ELECTRIC UTILITY RESTRUCTURING AND THE LOW-INCOME CONSUMER

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What's at Risk: What's a "Stranded Benefit"?

One major low-income concern about a move to a competitive electric industry involves the creation of "stranded benefits." Stranded benefits involve electric utility programs and actions that will be at risk of elimination (or significant reduction) in a competitive industry.

These utility initiatives frequently involve actions that are currently done because the utilities have been *directed* to do them by state regulators rather than because the utility has chosen to do them. The programs are often based in notions of "equity" rather than in notions of economics.

The Reason for Stranding

There will be two types of electric service providers involved in a competitive electric industry. On the one hand, there will be the existing utility who currently supplies electricity under state regulation, the "incumbent." On the other hand, there will be the new competitors. These new competitors might be out-of-state companies. Some may own their own power plants. Some may simply be marketers, who buy electricity from companies who produce it and then resell it for a profit.

The problem arises because these new competitors will not be under the same regulatory obligations to provide equity-based programs as the incumbent utility. As a result, the incumbents will argue (with some justification) that they are being forced to bear costs that their competitors do not, thus making the incumbent less competitive.

To remain competitive, the reasoning will go, the programs provided subject to regulatory direction must be eliminated or curtailed.

Shutoff Restrictions at Risk

One set of benefits at risk are the regulatory protections that have been established to limit the use of utility shutoffs as a collection tool. These limitations have been imposed because they are "fair," not necessarily because they are justified on any economic grounds.

The grandaddy of utility shutoff protections put at risk is the winter shutoff moratorium, called the "cold weather rule" in many states. Under this rule, a utility is barred from disconnecting service during severe weather. Some states have temperature-based limitations, barring shutoffs only when temperatures fall below a certain level irrespective of the date. Other states have date-based limitations, barring shutoffs completely during certain time periods (such as December through March).

Utilities have always claimed that winter shutoff restrictions impede their ability to collect bills during the winter months. As a result, they claim that significant increases occur in both uncollectible dollars and unpaid bills, both of which increase costs. Whether or not these claims are true --there is certainly evidence that they are not-- based on the utilities' beliefs, it can be expected that since new competitive electric service providers will not be subject to the jurisdiction of state regulators, and thus will not face the same winter restrictions, utilities will ask for the elimination of these protections.

Winter restrictions are not the only shutoff restrictions at risk. Shutoff restrictions during medical emergencies, on days when utility offices are closed, and similar regulations will be placed at risk as well.

"Affordable Rate Programs" at Risk

Affordable rate programs are a second type of "stranded benefit." Affordable rate programs can involve discount rates for low-income consumers. They can involve arrearage forgiveness programs. They can involve discounts for senior citizens or for persons with disabilities.

The thing about rate discounts and arrearage forgiveness programs is that few utilities may seem to have them. It might seem at first glance, therefore, that placing affordable rate programs at risk does not place many states in jeopardy.

Affordable rate programs, however, do not refer simply to rate discount programs. They would include, also, for example, long-term deferred payment plans. Deferred payment plans cost utilities money in two ways. First, the negotiation of a payment plan is expensive, in that it requires personal contact (albeit perhaps by telephone). In addition, the utility loses the working capital associated with carrying the arrears over the life of the plan.

It can be expected that utilities, while not asking to eliminate deferred payment plans altogether, will seek substantial restrictions on such plans. They will likely ask that plans be much shorter than in the past, thus requiring higher monthly payments toward arrears. They will likely ask that consumers seeking deferred payment plans prove their inability to pay. They will likely ask for restrictions on the offer of multiple plans, for example, denying the availability of such a plan if you had entered into a deferred payment plan during the previous year. They will likely ask for larger downpayments, for example, requiring a customer to pay half of the arrears and making the other half subject to a deferred payment plan.

Energy Efficiency Programs at Risk

A third set of "stranded benefits" will involve existing energy efficiency programs. Low-income energy efficiency programs can consist of two primary efforts. First, many utilities engage in weatherization programs for heating customers. These efforts involve traditional weatherization efforts such as installation of insulation, set-back thermostats and similar space-heating measures. Some programs are "stand-alone" programs, where the utility engages in the weatherization efforts itself. Other existing utility efforts involve supplements to federal Weatherization Assistance Program (WAP).

A second electric utility program involves non-space-heating energy efficiency. These typically involve the installation of efficient lighting and often involve the replacement of old and inefficient refrigerators.

Summary

"Stranded benefits" include those programs and efforts that incumbent utilities provide because they have been directed to do so by state regulators. These efforts are placed at risk by electric restructuring to the extent that incumbent utilities successfully argue that making utility companies provide such programs places them at a competitive disadvantage with new electric service providers who are not also required to offer the same or similar programs.

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