenues to LDCs that serve lower-use customers. Another option would be to use a structure such as the Power Exchange to collect excess Tier 2 revenues and distribute them in the form of a discount for baseline usage. Both these options would be difficult to implement, and present gaming opportunities for any distribution company, utility or nonutility.

CONCLUSION

It may be that the introduction of competing distribution companies will provide opportunities to deliver increased benefits to the smaller electric consumers in California. However, the CPUC should recognize that such a step would also present issues with regard to future of the baseline.

LEGISLATIVE RECOMMENDATIONS

If the CPUC pursues either elimination or statewide implementation of baseline, it will require legislation since current statutes mandate baseline, and only for the IOUs.

A Few Parties suggested that the CPUC and/or the Legislature could impose a state-wide charge and use it to fund a pool that would reimburse vendors who offer baseline rates.

Chapter VII

TRANSITION: OTHER CASE IMPACTS, ISSUES AND RECOMMENDED PROCEDURE

INTRODUCTION

The Group recognizes that the California Public Utilities Commission (CPUC) will make a number of decisions in the electric restructuring proceeding (R. 94-04-031 and I. 94-04-032) and in the California Alternate Rates for Energy (CARE) proceeding (R. 94-12-001). Some Parties believe the CPUC may also wish to assess the results of the upcoming income verification pilot for CARE applicants which the Southern California Gas Company is authorized to complete by January 1, 1998 before making changes in the CARE programs. Senate Bill (SB) 678 calls for a CPUC report to the Legislature on the impact of funding gas low-income programs and its effect upon utility and nonutility natural gas providers.

Some Parties believe that Assembly Bill (AB) 1890 makes it unlikely that there will be significant electric rate design changes before 2002. In addition, gas rate design changes are likely as soon as 1999 as a result of Performance Base Ratemaking (PBR) and gas unbundling procedures.

The Group also realizes that there are many other cases and applications, both open and potential, in which CPUC decisions may directly or indirectly affect electric and/or gas low-income programs. To the extent that such impacts could be reasonably foreseen, they have been generally addressed as appropriate elsewhere in this report. This Chapter will briefly note those potential impacts we foresee and make recommendations for future procedural resolution of such interaction of issues.

Most future impacts that can be reasonably foreseen relate to the impacts of changes in rate design. Current rate design recovers a preponderance of utility fixed costs in volumetric charges. For transmission and distribution, the remaining monopoly regulated functions, the great preponderance of costs are fixed or are related to capacity demands, not volumetric usage. The CPUC movement toward cost-based rate design may cause major changes in future rate designs.

Higher fixed charges and unbundling of rates could have the effect that a much higher proportion of regulated utility costs than at present are devoted to low-income programs. In a competitive environment, this could have unanticipated effects. Both the timing and precise nature of these changes are well into the future. So their low-income impacts would now be very conjectural.

Rather than speculate upon all these possible future impacts, most of the Group proposes future procedural actions to address them. However, not all parties are prepared to support such specific proposals at this time.

PROPOSED TRANSITION PROCEDURES

The Group identified three potential phases in this proceeding. The first phase, to begin in 1997 will deal with immediate transition issues. The second phase, to begin in 1999, will consider

developments immediately after direct access under electric restructuring and respond to gas PBR impacts. The third phase, to begin in 2001, will evaluate changes expected once the electric competitive transition charge is eliminated and the electric rate freeze ended. We assume that many closely related issues that affect low-income programs will also need to be addressed in these time frames.

With regard to program design, two pathways for transition are presented at the beginning of Chapter III.

1997 ACTIONS

Many of the actions needed to begin a smooth transition for low-income programs can (and should) be started before the completion of the many interrelated actions by the CPUC and Federal Energy Regulatory Commission (FERC) necessary to begin the electric direct access. In Chapter III most Parties support a further phase of this case to consider low-income program design changes. Several other program actions needed in 1997 could also be considered in that phase. AB 1890 makes it clear that the CPUC will govern most restructuring action for the Investor Owned Utilities (IOUs) and that any proposals involving joint action with the Community Owned Utilities (COUs) are not “near term” prospects. Most 1998 actions for low-income programs will be essentially the same, regardless of how the many other restructuring decisions are made.

Funding and Surcharge Transition

The CPUC must make several decisions relative to funding and surcharge that apply to electric low-income programs. The process of preparation of the SB 678 report may lead to decisions that affect them for gas low-income programs. The most important examples of such impacts are low-income program administration and surcharge collection. Once these decisions are made, it is recommended that a joint utility-CPUC staff taskforce work out the details of funding allocation, total funding, any utility budget changes, bill format, calculation of bill charge and analogous required actions, implementing these actions by a joint advice letter filing.

To the extent feasible, the utilities should inform their Demand Side Management (DSM) Advisory Committees of the progress of these actions and seek their advice thereon. Where the implementation of AB 1890 or the next decision in this case require changes in the 1997 utility budgets, it is recommended this be accomplished with as little program change as possible, expanding or decreasing line item targets proportionately as necessary to meet any changes required.

Administrative Transition

Within the low-income sector, transition action should begin in about the same way, regardless of the Administrative option the CPUC selects. This is because transition must start with the status quo.

The Group recommends that, regardless of the Administrative option selected, care be taken to avoid disruption of ongoing low-income programs.

Changing administrative structure should appear seamless to the low-income population being served. To the extent feasible, it also should allow a smooth transition for the very valuable infrastructure that now serves low-income people's energy concerns. Each of the elements of this infrastructure is important: the utility staff people who now administer the programs; the contractors of all sorts who conduct the work and the regulatory staff who know and understand low-income issues.

CARE Rulemaking

Current administrative procedures for CARE tend to be uniform among the IOUs. However, this report presents several options for changes in CARE. The CPUC's pending decision in OII 94-12-001 may call for changes in CARE rules and administration methods.

Low-Income Energy Efficiency (LIEE) Rulemaking

Some of the Group recommends that the process of developing rules governing LIEE be started in this phase.

While the Group disagrees on the best mechanism for development of such rules, there is some agreement the process should start soon. Current rules for energy efficiency programs provide exemptions to low-income energy efficiency programs, without providing significant positive guidance. Some of the Group recommends the CPUC develop new policy rules to govern low-income energy efficiency programs which reflect the law and years of experience with these programs. Some of the Group also recommends the CPUC develop new procedures for measuring and evaluating low-income energy efficiency programs. Some believe that the law (Senate Bill (SB) 845; California Public Utilities (PU) Code 2790) requires that low-income energy efficiency be as cost effective as possible, and none of the present measurement and evaluation protocols reflect this intent.

Needs Analysis

Most of the Group recommends that the 1997 phase of this case begin an in-depth low-income energy program needs analysis.

The law (SB 845; PU Code 2790) clearly calls for needs analysis for low-income programs. This report provides general guidance upon how we recommend needs analysis be done. However, the Group did not have the time or resources to design and begin the implementation of a rigorous needs analysis.

1999 ACTIONS

Clearly, circumstances will develop the need for significant fine tuning and reaction to legislative and market developments. Part of the reason the Group recommends the scheduling of proceedings in 1999 is to react to developments. In addition, previous discussion has noted several issues that should be addressed in this time frame.

CARE

The Southern California Gas Company is now engaged upon a CPUC ordered pilot project on income verification. Some Parties believe that the results could impact the design and administration of low-income projects.

2001 ISSUES

Complete Review

Most of the Group recommends that the process of complete reevaluation of low-income programs be completed prior to 2002.

AB 1890 envisions complete reconsideration of all aspects of electric public benefit program funding and administration prior to 2002. The Decision 95-12-063 also implies reconsideration of these issues for gas and electric low-income programs at that time. If this process begins in the 2001 phase, it will have the benefit of more than four year's experience and an in-depth needs analyses. These should provide an excellent basis for a full and fair reconsideration of low-income programs.

Program Design

The CPUC's pending decision in Order Instituting Rulemaking R. 94-12-001 may call for changes in CARE rules and administration methods. Chapter III lists options for program design changes in CARE and energy education. It recommends that a future phase of this case assess these options and suggest pilot programs, as appropriate. This would be the beginning of a lengthy and complex process. Therefore, it should start in 1997.

Most of the group recommends that the phase of this case that assesses CARE and energy education options begin in 1997.

Chapter III recommends two pathways for transition steps for program design. Further, Chapter III recommends that LIEE program design be a continuous process, regardless of the administrative option selected.

Most of the group recommends that LIEE redesign process proceed with the participation of an advisory group, regardless of the administrative option selected.

Chapter VIII

LEGISLATIVE REQUIREMENTS

INTRODUCTION

Legislation will be needed in order to implement some of the recommendations and proposals discussed in this report. This chapter identifies some of the proposals that will require legislation if the California Public Utilities Commission (CPUC) decides to implement them. The listings are delineated by chapter.

Chapter II: PROGRAM DESIGN PROPOSALS

1. Create an "Energy Stamp" program for low-income rate assistance.
2. Mandate low-income rate assistance programs be provided by Community-Owned Utilities (COUs) and/or non-utility providers and/or alternate fuels.

Chapter III: PROGRAM FUNDING AND SURCHARGE PROPOSALS

1. Establish a specific level of low-income rate assistance funding for electric and/or gas COUs and/or non-utility providers and/or alternate fuels.
2. Establish a specific level of low income energy efficiency funding for electric and/or gas COUs and/or non-utility providers and/or alternate fuels.
3. Establish a uniform statewide nonbypassable surcharge applicable to gas COUs and/or non-utility providers and/or alternate fuels to fund low-income programs.
4. Create customer class or subsegment exemptions to the electric low-income surcharge.

Chapter V: CONSUMER PROTECTION AND EDUCATION ISSUES

1. Extend consumer protection provisions of Assembly Bill 1890 (Electric Industry Restructuring) to natural gas COUs and/or non-utility providers.

Chapter VI: BASELINE RATE PROPOSALS

1. Eliminate statutory mandate for baseline rates.
2. Extend statutory mandate for baseline rate to electric and/or gas COUs and/or non-utility providers and/or alternate fuels.