AN OUTCOMES PLANNING APPROACH TO SERVING TPU LOW-INCOME CUSTOMERS

Prepared for:

Tacoma Public Utilities (TPU)
City of Tacoma (Washington)

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Table of Sections

Summary of recommendations	
TPU Recommendations: Supporting How-Why Matrix	
Utility allowances for public and assisted housing	1
Using Earned Income Tax Credit as “energy assistance”	2
Dedicated Low-Income Customer Assistance Unit (LICAU)	3
Usage reduction for tenant-occupied housing	4
Usage reduction partnerships with affordable housing developers	5
Usage reduction services to households with secondary electric heat	6
Expanding the low-income discount to the very poor	7
Expanding the use of Budget Billing	8
Reforming the use of deferred payment arrangements	9

Reforming the disconnection process	10
Reforming collection fees	11
Appendix A: The FSC How-Why Matrix	
Appendix B: The FSC Goals-Strategy-Tactics Program Planning Model	

Summary of Recommendations

1	**UTILITY ALLOWANCES FOR PUBLIC AND ASSISTED HOUSING**	
	1.a	Seek direct vendor payments of utility allowances offered in exchange for monthly incentive payment.
	1.b	Train customer service representatives to direct tenants of public housing to seek individualized relief from Local Housing Authority (LHA) for future payments upon demonstration of unaffordability.
	1.c	Participate as an interested stakeholder, including proponent, in LHA's crafting criteria and procedures for seeking individualized relief by public housing tenants.
	1.d	Devote internal staffing to provide updated utility allowances to both LHAs in Pierce County, including annual updates and updates to reflect rate changes.
2	**EARNED INCOME TAX CREDIT (EITC) AS "ENERGY ASSISTANCE"**	
	2.a	Target EITC outreach to customers with seasonal arrearages exceeding a trigger amount and identified as "low-income."
	2.b	Fund Community-Based Organizations (CBOs) through competitive grant process to do targeted outreach to historically under-served populations.
	2.c	Refer seasonally-payment-troubled customers to free tax preparation clinics (VITA) site. Train CSRs and energy assistance agencies to engage in VITA references.
	2.d	Add EITC outreach to existing customer contact points, including periodic newsletters, web site, call center message.
	2.e	Fund one additional mobile free tax preparation "van" to deliver free tax preparation to low-income neighborhoods.
	2.f	Convene Tacoma business roundtable to generate a workplan (and funding) for a 5% increase in EITC claims.

3	**DEDICATED LOW-INCOME CUSTOMER ASSISTANCE UNIT (LICAU)**	
	3.a	Implement an Early Identification Program (EIP) under which customers evidencing likelihood of "low-income" status in a customer contact receive a priority flag in SAP.
	3.b	Create an internal dedicated "Low-Income Customer Assistance Unit" consisting of staff having received specialized training in addressing low-income payment troubles.
	3.c	Create a process of skills-based routing for treatment of both in-bound and out-bound customer contacts through LICAU.
4	**USAGE REDUCTION PROGRAM FOR TENANT-BASED HOUSING UNITS.**	
	4.a	Deliver a baseload usage reduction program (URP) directed to high use, high arrears, low-income customers who live in rental housing.
	4.b	Deliver a piggyback refrigerator replacement program in collaboration with existing U.S. Department of Energy Weatherization Assistance Program (WAP).
	4.c	Deliver a piggyback refrigerator replacement program in collaboration with existing natural gas utility weatherization programs.
	4.d	Deliver a refrigerator replacement program to landlords of Section 8 housing in collaboration with both LHAs serving Pierce County to promulgate an "energy efficient refrigerator" utility allowance.
5	**USAGE REDUCTION FOR AFFORDABLE HOUSING PARTNERS.**	
	5.a	Expand/marketing and offer of existing usage reduction incentives to affordable housing developers.
	5.b	Expand definition of "new construction" to include moderate and substantial rehab using public funds.
	5.c	Request TCRA to require affordable housing developers to affirmatively indicate acceptance/rejection of TPU efficiency incentives as part of TCRA funding application.
	5.d	Offer piggyback refrigerator replacement program to housing units historically developed with public subsidies.

6	**USAGE REDUCTION TO HOUSEHOLDS WITH DE FACTO PRIMARY ELECTRIC HEATING, EVEN WITHOUT PERMANENTLY INSTALLED ELECTRIC HEATING.**	
	6.a	Identify customers meeting *all* of three criteria: (1) low-income priority flag generated by Early Identification Program; (2) high arrears; and (3) high usage without having electric heating giving rise to probability of de facto electric primary heating, even without permanently-installed electric heating system.
	6.b	Expand low-income free insulation/duct sealing program to customers identified as meeting all three criteria.
	6.c	Convene workgroup to explore the installation of mini-split heat pumps as a replacement electric heating system for the non-permanent electric heating appliances giving rise to de facto electric space heating.
7	**EXPAND LOW-INCOME DISCOUNTS TO FULL POPULATION OF "VERY POOR."**	
	7.a	Expand scope of existing low-income discount to all customers with incomes at or below 100% of the Federal Poverty Level.
	7.b	Make the grant of low-income discounts retroactive to the beginning of the heating season for all customers applying during the heating season.
	7.c	Allow for the automatic enrollment of eligible low-income customers by public agencies delivering programs with income similarities.
8	**EXPAND THE USE OF LEVELIZED BUDGET BILLING.**	
	8.a	Remove specified barriers to the entry of customers into levelized budget billing.
	8.b	Expand the range of levelized budget billing options to include a non-annual budget billing.
	8.c	Require budget billing as a prerequisite to participation in the low-income discount.

9	**REFORM THE OFFER OF DEFERRED PAYMENT ARRANGEMENTS.**	
	9.a	Make permanent flexible deferred payment plan pilot initiative for accounts referred to collections.
	9.b	Within flexible deferred payment plan initiative, allow additional deferred payment plans subsequent to default on a second (or subsequent) plan contingent upon a 50% downpayment.
	9.c	Allow the cure of missed payment plan payments and reinstatement of existing payment plan at point of default as though no default occurred.
	9.d	Extend flexible deferred payment plan initiative now directed to accounts referred to collection to active accounts.
10	**REFORM THE PROCESS OF DISCONNECTING SERVICE FOR NONPAYMENT.**	
	10.a	Target the issuance of disconnect notices such that TPU is not routinely issuing disconnect notices to accounts not likely to be disconnected for nonpayment.
	10.b	Notify customers facing the disconnection of service, including agencies from whom public assistance is received in response to such pending disconnection, of the dollar amount needed to halt the disconnection process in addition to the dollar amount needed to clear the full arrearage.
	10.c	Create a 30-day hold procedure for customers identified as "low-income" through the Early Identification Program to allow customers and agencies to exercise the application process for low-income discount and public bill payment assistance.

11	**REFORM THE IMPOSITION OF COLLECTION FEES (INCLUDING CASH SECURITY DEPOSITS).**	
	11.a	Exempt customers identified as “low-income” through the Early Identification Program from payment of late payment charges.
	11.b	Exempt customers identified as “low-income” through the Early Identification Program from payment of specified collection fees.
	11.c	Expand the definition of “normal business hours” for purposes of defining circumstances in which specified customer service fees will be increased to reflect an “after-hours” rate.
	11.d	Accept agency-provided guarantees/sureties in lieu of cash security deposits for payment of future demands for cash security deposits.
	11.e	Accept agency-provided guarantees/sureties in lieu of cash security deposits as a substitute for an existing deposit conditioned on the payment of existing cash deposit toward pre-existing arrearage.
	11.f	Allow an assignment of the right to receive a deposit refunds or other bill credits to local charitable organization in lieu of allowing such unclaimed deposits/bill credits to escheat to state as unclaimed property.

FSC How-Why Matrix: TPU Recommendations

1	UTILITY ALLOWANCES FOR PUBLIC AND ASSISTED HOUSING

1.a **Seek direct vendor payments of utility allowances offered in exchange for monthly incentive payment.**

Objective: Capture Energy Assistance payments from HUD.

How ← | Why →

- Generate automatic monthly bill payment
- Accept direct vendor payment
- Provide tenant incentive payment

Outcome: Full and complete payment from tenants of public and assisted housing.

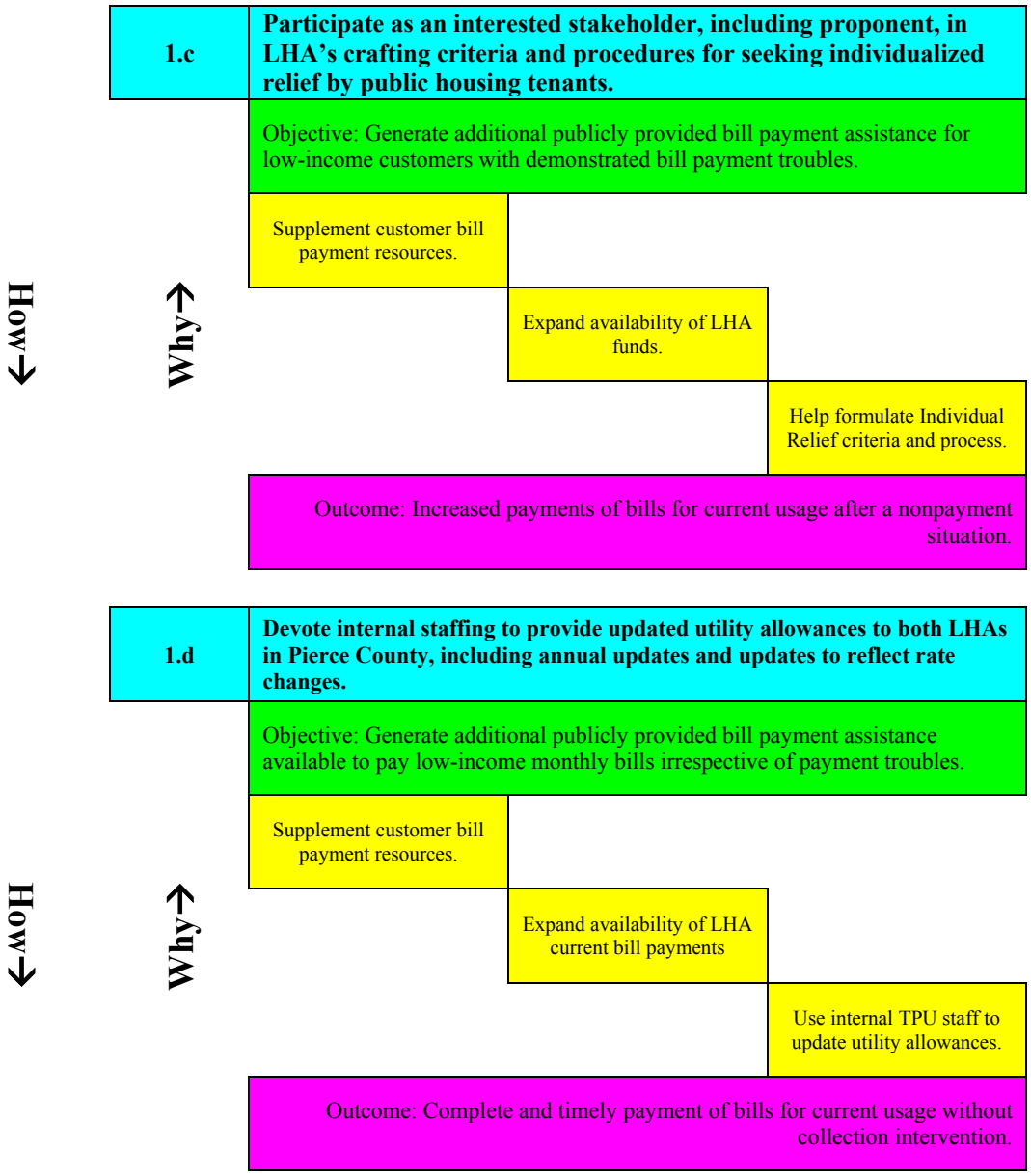
1.b **Train customer service representatives to direct tenants of public housing to seek individualized relief from Local Housing Authority (LHA) for future payments upon demonstration of unaffordability.**

Objective: Generate additional Energy Assistance payments targeted to those with demonstrated payment troubles.

How ← | Why →

- Supplement low-income customer resources for bill payments
- Expand LHA bill payments.
- Refer payment-troubled customers to Individualized Relief

Outcome: Increased payment of bills for current usage after a nonpayment situation.


1.c
Participate as an interested stakeholder, including proponent, in LHA's crafting criteria and procedures for seeking individualized relief by public housing tenants.
Objective: Generate additional publicly provided bill payment assistance for low-income customers with demonstrated bill payment troubles.
Supplement customer bill payment resources.
Expand availability of LHA funds.
Help formulate Individual Relief criteria and process.
Outcome: Increased payments of bills for current usage after a nonpayment situation.
How→
Why→
1.d
Devote internal staffing to provide updated utility allowances to both LHAs in Pierce County, including annual updates and updates to reflect rate changes.
Objective: Generate additional publicly provided bill payment assistance available to pay low-income monthly bills irrespective of payment troubles.
Supplement customer bill payment resources.
Expand availability of LHA current bill payments
Use internal TPU staff to update utility allowances.
Outcome: Complete and timely payment of bills for current usage without collection intervention.
How→
Why→

FSC How-Why Matrix: TPU Recommendations

2	EARNED INCOME TAX CREDIT (EITC) AS "ENERGY ASSISTANCE"

2.a **Target EITC outreach to customers with seasonal arrearages exceeding a trigger amount and identified as "low-income."**

Objective: Generate additional Energy Assistance for customers in payment trouble at the time payment troubles are most likely to exist.

How ← | Why →

- Supplement customer arrearage payment resources.
- Expand customer income at time of arrearages.
- Seasonally identify LI payment-troubled customers for EITC outreach.

Outcome: Retirement of arrears amongst low-income customers with highest level of arrears.

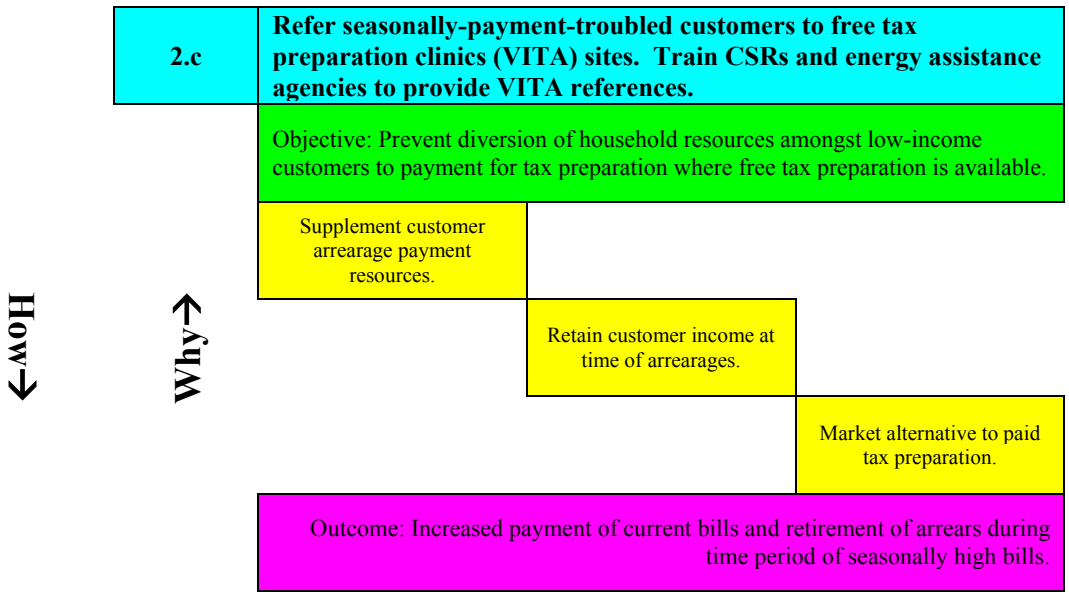
2.b **Fund Community-Based Organizations (CBOs) through competitive grant process to do targeted outreach to historically under-served populations.**

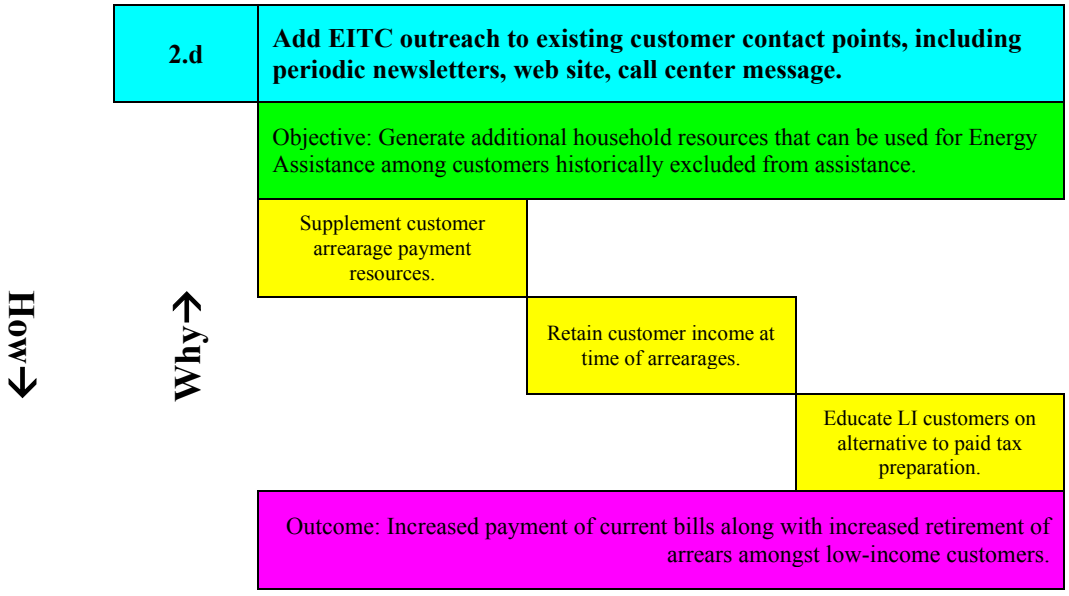
Objective: Generate additional household resources that can be used for Energy Assistance.

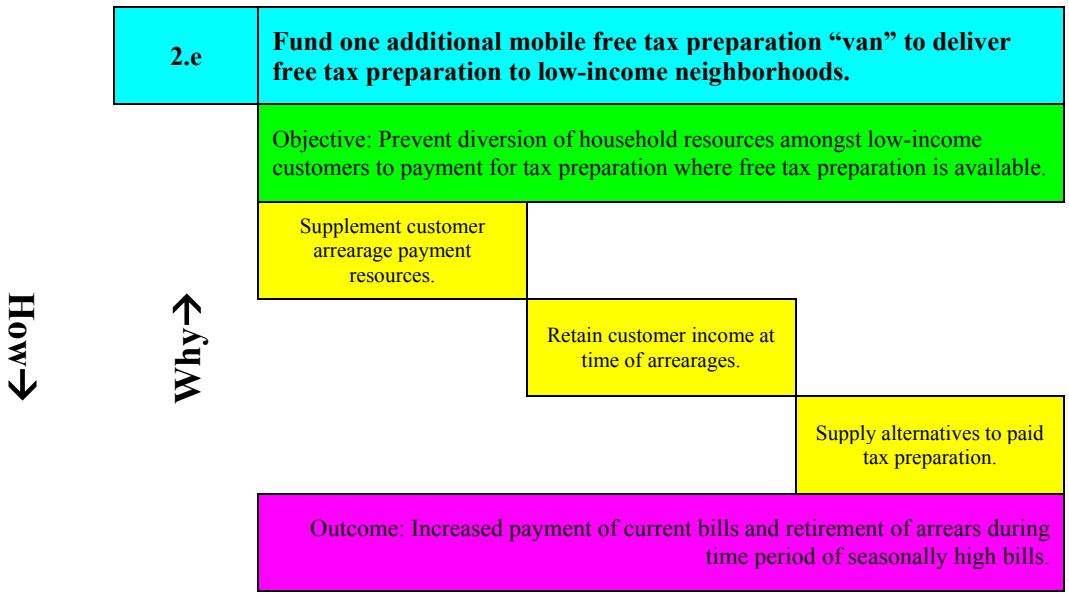
How ← | Why →

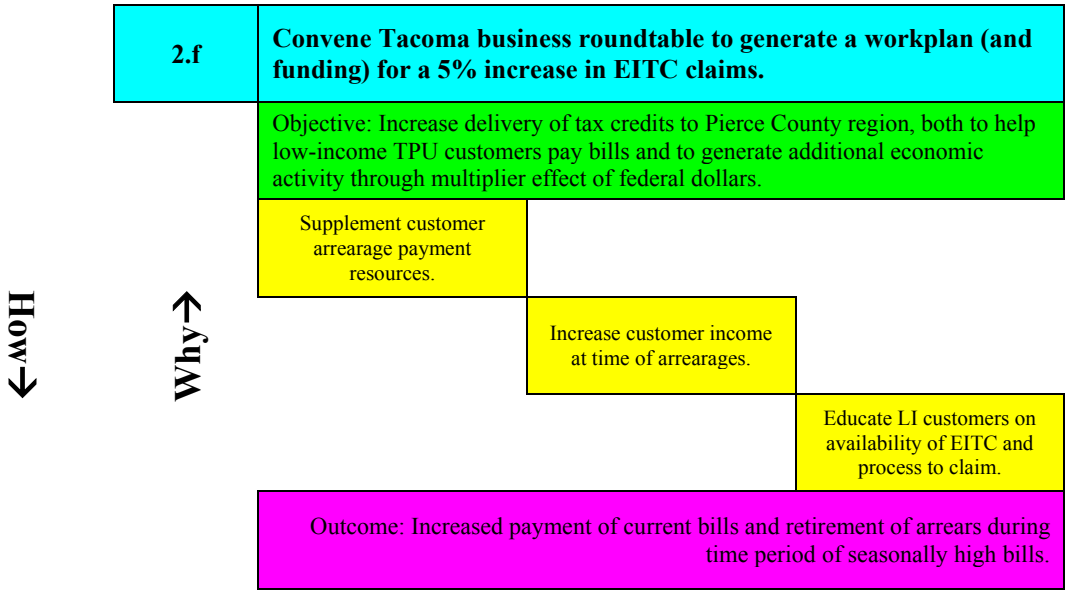
- Supplement customer arrearage payment resources.
- Expand customer income at time of arrearages.
- Target EITC outreach to historically under-served LI populations.

Outcome: Increased payment of current bills along with increased retirement of arrears amongst low-income customers.


2.c
Refer seasonally-payment-troubled customers to free tax preparation clinics (VITA) sites. Train CSRs and energy assistance agencies to provide VITA references.
Objective: Prevent diversion of household resources amongst low-income customers to payment for tax preparation where free tax preparation is available.
Supplement customer arrearage payment resources.
Retain customer income at time of arrearages.
Market alternative to paid tax preparation.
Outcome: Increased payment of current bills and retirement of arrears during time period of seasonally high bills.
How←
Why→


2.d
Add EITC outreach to existing customer contact points, including periodic newsletters, web site, call center message.
Objective: Generate additional household resources that can be used for Energy Assistance among customers historically excluded from assistance.
Supplement customer arrearage payment resources.
Retain customer income at time of arrearages.
Educate LI customers on alternative to paid tax preparation.
Outcome: Increased payment of current bills along with increased retirement of arrears amongst low-income customers.
How←
Why→


2.e
Fund one additional mobile free tax preparation "van" to deliver free tax preparation to low-income neighborhoods.
Objective: Prevent diversion of household resources amongst low-income customers to payment for tax preparation where free tax preparation is available.
Supplement customer arrearage payment resources.
Retain customer income at time of arrearages.
Supply alternatives to paid tax preparation.
Outcome: Increased payment of current bills and retirement of arrears during time period of seasonally high bills.
How
Why


2.f
Convene Tacoma business roundtable to generate a workplan (and funding) for a 5% increase in EITC claims.
Objective: Increase delivery of tax credits to Pierce County region, both to help low-income TPU customers pay bills and to generate additional economic activity through multiplier effect of federal dollars.
Supplement customer arrearage payment resources.
Increase customer income at time of arrearages.
Educate LI customers on availability of EITC and process to claim.
Outcome: Increased payment of current bills and retirement of arrears during time period of seasonally high bills.
How
Why

FSC How-Why Matrix: TPU Recommendations

3	DEDICATED LOW-INCOME CUSTOMER ASSISTANCE UNIT (LICAU)

3.a **Implement an Early Identification Program (EIP) under which customers evidencing likelihood of "low-income" status in a customer contact receive a priority flag in SAP.**

Objective: Segment payment troubled customer base so as to deliver most appropriate intervention to resolve payment troubles.

How ↓ Why →

- Deliver situation-appropriate collection response.
- Identify low-income customer population for treatment.
- Insert high priority SAP flag for identified low-income customers.

Outcome: Increased positive resolution of payment troubles subsequent to utility-customer contact. Decreased need for subsequent utility-customer contacts.

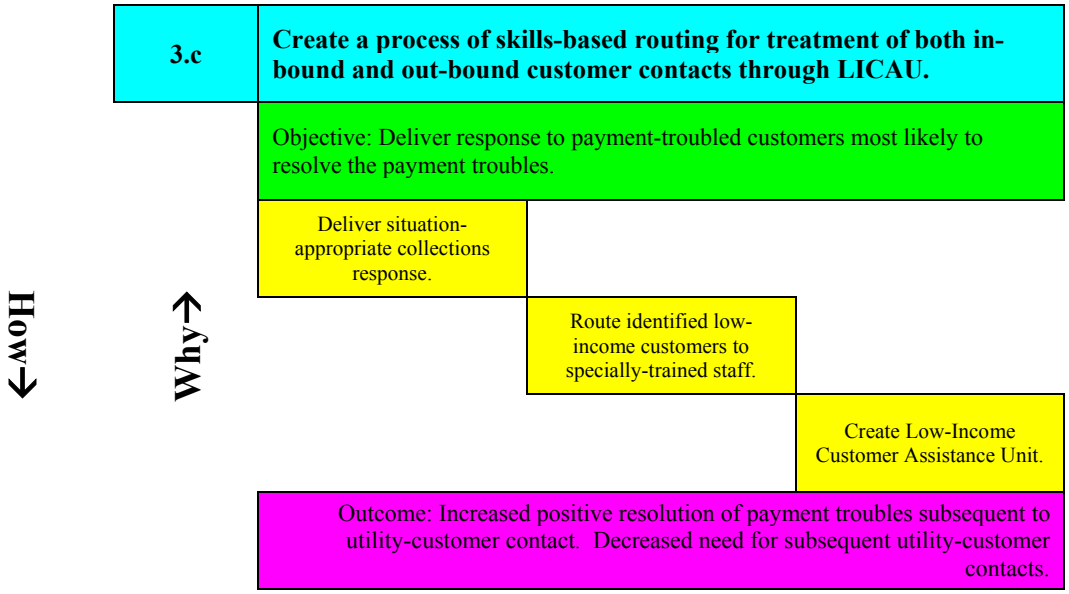
3.b **Create a dedicated "Low-Income Customer Assistance Unit" consisting of staff having received specialized training in addressing low-income payment troubles.**

Objective: Deliver response to payment-troubled customers most likely to resolve the payment troubles.

How ↓ Why →

- Deliver situation-appropriate collections response.
- Identify unique low-income needs and resources.
- Create Low-Income Customer Assistance Unit.

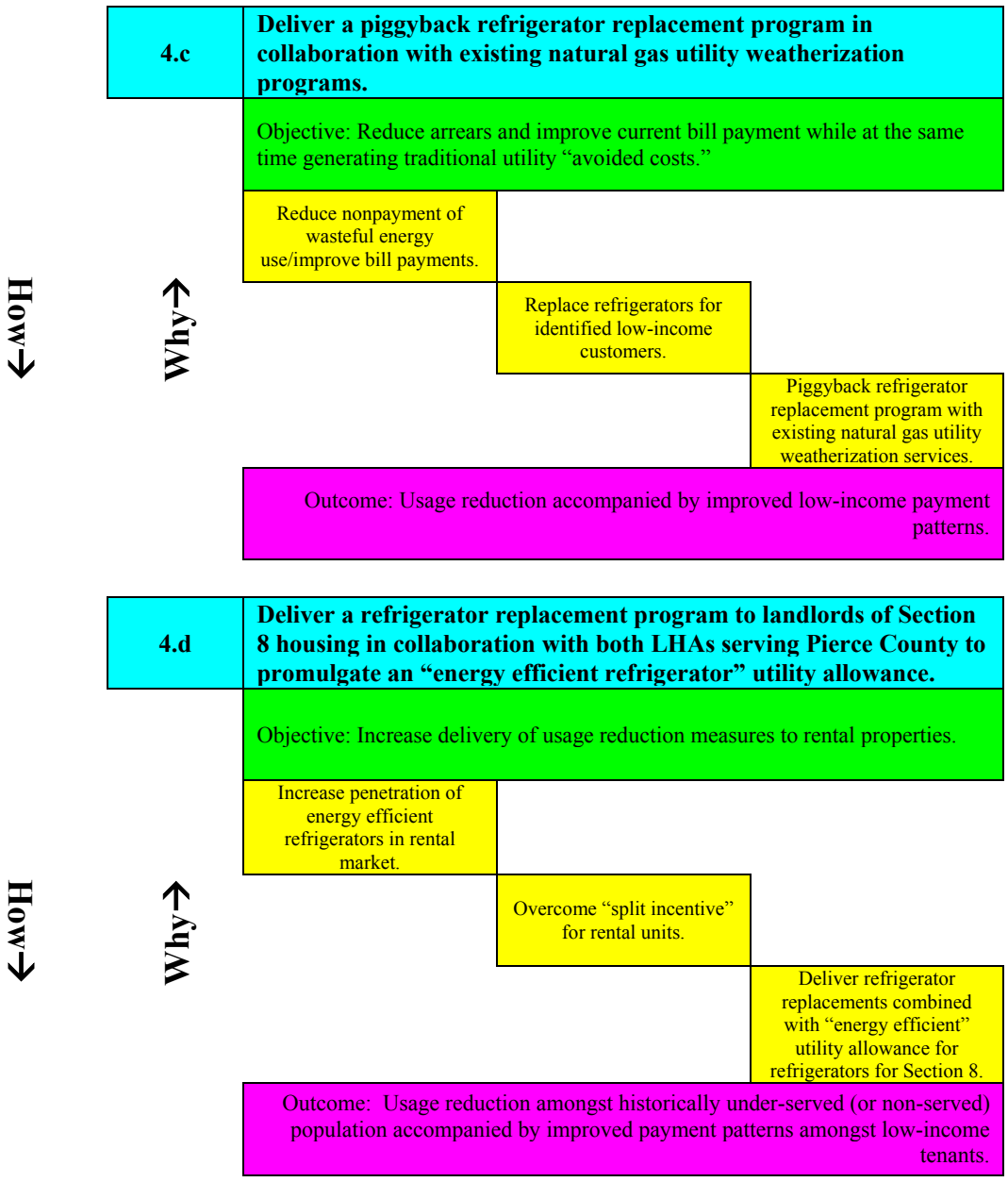
Outcome: Increased positive resolution of payment troubles subsequent to utility-customer contact. Decreased need for subsequent utility-customer contacts.


3.c
Create a process of skills-based routing for treatment of both in-bound and out-bound customer contacts through LICAU.
Objective: Deliver response to payment-troubled customers most likely to resolve the payment troubles.
Deliver situation-appropriate collections response.
Route identified low-income customers to specially-trained staff.
Create Low-Income Customer Assistance Unit.
Outcome: Increased positive resolution of payment troubles subsequent to utility-customer contact. Decreased need for subsequent utility-customer contacts.
Why→
←How

FSC How-Why Matrix: TPU Recommendations

4	**USAGE REDUCTION PROGRAM FOR TENANT-BASED HOUSING UNITS.**

How ←	Why →	
	4.a	**Deliver a baseload usage reduction program (URP) directed to high use, high arrears, low-income customers who live in rental housing.**
		Objective: Reduce arrears and improve current bill payment while at the same time generating traditional utility "avoided costs."
		Reduce nonpayment of wasteful energy use/improve bill payments.
		Deliver electric usage reduction to historically excluded LI customers.
		Deliver baseload electric URP to LI customers identified as high-use, payment-troubled tenants.
		Outcome: Usage reduction accompanied by improved low-income payment patterns.
	4.b	**Deliver a piggyback refrigerator replacement program in collaboration with existing U.S. Department of Energy Weatherization Assistance Program (WAP).**
		Objective: Reduce arrears and improve current bill payment while at the same time generating traditional utility "avoided costs."
		Reduce nonpayment of wasteful energy use/improve bill payments.
		Replace refrigerators for identified low-income customers.
		Piggyback refrigerator replacement program with existing DOE WAP services.
		Outcome: Usage reduction accompanied by improved low-income payment patterns.


4.c
Deliver a piggyback refrigerator replacement program in collaboration with existing natural gas utility weatherization programs.
Objective: Reduce arrears and improve current bill payment while at the same time generating traditional utility "avoided costs."
Reduce nonpayment of wasteful energy use/improve bill payments.
Replace refrigerators for identified low-income customers.
Piggyback refrigerator replacement program with existing natural gas utility weatherization services.
Outcome: Usage reduction accompanied by improved low-income payment patterns.
Why→
←How
4.d
Deliver a refrigerator replacement program to landlords of Section 8 housing in collaboration with both LHAs serving Pierce County to promulgate an "energy efficient refrigerator" utility allowance.
Objective: Increase delivery of usage reduction measures to rental properties.
Increase penetration of energy efficient refrigerators in rental market.
Overcome "split incentive" for rental units.
Deliver refrigerator replacements combined with "energy efficient" utility allowance for refrigerators for Section 8.
Outcome: Usage reduction amongst historically under-served (or non-served) population accompanied by improved payment patterns amongst low-income tenants.
Why→
←How

FSC How-Why Matrix: TPU Recommendations

5	USAGE REDUCTION FOR AFFORDABLE HOUSING PARTNERS.

5.a **Expand/marketing and offer of existing usage reduction incentives to affordable housing developers.**

Objective: Avoid lost opportunities for usage reduction in new and rehabbed (substantial/moderate) housing produced with public subsidies.

Expand delivery of energy efficient appliances and heating to rental market.

Use energy efficiency incentives in publicly-subsidized affordable housing.

Market existing efficiency incentives to developers of affordable housing subsidized by local HOME/CDBG.

Outcome: Improved payment patterns amongst low-income tenants of new and rehabbed housing serving low-income households while simultaneously generating cost-effective energy/water conservation.

How ↓ Why ↑

5.b **Expand definition of "new construction" to include moderate and substantial rehab using public funds.**

Objective: Avoid lost opportunities for usage reduction in new and rehabbed (substantial/moderate) housing produced with public subsidies.

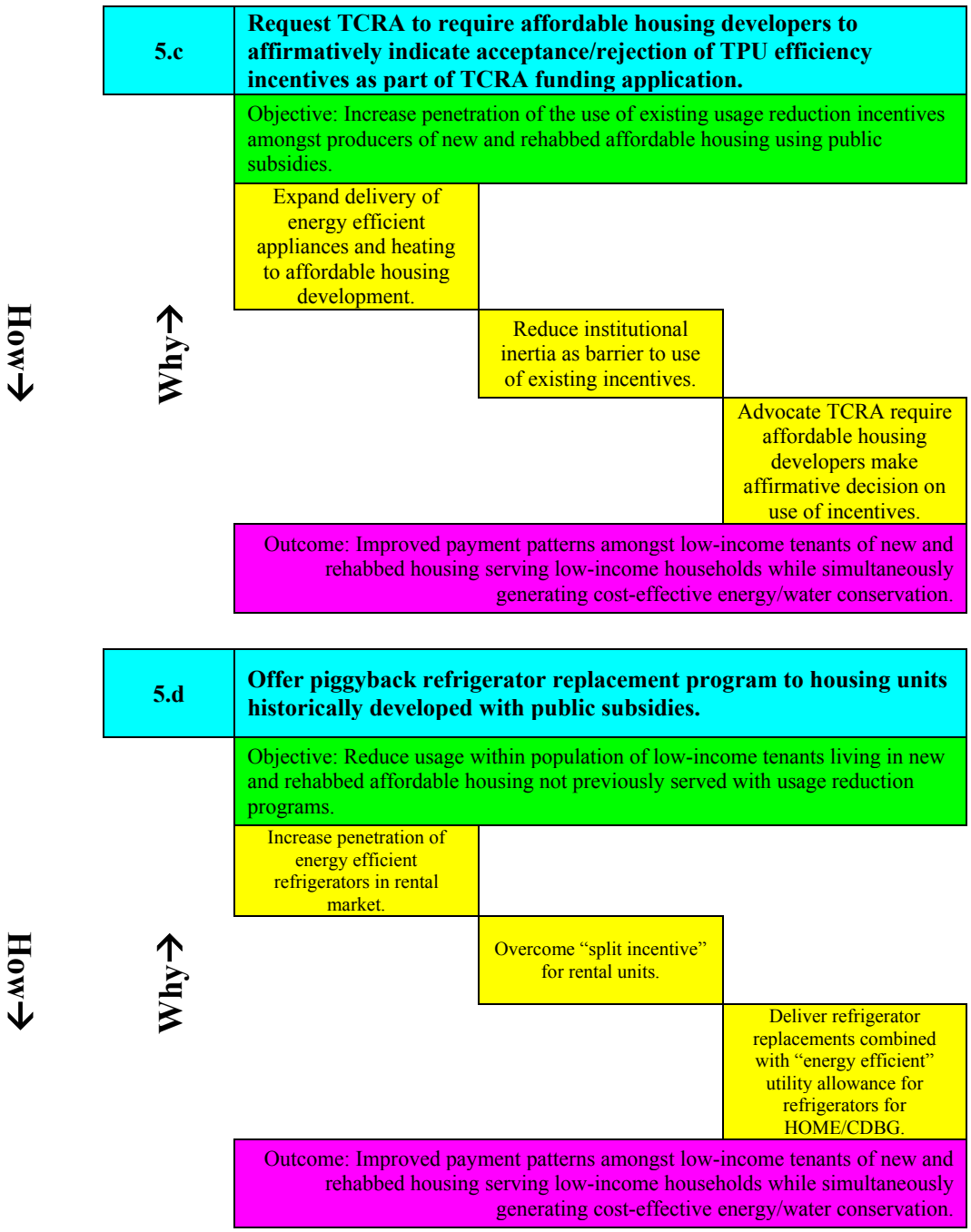
Expand delivery of energy efficient appliances and heating to rental market.

Use energy efficiency incentives in publicly-subsidized affordable housing.

Define "new construction" to include HOME/CDBG moderate and substantial rehab.

Outcome: Improved payment patterns amongst low-income tenants of new and rehabbed housing serving low-income households while simultaneously generating cost-effective energy/water conservation.

How ↓ Why ↑


5.c
Request TCRA to require affordable housing developers to affirmatively indicate acceptance/rejection of TPU efficiency incentives as part of TCRA funding application.
Objective: Increase penetration of the use of existing usage reduction incentives amongst producers of new and rehabbed affordable housing using public subsidies.
Expand delivery of energy efficient appliances and heating to affordable housing development.
Reduce institutional inertia as barrier to use of existing incentives.
Advocate TCRA require affordable housing developers make affirmative decision on use of incentives.
Outcome: Improved payment patterns amongst low-income tenants of new and rehabbed housing serving low-income households while simultaneously generating cost-effective energy/water conservation.
How
Why
5.d
Offer piggyback refrigerator replacement program to housing units historically developed with public subsidies.
Objective: Reduce usage within population of low-income tenants living in new and rehabbed affordable housing not previously served with usage reduction programs.
Increase penetration of energy efficient refrigerators in rental market.
Overcome "split incentive" for rental units.
Deliver refrigerator replacements combined with "energy efficient" utility allowance for refrigerators for HOME/CDBG.
Outcome: Improved payment patterns amongst low-income tenants of new and rehabbed housing serving low-income households while simultaneously generating cost-effective energy/water conservation.
How
Why

FSC How-Why Matrix: TPU Recommendations

6	**USAGE REDUCTION TO HOUSEHOLDS WITH DE FACTO PRIMARY ELECTRIC HEATING, EVEN WITHOUT PERMANENTLY INSTALLED ELECTRIC HEATING.**

How←

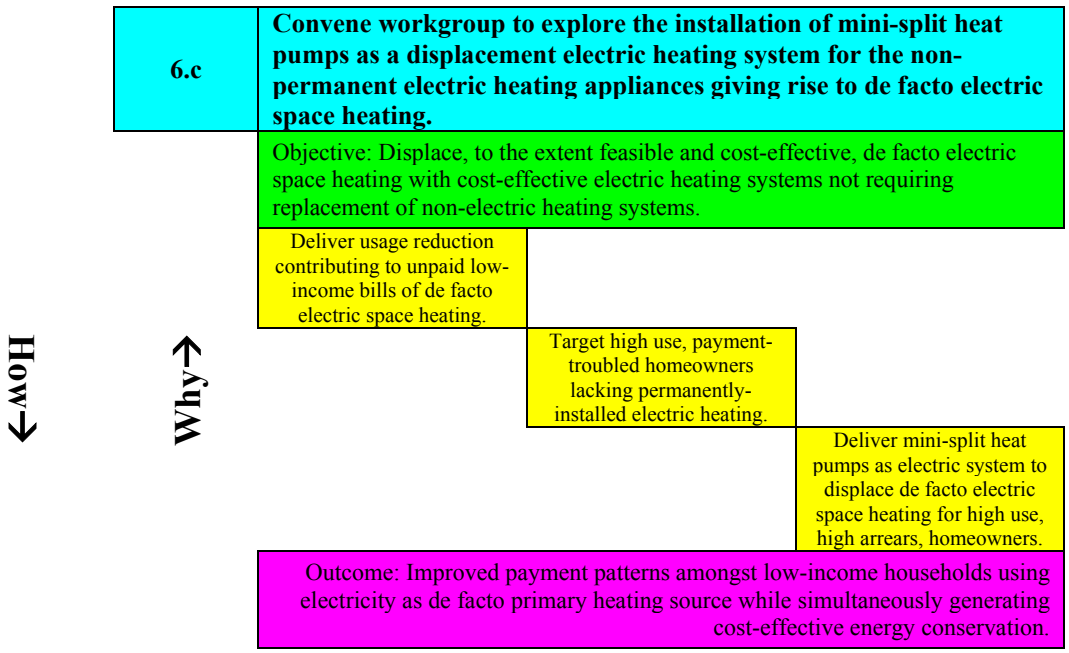
Why→

6.a	**Identify customers meeting *all* of three criteria: (1) low-income priority flag generated by Early Identification Program; (2) high arrears; and (3) high usage without having electric heating giving rise to probability of de facto electric primary heating, even without permanently-installed electric heating system.**
	Objective: Reduce both usage and bills by customers using electricity as de facto primary heating source while simultaneously increasing system costs attributable to nonpayment.
	Identify customers where use of de facto electric space heating contributes to payment-troubles.
	Correlate low-income status, high use without space heating, and arrears.
	Generate routine seasonal reports from SAP data warehouse.
	Outcome: Improved payment patterns amongst low-income households using electricity as de facto primary heating source while simultaneously generating cost-effective energy conservation.

How←

Why→

6.b	**Target low-income free insulation/duct sealing program to low-income homeowners identified as meeting all three criteria.**
	Objective: Deliver usage reduction services to customers using electricity as de facto primary heating source.
	Deliver usage reduction contributing to unpaid low-income bills of de facto electric space heating.
	Target high use, payment-troubled homeowners lacking permanently-installed electric heating.
	Relax requirement for permanently-installed electric space heating equipment for high use, high arrears, homeowners.
	Outcome: Improved payment patterns amongst low-income homeowners using electricity as de facto primary heating source while simultaneously generating cost-effective energy conservation.


6.c
Convene workgroup to explore the installation of mini-split heat pumps as a displacement electric heating system for the non-permanent electric heating appliances giving rise to de facto electric space heating.
Objective: Displace, to the extent feasible and cost-effective, de facto electric space heating with cost-effective electric heating systems not requiring replacement of non-electric heating systems.
Deliver usage reduction contributing to unpaid low-income bills of de facto electric space heating.
Target high use, payment-troubled homeowners lacking permanently-installed electric heating.
Deliver mini-split heat pumps as electric system to displace de facto electric space heating for high use, high arrears, homeowners.
Outcome: Improved payment patterns amongst low-income households using electricity as de facto primary heating source while simultaneously generating cost-effective energy conservation.
Why→
←How

FSC How-Why Matrix: TPU Recommendations

7	**EXPAND LOW-INCOME DISCOUNTS TO FULL POPULATION OF "VERY POOR."**

7.a **Expand scope of existing low-income discount to all customers with incomes at or below 100% of the Federal Poverty Level.**

Objective: Deliver proactive energy bill reductions to very low-income customers who are likely to demonstrated chronic payment troubles.

Why→ Prevent (rather than respond to) chronic nonpayment due to inability to pay.

Why→ Reduce bills to fall within an affordable burden (bill as percent of income).

Why→ Deliver discount to all customers with income at or below 100% Federal Poverty Level.

←How

Outcome: Improved payment patterns and reduced system costs attributable to nonpayment.

7.b **Grant low-income discounts retroactive to the beginning of the heating season for all customers applying during the heating season.**

Objective: Improve full-season affordability to low-income discount participants during the season of high electric costs.

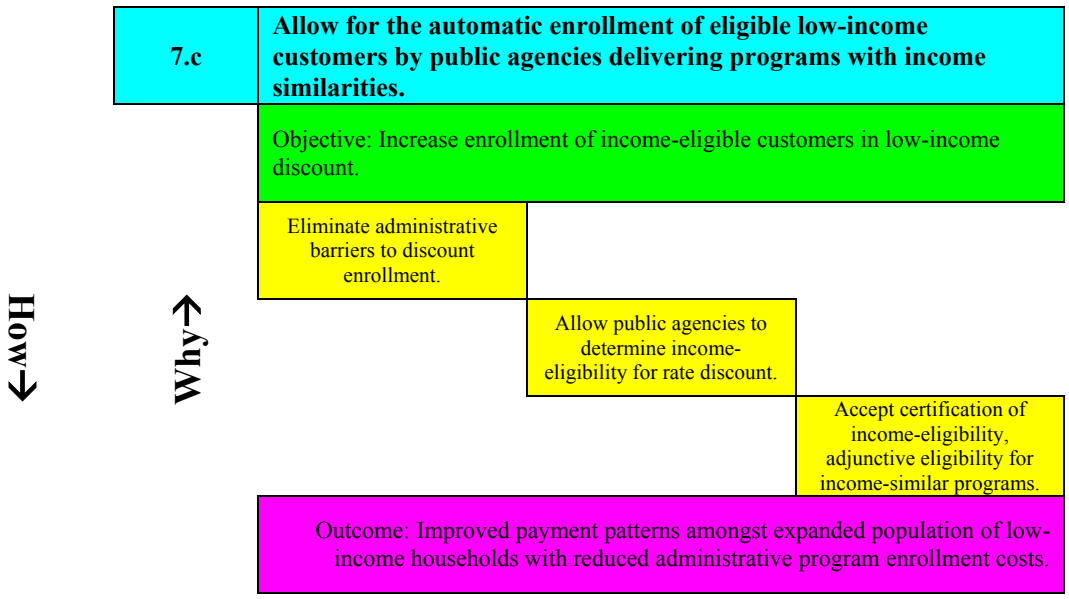
Why→ Maximize impact of discount on prevention of seasonal arrears.

Why→ Maximize seasonal delivery of discount benefits during high cost months.

Why→ Grant discounts retroactive to beginning of heating season if application made in heating season.

←How

Outcome: Improved payment patterns amongst low-income households and reduced seasonal costs attributable to nonpayment.


7.c
Allow for the automatic enrollment of eligible low-income customers by public agencies delivering programs with income similarities.
Objective: Increase enrollment of income-eligible customers in low-income discount.
Eliminate administrative barriers to discount enrollment.
Allow public agencies to determine income-eligibility for rate discount.
Accept certification of income-eligibility, adjunctive eligibility for income-similar programs.
Outcome: Improved payment patterns amongst expanded population of low-income households with reduced administrative program enrollment costs.
Why→
←How

FSC How-Why Matrix: TPU Recommendations

8	**EXPAND THE USE OF LEVELIZED BUDGET BILLING.**

8.a **Remove specified barriers to the entry of customers into levelized budget billing.**

Objective: Increase penetration of budget billing.

← How / Why →

- Decrease short-term arrears of seasonally payment-troubled customers.
- Enroll payment-troubled customers benefiting from financial management in budget billing.
- Eliminate budget billing barriers disproportionately preventing enrollment of low-income customers.

Outcome: Improved payment patterns of seasonally high bills while decreasing payment-troubles and need for collection interventions during non-seasonal months.

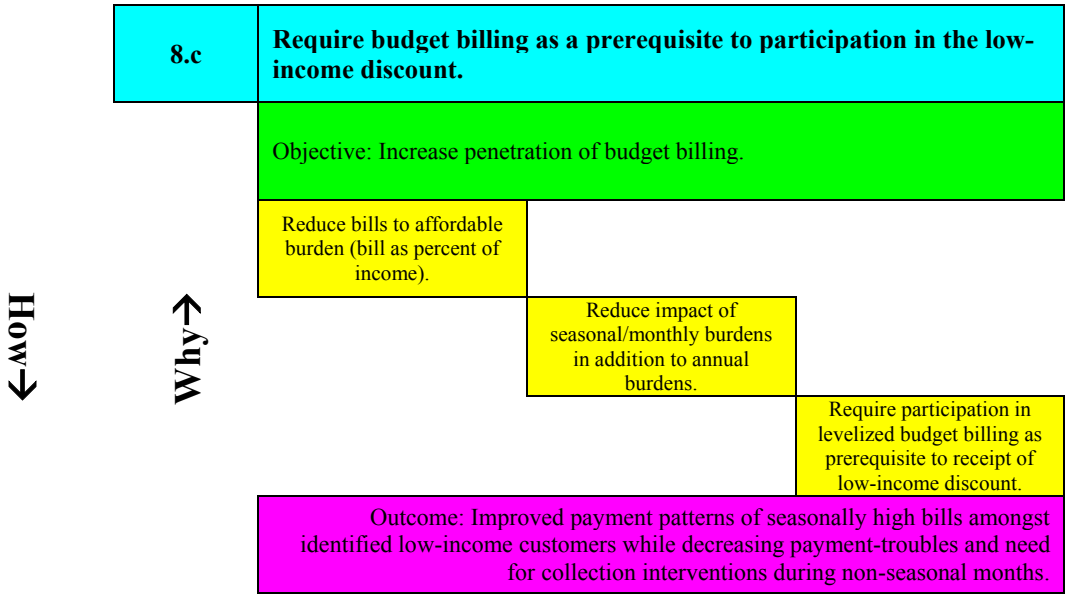
8.b **Expand the range of levelized budget billing options to include a non-annual budget billing.**

Objective: Increase penetration of levelized budget billing covering high cost winter months.

← How / Why →

- Maximize participation of low-income customers in budget billing during winter months.
- Eliminate disincentive created by "giving up" low-cost non-heating month bills.
- Offer less-than-annual, seasonal budget billing options.

Outcome: Improved payment patterns of seasonally high bills while decreasing payment-troubles and need for collection interventions during non-seasonal months.


8.c
Require budget billing as a prerequisite to participation in the low-income discount.
Objective: Increase penetration of budget billing.
Reduce bills to affordable burden (bill as percent of income).
Reduce impact of seasonal/monthly burdens in addition to annual burdens.
Require participation in levelized budget billing as prerequisite to receipt of low-income discount.
Outcome: Improved payment patterns of seasonally high bills amongst identified low-income customers while decreasing payment-troubles and need for collection interventions during non-seasonal months.
How→
Why→

FSC How-Why Matrix: TPU Recommendations

9	**REFORM THE OFFER OF DEFERRED PAYMENT ARRANGEMENTS.**

9.a **Make permanent the flexible deferred payment plan pilot initiative for accounts referred to collections.**

Objective: Increase payments toward arrearages referred to collections.

How ← | Why →

- Allow affordable monthly bill payments toward arrears.
- Extend bill payment responsibility over reasonable period of time.
- Make permanent the flexible deferred payment plan pilot for accounts referred to collections.

Outcome: Increased total payments on accounts referred to collection while simultaneously increasing dollars and percent of payments to TPU from accounts referred to collection.

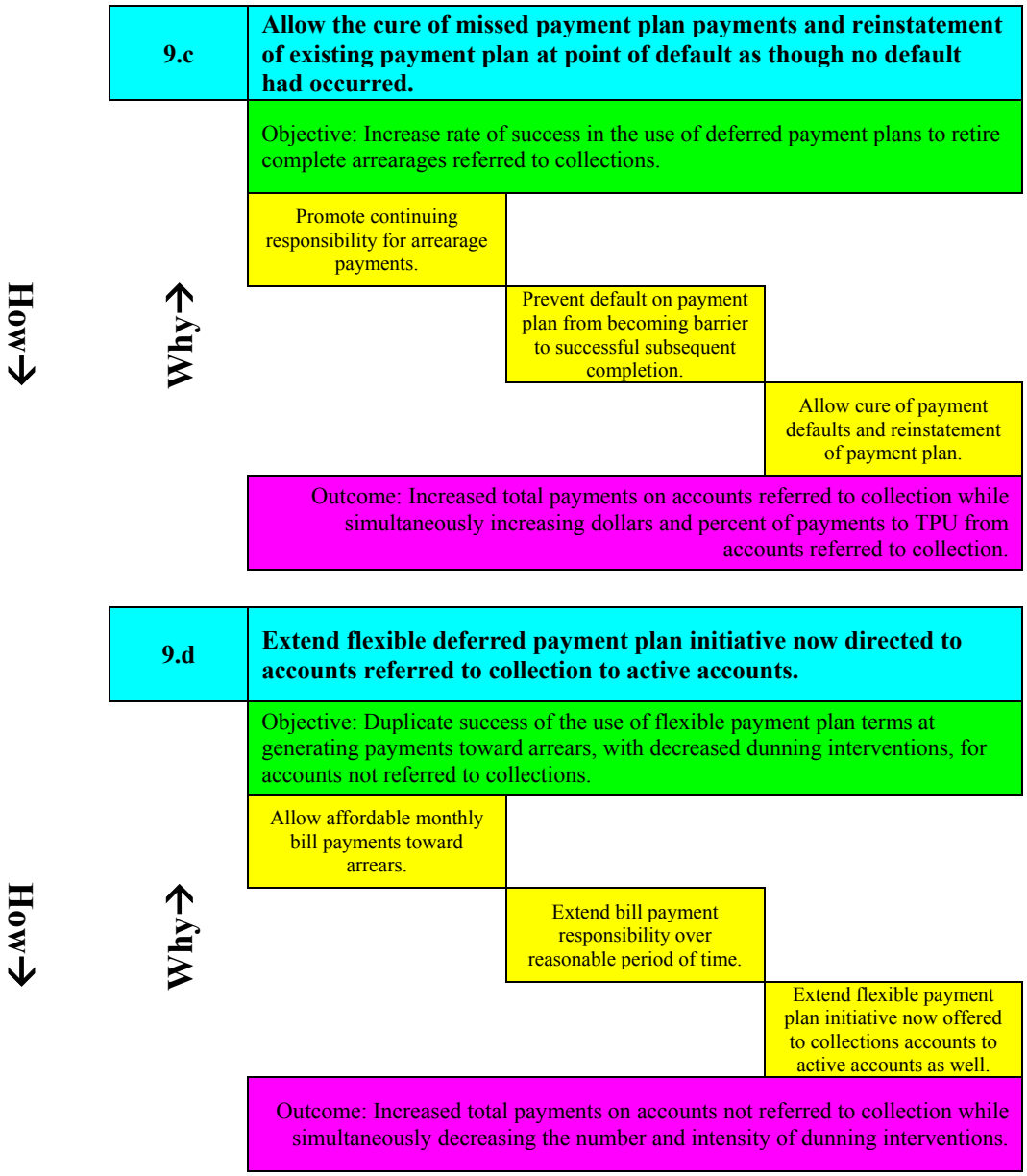
9.b **Within flexible deferred payment plan initiative, allow additional deferred payment plans subsequent to default on a second (or subsequent) plan contingent upon a 50% downpayment.**

Objective: Increase payments toward arrearages referred to collections.

How ← | Why →

- Encourage continuing payments toward arrears while preventing build-up of arrears.
- Exchange increased downpayment for payment plan extension.
- Allow new payment plans based on 50% downpayment after second default.

Outcome: Increased total payments on accounts referred to collection while simultaneously increasing dollars and percent of payments to TPU from accounts referred to collection.


9.c
Allow the cure of missed payment plan payments and reinstatement of existing payment plan at point of default as though no default had occurred.
Objective: Increase rate of success in the use of deferred payment plans to retire complete arrearages referred to collections.
Promote continuing responsibility for arrearage payments.
Prevent default on payment plan from becoming barrier to successful subsequent completion.
Allow cure of payment defaults and reinstatement of payment plan.
Outcome: Increased total payments on accounts referred to collection while simultaneously increasing dollars and percent of payments to TPU from accounts referred to collection.
Why→
←How
9.d
Extend flexible deferred payment plan initiative now directed to accounts referred to collection to active accounts.
Objective: Duplicate success of the use of flexible payment plan terms at generating payments toward arrears, with decreased dunning interventions, for accounts not referred to collections.
Allow affordable monthly bill payments toward arrears.
Extend bill payment responsibility over reasonable period of time.
Extend flexible payment plan initiative now offered to collections accounts to active accounts as well.
Outcome: Increased total payments on accounts not referred to collection while simultaneously decreasing the number and intensity of dunning interventions.
Why→
←How

FSC How-Why Matrix: TPU Recommendations

10	**REFORM THE PROCESS OF DISCONNECTING SERVICE FOR NONPAYMENT.**

10.a **Target the issuance of disconnect notices such that TPU is not routinely issuing disconnect notices to accounts not likely to be disconnected for nonpayment.**

Objective: Improve customer responsiveness to disconnect notices for nonpayment.

←How / Why→

- Encourage prompt customer response to notice of impending disconnection for nonpayment.
- Provide clear and believable warning of impending disconnection for nonpayment.
- Limit notices of disconnection only to those accounts likely to actually experience disconnection in absence of bill payment.

Outcome: Improved payment patterns toward bills subject to disconnection while decreasing the number and intensity of collection interventions.

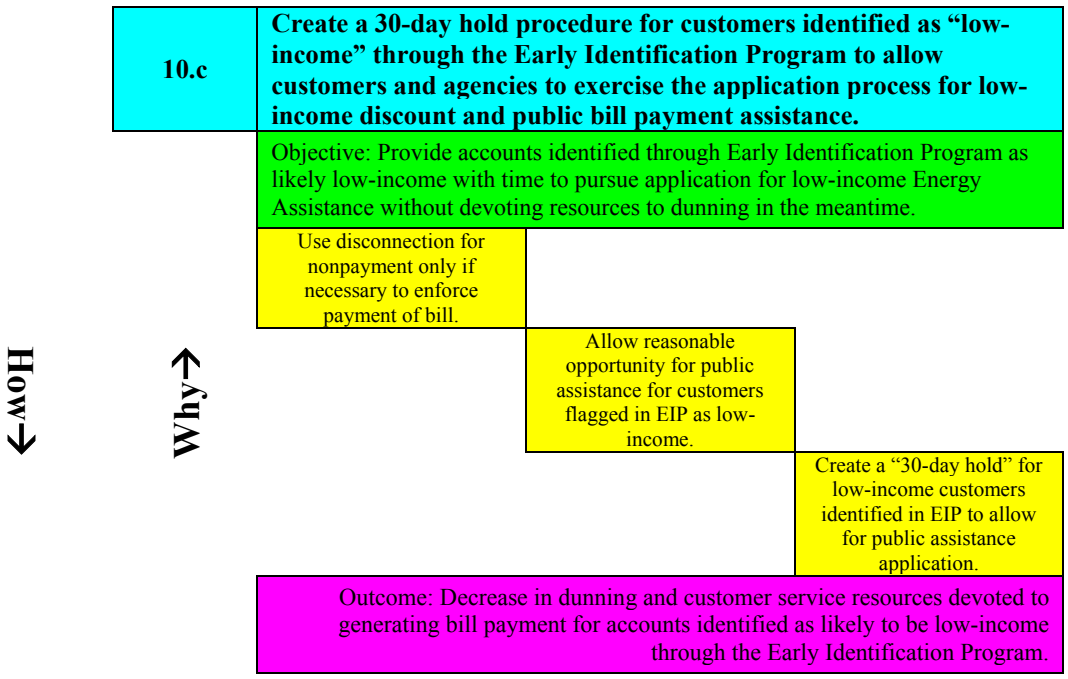
10.b **Notify customers facing the disconnection of service, including agencies from whom public assistance is received to respond to such pending disconnection, of the dollar amount needed to halt the disconnection process in addition to the dollar amount needed to clear the full arrearage.**

Objective: Increase number of short-term partial payments made in lieu of no payment.

←How / Why→

- Encourage partial payments when complete payment appears infeasible.
- Inform customers of concrete advantages to making partial payment.
- Inform customer of TPU halt to service disconnection if payment brings balance below dunning amount.

Outcome: Increased short-term revenues from customers making partial payments while increasing long-term revenues from more success at completion of deferred payment arrangements and decreasing intensity and number of dunning interventions.


10.c
Create a 30-day hold procedure for customers identified as "low-income" through the Early Identification Program to allow customers and agencies to exercise the application process for low-income discount and public bill payment assistance.
Objective: Provide accounts identified through Early Identification Program as likely low-income with time to pursue application for low-income Energy Assistance without devoting resources to dunning in the meantime.
Use disconnection for nonpayment only if necessary to enforce payment of bill.
Allow reasonable opportunity for public assistance for customers flagged in EIP as low-income.
Create a "30-day hold" for low-income customers identified in EIP to allow for public assistance application.
Outcome: Decrease in dunning and customer service resources devoted to generating bill payment for accounts identified as likely to be low-income through the Early Identification Program.
How→
Why→

FSC How-Why Matrix: TPU Recommendations

11	**REFORM THE IMPOSITION OF COLLECTION FEES (INCLUDING CASH SECURITY DEPOSITS).**

11.a **Exempt customers identified as "low-income" through the Early Identification Program from payment of late payment charges.**

Objective: Prevent diversion of low-income to payment of bills other than bills for current usage.

How ← / Why →

- Prevent (rather than respond to) chronic nonpayment due to inability to pay.
- Avoid increasing bills to customers with demonstrated inability to pay.
- Exempt identified low-income customers from late payment charges.

Outcome: Improved short-term and long-term payment patterns amongst low-income population as Energy Assistance more widely spread and individual household resources devoted to current bill payments.

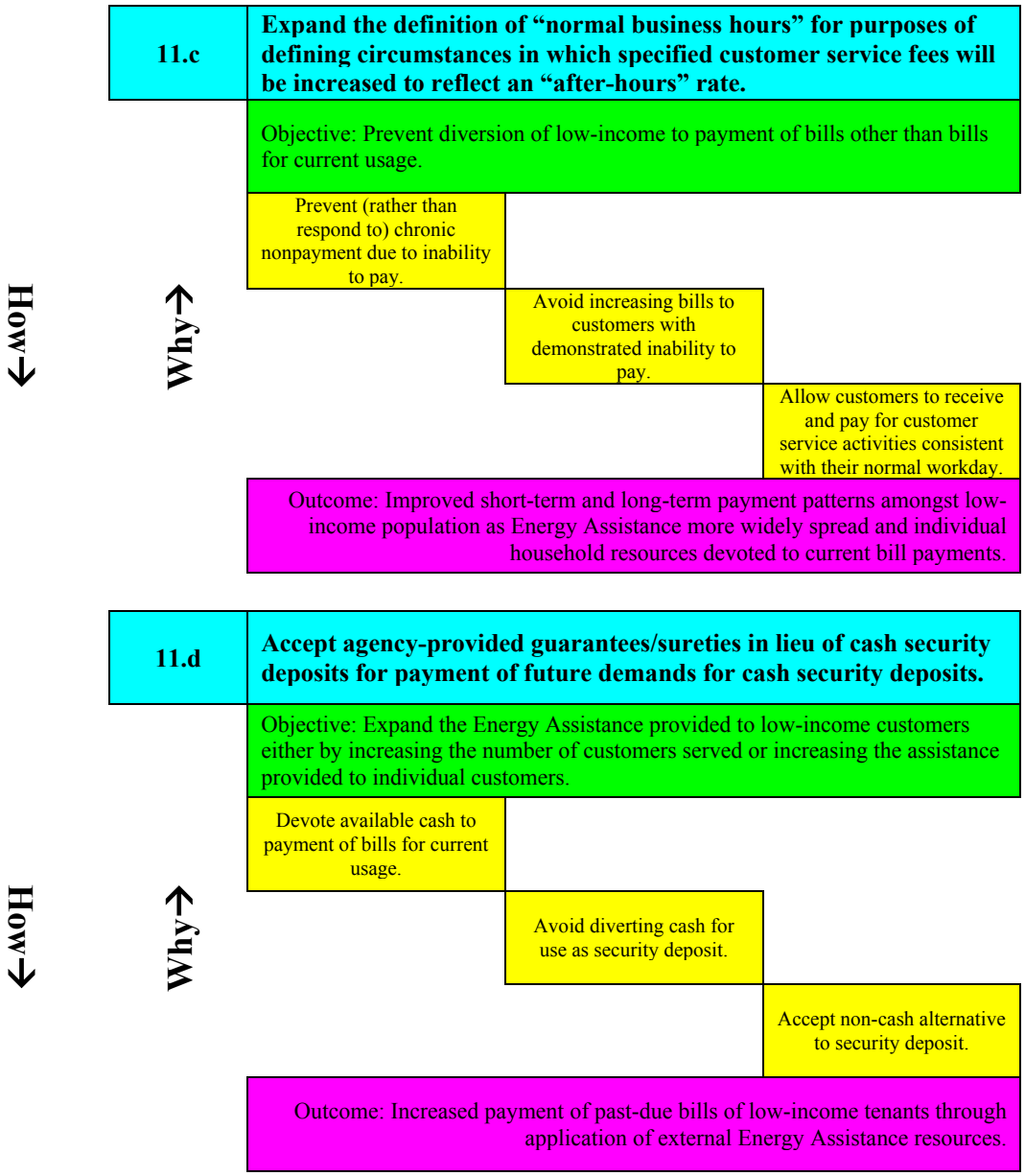
11.b **Exempt customers identified as "low-income" through the Early Identification Program from payment of specified collection fees.**

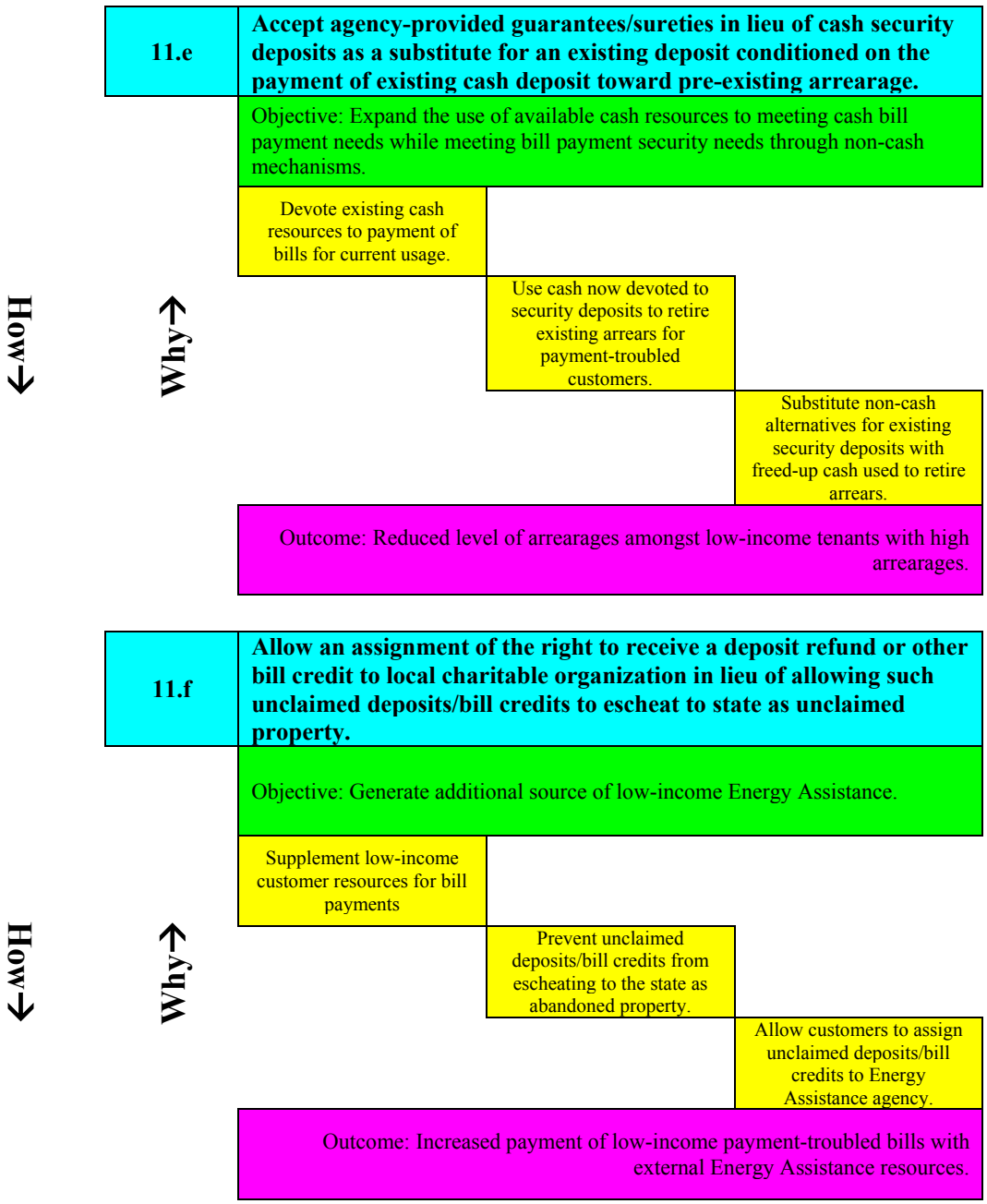
Objective: Prevent diversion of low-income to payment of bills other than bills for current usage.

How ← / Why →

- Prevent (rather than respond to) chronic nonpayment due to inability to pay.
- Avoid increasing bills to customers with demonstrated inability to pay.
- Exempt identified low-income customers from collection-based customer service fees.

Outcome: Improved short-term and long-term payment patterns amongst low-income population as Energy Assistance more widely spread and individual household resources devoted to current bill payments.


11.c
Expand the definition of "normal business hours" for purposes of defining circumstances in which specified customer service fees will be increased to reflect an "after-hours" rate.
Objective: Prevent diversion of low-income to payment of bills other than bills for current usage.
Prevent (rather than respond to) chronic nonpayment due to inability to pay.
Avoid increasing bills to customers with demonstrated inability to pay.
Allow customers to receive and pay for customer service activities consistent with their normal workday.
Outcome: Improved short-term and long-term payment patterns amongst low-income population as Energy Assistance more widely spread and individual household resources devoted to current bill payments.
11.d
Accept agency-provided guarantees/sureties in lieu of cash security deposits for payment of future demands for cash security deposits.
Objective: Expand the Energy Assistance provided to low-income customers either by increasing the number of customers served or increasing the assistance provided to individual customers.
Devote available cash to payment of bills for current usage.
Avoid diverting cash for use as security deposit.
Accept non-cash alternative to security deposit.
Outcome: Increased payment of past-due bills of low-income tenants through application of external Energy Assistance resources.
How→
Why→
How→
Why→


11.e
Accept agency-provided guarantees/sureties in lieu of cash security deposits as a substitute for an existing deposit conditioned on the payment of existing cash deposit toward pre-existing arrearage.
Objective: Expand the use of available cash resources to meeting cash bill payment needs while meeting bill payment security needs through non-cash mechanisms.
Devote existing cash resources to payment of bills for current usage.
Use cash now devoted to security deposits to retire existing arrears for payment-troubled customers.
Substitute non-cash alternatives for existing security deposits with freed-up cash used to retire arrears.
Outcome: Reduced level of arrearages amongst low-income tenants with high arrearages.
How→
Why→
11.f
Allow an assignment of the right to receive a deposit refund or other bill credit to local charitable organization in lieu of allowing such unclaimed deposits/bill credits to escheat to state as unclaimed property.
Objective: Generate additional source of low-income Energy Assistance.
Supplement low-income customer resources for bill payments
Prevent unclaimed deposits/bill credits from escheating to the state as abandoned property.
Allow customers to assign unclaimed deposits/bill credits to Energy Assistance agency.
Outcome: Increased payment of low-income payment-troubled bills with external Energy Assistance resources.
How→
Why→

SECTION 1.

UTILITY ALLOWANCES FOR PUBLIC AND ASSISTED HOUSING

Problem Statement #1

Low-income customers have insufficient resources to pay their utility bill while at the same time paying all other household necessities. The federal government provides assistance to some particularly low-income households specifically designed to pay the home utility bills of these households. Delivered to tenants of public and assisted housing, the way in which these benefits are delivered allows some of these benefit dollars to be diverted to non-utility expenditures.

Strategy

Increase and capture energy assistance resources to extremely low-income tenants.

Objectives

1. Increase external resources to help low-income payment-troubled customers.
2. Capture external resources intended to be paid for utility assistance as payments to utility.
3. Increase total payments toward bills for current usage.

Tactics

1. Establish a direct vendor payment program for tenants of public and assisted housing supported by direct vendor incentive payments.
2. Increase resources available to payment-troubled public and assisted housing tenants through "individualized relief" paid by local housing authorities.
3. Align utility allowances paid by local housing authorities with actual bills incurred by tenants of public and assisted housing.

DISCUSSION IN SUPPORT OF UTILITY ALLOWANCE INVOLVEMENT

Little question exists but that low-income households frequently do not have sufficient household resources to consistently pay their utility bills in a full and timely fashion. The issue presented by these households is not one of wasteful consumption; nor is it a matter of household budgeting. Due to severely limited incomes, these households simply do not have sufficient household income to cover their entire range of household expenses.

The burden of nonpayment resulting from this lack of household resources, however, should not fall exclusively upon Tacoma Public Utilities, particularly in those instances where public resources are made available to pay utility bills. To the extent that utility bill payment assistance is provided, those funds should be used for the purpose of utility bill payment and not diverted to other purposes. Moreover, Tacoma Public Utilities should seek to ensure that utility payment assistance programs provide all benefits created by law to the low-income tenants of public and assisted housing.

In this respect, TPU should address three specific initiatives to low-income customers living in public and assisted housing unit in Pierce County. For purposes of this program design:

- *"Public housing"* refers to housing units owned and operated by public housing authorities in the TPU service territory.

- *"Assisted housing"* refers to housing units subsidized through the federal Section 8 housing program.

Public and Assisted Housing in Pierce County

Two local housing authorities (LHAs) operate within the TPU service territory: (1) the Pierce County Housing Authority; and (2) the Tacoma Housing Authority. These two LHAs serve a significant low-income population in Pierce County. The two housing agencies not only own and operate 1,103 units of public housing, but also administer 4,586 Section 8 tenant-based vouchers and 203 project-based vouchers. The Tacoma LHA is the bigger of the two housing agencies. Data on the specific number of public and assisted housing units that have tenant-paid utilities is not available.

Public and Assisted Housing Units in Pierce County (Washington)
(April 30, 2009)

	Public Housing	Tenant-based Section 8 Voucher	Project-based Section 8 Voucher	Total Public and Assisted Housing
Pierce County HA	145	2,216	8	2,369
Tacoma HA	958	2,370	195	3,523
Total Pierce County	1,103	4,586	203	5,892

Source: Resident Characteristics Reports, HUD (January 1, 2008 through April 30, 2009).

The Income Characteristics of Pierce County's Public and Assisted Housing Tenants

The public and assisted housing units administered by the two housing authorities in Pierce County serve some of the lowest income households in the county. The *average* income for LHA tenants in Pierce County generally runs between $11,000 and $13,000. In absolute dollars terms, public housing tenants of the Pierce County Housing Authority have somewhat higher incomes while tenants with project-based Section 8 vouchers from the Pierce County HA have somewhat lower incomes.

Taking into account the average household size of tenants in the various public and assisted housing programs, however, it becomes clear that in each instance, these tenants live below the federal poverty level (FPL), sometimes substantially so. At best, Pierce County's Section 8 tenants live with incomes of roughly 70% to 80% of the Federal Poverty Level. At best, Pierce County's public housing tenants live with incomes of roughly 90% of the Poverty Level.

Average Income: Public and Assisted Housing in Pierce County (Washington)
(April 30, 2009)

	Public Housing			Tenant-based Section 8 Voucher			Project-based Section 8 Voucher		
	Income	HH Size	FPL	Income	HH Size	FPL	Income	HH Size	FPL
Pierce County HA	$20,057	4.2	92%	$12,707	2.3	84%	$5,938	2.4	38%
Tacoma HA	$11,588	1.7	90%	$12,944	2.6	80%	$11,059	2.7	67%
Total Pierce County	$13,123	2.2	89%	$12,829	2.5	81%	$11,059	2.6	68%

Source: Resident Characteristics Reports, HUD (January 1, 2008 through April 30, 2009).

It is not simply the *average* income that is important, however. It is the distribution and source of income that is important as well. In Pierce County as a whole, between 50% and 60% of public housing tenants have annual income less than $10,000, with only 10% to 15% having income more than $20,000. Exactly half of all Section 8 tenants (with tenant-based vouchers) have income less than $10,000 in Pierce County, while more than 60% of Section 8 tenants (with project-based vouchers) do.[1]

[1] There are, however, substantially fewer project-based Section 8 vouchers in Pierce County (n=203) than there are tenant-based vouchers (n=4,586).

Percent Distribution of Income: Public and Assisted Housing in Pierce County (Washington) (April 30, 2009)							
	$0	$1 - $5,000	$5,000 - $10,000	$10,000 - $15,000	$15,000 - $20,000	$20,000 - $25,000	$25,000 or more
	Public Housing						
Pierce County HA	1%	6%	53%	20%	9%	4%	7%
Tacoma HA	2%	2%	23%	21%	12%	6%	34%
Total Pierce County	1%	6%	48%	20%	10%	4%	12%
	Section 8 Vouchers: Tenant-based						
Pierce County HA	2%	5%	43%	22%	12%	7%	9%
Tacoma HA	2%	5%	42%	21%	13%	7%	10%
Total Pierce County	2%	5%	43%	22%	12%	7%	9%
	Section 8 Vouchers Project-based						
Pierce County HA	0%	25%	62%	12%	0%	0%	0%
Tacoma HA	1%	7%	52%	22%	5%	7%	6%
Total Pierce County	1%	7%	53%	22%	5%	7%	5%
Resident Characteristics Report: Pierce County HA and Tacoma HA (April 30, 2009).							

Perhaps even a better way to appreciate the low-income status of public housing and Section 8 tenants in Pierce County is to view the income of these tenants in comparison to median household incomes for the Seattle-Tacoma metropolitan area. Local housing authorities routinely report the income of their tenants relative to Area Median Income (AMI). The table below documents that, for the 15 month period ending April 30, 2009, nearly three-fourths of public housing and Section 8 tenants (with tenant-based vouchers) had income less than 30% of the Area Median Income, while more than 80% of Section 8 tenants (with project-based vouchers) did. An *additional* 15% to 20% of public housing and Section 8 tenants in Pierce County have income above 30% of AMI, but below 50% of the Area Median Income.[2] Virtually no tenants (either public housing or Section 8) have income higher than 80% of the Area Median Income.

The conclusion from this review must be that the public and assisted housing tenants in Pierce County have sufficiently low incomes that they present a risk of nonpayment to Tacoma Public Utilities in the absence of public assistance provided to help pay utility bills. Households that have income as far below Poverty Level as do the tenants of public and assisted housing need help to pay their bills.

[2] Area Median Income is that income level at which point exactly half of all households in the metropolitan area have incomes above it and half of all households in the metropolitan area have incomes below it. Median income is differentiated by household size. For example, a two-person household has a lower median income than a four-person household does.

Percent Distribution of Ratio of Income to Area Median Income (AMI) Public and Assisted Housing in Pierce County (Washington) (April 30, 2009)								
	Below 30% AMI		Below 50% AMI		Below 80% AMI		Above 80% AMI	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
	Public Housing							
Pierce County HA	69	56%	29	23%	24	19%	2	2%
Tacoma HA	448	80%	81	14%	26	5%	5	1%
Total Pierce County	517	76%	110	16%	50	7%	7	1%
	Section 8 Vouchers: Tenant-based							
Pierce County HA	1,655	75%	433	20%	121	5%	7	0%
Tacoma HA	1,744	74%	490	21%	126	5%	10	0%
Total Pierce County	3,399	74%	923	20%	247	5%	17	0%
	Section 8 Vouchers: Project-based							
Pierce County HA	8	100%	0	0%	0	0%	0	0%
Tacoma HA	158	81%	30	15%	6	3%	1	1%
Total Pierce County	166	82%	30	15%	6	3%	1	0%
Resident Characteristics Report: Pierce County HA and Tacoma HA (April 30, 2009).								

The "Utility Allowances" Paid to Public and Assisted Housing Tenants

Public and assisted housing tenants in Pierce County (as elsewhere) receive a specific housing benefit designed to pay their utility bills. Called a "utility allowance," this HUD-provided benefit to tenants of public and assisted housing differs from the federal fuel assistance program (LIHEAP) in several important respects:

- Unlike LIHEAP's focus on heating and cooling, a utility allowance is designed to cover the entire home utility bill to the extent that it involves a tenant-paid bill (including all home energy as well as water/sewer and trash collection);

- Unlike LIHEAP's seasonal nature, a utility allowance is designed to cover the home utility bill on a year-round basis;

- Unlike LIHEAP's formula approach to calculating benefits, a utility allowance is designed to take actual energy consumption (and expenditures) into account. While the legal test for a utility allowance is whether it is sufficient to pay the entire utility bill of an "energy conservative household of modest means," a utility allowance is intended to be adjusted so that it covers all consumption outside of the ability of the tenant to control.

The Problem with Utility Allowance Distribution

Despite the utility allowance benefits provided to tenants of public and assisted housing, these dollars of benefits to pay utility bills are often used for non-utility purposes. The problem arises because of the way in which the utility allowances are distributed.

The crux of the public and assisted housing programs is the provision of a housing subsidy that reduces the shelter costs of such households to 30 percent of the household's income. The shelter

subsidy is paid directly to landlords. The payment of utility allowances iss wrapped into this payment of the larger shelter assistance.

Utility allowances are generally "paid" to the tenants of public and assisted housing in the form of a rent credit. If, for example, a tenant has an out-of-pocket rental payment of $350 and a "utility allowance" of $150, the utility allowance is provided as a rent credit to reduce the out of pocket rent to $200 ($350 rent - $150 utility allowance = $200 rent).[3] In this fashion, the assumption is simply that the reduction in out-of-pocket rent frees up the $150 to allow the tenant sufficient funds to make his or her utility bill payment.

As can be seen, this process of paying the utility allowance transfers the risk of nonpayment from the landlord to the utility company. The landlord receives the direct payment of cash from the federal government. Direct vendor payments of utility allowances are not generally made. A "direct vendor payment" is a payment of the utility subsidy directly to the utility company.[4]

Why TPU Should be Concerned

This process of distributing utility allowances in the form of rent credits rather than as direct vendor payments to the utility harms the utility in several different ways. To the extent that a tenant chooses to use the money that is "freed up" by the rent credit to purchase other household necessities, the process effectively has transferred money intended to pay TPU bills to the payment of rent instead. As a result, TPU experiences increased costs attributable to lost revenues, working capital expenses, credit and collection expenses, bad debt and the like.

Given the extremely low-incomes as discussed above (significantly below the Federal Poverty Level), the likelihood of this diversion of utility allowances to other purposes is high. This will occur even in those situations where annual utility bills exactly equal annual utility allowances. Given the seasonal nature of TPU utility bills, for example, it is unlikely that a household will pay more than the billed amount for utility service in any given month.[5]

Instead, the household will likely divert the excess allowance to non-utility uses in those months the monthly allowance exceeds the currently monthly bill. Hence, if there is a current bill of $75, and rent credit attributable to the utility allowance frees up $100, the household quite reasonably will pay the current bill and use the "extra" $25 for other household necessities such as food and clothing. This scenario would seem to be the "best case" from the perspective of the utility. The scenario assumes that the household diverts no more of its utility allowance to non-utility uses than the excess of the monthly allowance over the monthly bill.

The costs of the mismatch between monthly utility allowances and monthly utility bills are two-fold: (1) an absolute revenue loss to the utility that is unlikely ever to be made up; and (2) the

[3] The utility allowance is then paid to the landlord as a cash payment from HUD to make up for the reduced out-of-pocket rent received from the tenant.
[4] LIHEAP payments, for example, are "directly vendored" to utility companies.
[5] Hence, for example, in a month where the current month utility bill is $75 without arrears, and the utility allowance is $100, the household is assumed to pay only the $75 rather than to make a $100 payment thus creating a bill credit.

costs of carrying the arrears of the public and assisted housing tenants. In addition, of course, the utility will incur whatever costs are associated with the credit and collection activities directed toward the unpaid bill.

The costs could be substantial in a city such as Tacoma. Given the 5,892 public and assisted housing tenants identified above for Pierce County, given an average residential bill, an average combined services tenant-paid bill simply for water/sewer and electricity yields total billed revenue to these tenants of more than $10.2 million.[6]

The Low-Income Housing Tax Credit Program

The significance of utility allowances promulgated by Pierce County's local housing authorities goes well beyond the public housing (owned by the housing authorities themselves) and assisted (Section 8) housing administered by those housing authorities. In addition, developers constructing (or rehabbing) affordable rental housing funded with federal Low-Income Housing Tax Credits (LIHTC) are required by federal law to provide utility allowances to tenants living in these units.

As with public and assisted housing, the utility allowance is intended to cover the entire utility bill (both energy and water/sewer). The maximum allowed housing expense includes both rent and utilities. LIHTC developers do not promulgate their own utility allowances, however. Instead, they rely on the utility allowances promulgated by the Local Housing Authority in the jurisdiction in which the LIHTC units are located.

Pierce County has seen substantial LIHTC development in the past twenty years. The U.S. Department of Housing and Urban Development (HUD) publishes information on the number of LIHTC units developed in each state. Between 1987 and 2006 (the last year for which data is available), Pierce County has seen the development of 4,087 LIHTC units for low-income tenants.

Proposed Action Steps for Tacoma Public Utilities

Tacoma Public Utilities should devote as much, if not more, attention to the utility assistance paid to public and assisted housing tenants in Pierce County as it does to the payment of federal LIHEAP benefits. In particular, TPU should undertake the following tasks:

1. Direct Vendor Payment of Utility Allowances

TPU should work with the two local housing authorities in its service territory to identify the Section 8 and public housing tenants in its service territory. For these tenants, TPU should solicit direct vendor payments of utility allowances. Through such direct vendor payment agreements, utility allowances would be paid directly to the utility by the local Public Housing

[6] Data provided by TPU indicates that the average residential bill with monthly billing is: $836.27 for power; $530.72 for water; $367.43 for sewer. To the extent that public and assisted housing pay storm-water run-off charges and trash/refuse collection, the revenue at risk is even greater.

Authority (PHA).[7] As a result of such payment, the utility will capture the full annual utility allowance to be credited against the annual utility bill.

TPU should offer the incentives necessary to gain the participation of public and assisted housing tenants in a direct vendor payment program. Under federal regulations, direct vendor payments of the utility allowance are allowed *only* if both the utility company and the tenant agree to such payments.

Incentives would be necessary since a refusal to enter into a direct vendor program would retain for the tenant the greatest discretion and control over its entire month-to-month allocation of household resources. Without such participation, in other words, the household retains the discretion to divert its utility allowance to uses such as food and clothing. Even in situations where the annual utility allowance equals the annual bill, a public or assisted housing tenant could divert "excess" utility allowances over monthly bills in low-bill months to other household necessities.

The incentive to be paid by TPU to gain participation in a direct vendoring program should involve a credit paid against the current bill. A payment set equal to $8 per month would provide a total annual credit of roughly $100. The payment is not a "discount." It is instead a payment for value received. In this sense, the credit is no different from the bill reduction paid to customers taking service under an interruptible service tariff. Similarly, the credit is akin to credits paid by many electric utilities to customers agreeing to the direct control of load that is likely to be in use at the time of peak demand (e.g., cooling, hot water).

In general, the following reasons support a TPU decision to provide an $8/month payment as an incentive to gain the participation of assisted and public housing tenants in a direct vendor payment program.

- To the extent that unaffordable bills are charged to public and assisted housing tenants, TPU will likely incur credit and collection costs to collect the excess. To provide a bill credit for direct vendor payments will help TPU to avoid those credit and collection expenses.

- Direct vendor payments will provide cash flow and working capital advantages to the utility. Not only will credit and collection expenses be eliminated, but given that the direct vendor payment can be timed to automatically be paid on the billing "due date," costs associated with carrying bills past the due date will be eliminated as well.

- The automatic payment of direct vendor utility allowances will eliminate any bad debt or other write-offs associated with the bills covered by those payments.

[7]Federal regulations provide that: "if the Family and the utility company consent, a PHA or Owner may pay the Utility reimbursement jointly to the Family and the utility company, or directly to the utility company." See, e.g., 24 CFR §236.735; 24 CFR §290.9; 24 CFR §881.501, 24 CFR §891.560 (2009).

2. Individualized Relief

TPU should take an active role in helping its low-income customers seek additional utility assistance from the housing authorities. Often overlooked in discussions regarding public housing utility allowances is the provision for "individual relief" provided by HUD regulations.[8] HUD regulations provide that under the HUD-funded public housing:

> Requests for relief. . .from payment of utility supplier billing in excess of the allowances for resident-purchased utilities, may be granted by the PHA on reasonable grounds, such as special needs of elderly, ill or disabled residents, or special factors affecting utility usage not within the control of the resident, as the PHA shall deem appropriate. The PHA's criteria for granting such relief, and procedures for requesting such relief, shall be adopted at the time the PHA adopts the methods and procedures for determining utility allowances.[9]

Several important observations arise from this regulation:

- It is important to note the disjunctive nature of the availability of relief set forth in the federal regulations. There need not be "special needs" *and* "special factors," but rather only one "or" the other.

- A PHA does not have the discretion to decide *not* to provide "individual relief" pursuant to these regulations. HUD regulations state that: "The PHA's criteria for granting such relief, and procedures for requesting such relief, *shall be adopted* at the time the PHA adopts the methods and procedures for determining utility allowances." (emphasis added).

- The individualized relief extends to relief "from payment of utility supplier billings in excess of the allowance." This "relief" is to be provided by the Housing Authority in the form of additional benefit dollars, not by the utility supplying the service.

In this respect, TPU can play three important roles with regard to individualized relief for recipients of utility allowances.

- First, TPU should direct payment-troubled public and assisted housing tenants in the Company's direct vendor payment programs to the individualized relief provisions. Just as LIHEAP "crisis grants" are a source of home energy benefits for low-income households, so, too, should the individualized relief benefits be a means by which unaffordable home energy bills can be redressed. Through the dedicated low-income staff recommended elsewhere as part of this planning process, TPU should allow its staff the flexibility in time needed to determine: (1) whether a household in payment-trouble is a public or assisted housing tenant, and (2) whether the utility allowance provided to that household was inadequate to pay the entire utility bill. TPU would finally need to determine whether the household met the criteria for individual relief as established by the local PHA.

[8] 24 C.F.R. § 965.508 (2009).
[9] 24 C.F.R. § 965.508 (2009).

- Second, TPU should play an active role as a primary stakeholder in enforcing the obligation of the two Public Housing Authorities in its service territory to establish reasonable standards under which to grant individualized relief. Public Housing Authorities have a regulatory obligation to adopt "criteria for granting such relief." Under the federal regulations, the Housing Authorities are to grant "individualized relief" where specified factors give rise to "utility usage not within the control of the resident." TPU would be able to offer unique expertise in assessing the extent to which such usage "not within the control of the tenant" exists.

- Finally, TPU should promote an aggressive definition of both the "special needs" and the "special factors" criteria which are to be applied to determine the availability of individualized relief. The individualized relief provisions, in other words, provide no relief either to a low-income household, or to the utility serving that low-income household, if eligibility for the relief is so narrowly drawn as to make it virtually non-existent. TPU involvement in the criteria-setting process is important.

In sum**,** low-income households who face unaffordable utility bills notwithstanding their receipt of federal subsidies through utility allowances for public and assisted housing may have an additional source of benefits available to them. Through the "individualized relief" provisions of public housing programs, participating tenants are entitled to "relief from. . .payment of utility supplier billings in excess of the allowances for Tenant-Purchased utilities."

3. Annual Updates of Utility Allowances

TPU should take an active role in ensuring that utility allowances are routinely updated to reflect current utility rates. Under federal regulations, utility allowances for both public and assisted housing units are to be changed under *either* of two alternative circumstances:

- On an annual basis to reflect current utility rates; *or*

- Whenever utility rates have increased by 10% or more since the time of the last change in the utility allowance (retroactive to the date of the rate change).

While TPU need not prepare the underlying basic utility allowance schedules for either the Pierce County Housing Authority of Tacoma Housing Authority, the utility would be uniquely situated to ensure that the dollar allowances are appropriately updated on an annual basis or when rate changes occur.

Summary and Conclusions

Tenants of public and assisted housing in Pierce County have some of the lowest incomes in the region. Tenants of both public and assisted housing have incomes that place them below the Federal Poverty Level, sometimes substantially so. As tenants experience such low incomes, they are more likely to experience utility bill payment troubles as well.

These bill payment troubles occur despite the fact that specific federal financial assistance is provided to tenants of public and assisted housing to pay utility bills in their entirety. It makes sense for TPU to convert as many public and assisted housing tenants as possible to direct vendor payment agreements to receive such assistance. Moreover, TPU would be justified in offering incentives for public and assisted housing tenants to enter into agreements through which their respective utility allowances are directly vendored to the utility.

Aside from capturing this ongoing utility assistance, HUD's public housing programs provide for "individualized relief" when specified factors give rise to utility bills outside the ability of the tenant to control. The local housing authorities in Pierce County are required to specify both the circumstances under which individualized relief will be granted and type of relief that will be provided. Clearly, this individualized relief benefits not only the tenants that receive such relief, but the utilities whose bills would be paid through such relief. TPU should take specific action steps to ensure that individualized relief is available where appropriate, that it is of appropriate magnitude, and that the procedures for accessing such relief are both reasonably available and actually exercised where appropriate.

Finally, particularly as a five-service municipal utility, TPU has a self-interest in ensuring that the utility allowances promulgated by the local housing authorities in its service territory are reasonably established and appropriately updated. Agreeing to provide a service under which the allowances for each utility service are updated on an annual basis, or when rates change by 10% or more, would not be an unreasonable resource drain on the utility.

SECTION 2.

USING EARNED INCOME TAX CREDIT AS "ENERGY ASSISTANCE"

Problem Statement #2

Low-income customers have insufficient resources to pay their utility bill. As a result, they incur arrears, experience collections, shoulder additional fees, and sometimes face the disconnection of service for nonpayment. This process of collection is expensive to both the utility and to the customer. The federal government provides assistance designed to help pull people out of poverty. In an overwhelming proportion of cases, those dollars of federal benefit are used by households to pay past-due bills. Much of this federal aid, however, is left on the table, being available but unclaimed.

Strategy

Increase energy assistance to moderately low-income "working poor."

Objectives

1. Generate additional external financial resources specifically for payment-troubled customers.
2. Increase arrears retirement within low-income customer base at times of high arrears.

Tactics

1. Provide EITC outreach targeted specifically to payment-troubled customers.
2. Fund EITC free tax preparation clinics by local nonprofit agencies. Convene local business Task Force to generate matching funding for free tax preparation clinics. Designed to free EITC recipients from paid tax preparers and Refund Anticipation Loans (RALs).
3. Convene local business roundtable designed to increase EITC claims by 5% in Pierce County.
4. Add EITC outreach to existing utility processes. Add an EITC page to the TPU web site. Add EITC outreach message to "hold message" on TPU phone system.

DISCUSSION IN SUPPORT OF USING EARNED INCOME TAX CREDIT (EITC) AS "ENERGY ASSISTANCE"

Little question exists but that low-income households frequently do not have sufficient household resources to consistently pay their utility bills in a full and timely fashion. Bill payment assistance resources are available to low-income customers through the federal Low-Income Home Energy Assistance Program (LIHEAP). LIHEAP, however, is constrained to paying only home energy bills. Moreover, LIHEAP is often budget constrained, thus limiting the time it is available, the population defined to be eligible for assistance, and the level of grants that are provided.

Tacoma Public Utilities can redress many of these shortcomings by LIHEAP by targeting specific programs to assist the working poor in Pierce County. There can be little question today but that the inability to pay for home utility bills, whether they be water/sewer, energy or trash, is increasingly reaching into the middle class.

RECOGNIZING THE INABILITY-TO-PAY IN THE MIDDLE CLASS

The Table below shows the basic family needs budget for households living in Tacoma for a variety of family sizes and types. The data considers the basic needs budget for households ranging from a two-person household (one parent/one-child: 1P1C) to a four-person household with two parents and two children (2P2C). The table shows how the budget required to meet basic family needs now reaches 250% of the Federal Poverty Level and more.

Moreover, the Table documents how the gross household income is not necessarily the best measure of the low-income status of a household. While, for example, a two-parent/two-child family has a basic family need budget of more than $14,000 higher than a one-parent/one-child family, the ratio of income to the Federal Poverty Level for the larger household is actually somewhat less (248% vs. 269%).

Tacoma (WA) Basic Family Needs Budget (2007)
By Size and Composition of Family (Parents (P) and Children (C))

Family Type	Housing	Food	Childcare	Transport-ation	Health care	Other Necessities	Taxes	Monthly Total	Annual Total	Federal Poverty Level (2007)
1P1C	$845	$317	$757	$339	$220	$279	$316	$3,074	$36,883	269%
1P2C	$845	$465	$1,211	$339	$322	$315	$319	$3,816	$45,786	267%
2P1C	$845	$514	$757	$482	$294	$327	$335	$3,554	$42,642	248%
2P2C	$845	$643	$1,211	$482	$396	$358	$331	$4,266	$51,194	248%

Economic Policy Institute (May 2009)

THE *IM*PROPRIETY OF RATE DISCOUNTS FOR THE MIDDLE CLASS

Despite the inadequacy of income for these high-range poverty households in Tacoma to meet their basic family needs budget, it is not appropriate for Tacoma Public Utilities to offer rate discounts in response to their income shortfall. The general standard for energy affordability is 6% of income. If home energy bills are less than or equal to this benchmark, they are considered "affordable" from the utility's perspective. Water/sewer bills are considered to be "affordable" if they fall within a range of 2% of household income.

Given these two benchmarks for affordability, home energy bills in Tacoma would be *un*affordable only if they exceed a range of $2,213 (1-parent/1-child) to nearly $3,100 (2-parents/2-children). Water/sewer bills would be unaffordable only if they fell within a range of roughly $750 (1-parent/1-child) to more than $1,000 (2-parent/2-children). Typical TPU bills do not fall within these bill ranges, particularly for low-income households.

USING THE EARNED INCOME TAX CREDIT (EITC) AS UTILITY BILL PAYMENT ASSISTANCE

Despite the conclusion that TPU should not extend its rate discounts to serve the middle class, there are specific steps that TPU can and should take to respond to the lack of sufficient household resources to meet basic home energy needs.[1] Even should the "unaffordability" relate primarily to housing costs, for example, those unaffordable household expenses may manifest themselves in unpaid utility bills as households make trade-offs on which bills they will pay in any given month.

Helping income-eligible households claim their entire federal Earned Income Tax Credit (EITC) is one initiative that TPU should pursue for its high range poverty households. The EITC is the nation's primary anti-poverty program. In Pierce County (WA) alone:

- In 2006,[2] 46,704 households claimed a total of $83,939,215 in Federal EITC credits (an average credit of $1,797);
- In 2005, 45,907 households claimed a total of $80,471,821 in Federal EITC credits (an average credit of $1,753);
- In 2004, 45,630 households claimed a total of $77,955,414 in Federal EITC credits (an average credit of $1,708);
- In 2003, 43,977 households claimed a total of $73,255,919 in Federal EITC credits (an average credit of $1,666).

The EITC tends to serve more moderate income populations. According to the Center on Budget and Policy Priorities (CBPP), the Washington D.C.-based organization operating the national EITC Outreach Campaign, working families with children that have annual incomes below about

[1] For ease of reference, this section refers to "energy" needs. By this reference, the term "energy needs" is intended to include all five utility services offered by TPU.
[2] 2006 is the last year for which data is available.

$34,000 to $41,000 (depending on marital status and the number of children in the family) generally are eligible for the EITC. Also, poor workers without children that have incomes below about $13,000 ($16,000 for a married couple) can receive a very small EITC.

THE BENEFITS TO TPU FROM THE EITC

EITC claims directly benefit TPU. According to a study of EITC recipients in New York, performed by faculty at Colgate University, 40% of the households reporting using their EITC to pay bills used those benefits to pay utility bills, a higher percentage than those using the EITC to pay for rent (31%), credit cards (28%), car payments (22%), and groceries (21%).[3] More than two-thirds of EITC recipients use their credits to pay for basic needs, while half use their credits to pay off a debt. Another study found that 65% of EITC recipients have a "making ends meet" use for their credits, with the payment of utility bills and rent the most important uses, followed by the purchase of food and clothing.[4]

Moreover, an Edison Electric Institute (EEI) staffperson reported that a 1994 study of EITC recipients in New Jersey found that one-third of all EITC recipients used their EITC to pay past-due bills, and one-quarter of all recipients used their EITC benefits to pay past-due ***utility*** bills.[5]

One benefit of the EITC is that it can reach beyond merely serving the objective of helping low-income customers pay their home utility bills. One study in San Antonio, for example, found that every $1 in EITC benefits received in that city generated $1.58 in local economic activity. The San Antonio study found further that every $37,000 in local economic activity would generate one additional permanent job. According to the Brooking Institute, the EITC generates a concentrated infusion into local economies, in many cities, more than $1.0 million per square mile. One study in Cuyahoga County (OH) found that the EITC benefits claimed in the early months of 2003 exceeded all the wages and benefits paid in the local hotel industry in that quarter.

ACTION STEPS BY TACOMA PUBLIC UTILITIES REGARDING EITC CLAIMS

TPU can generate substantial new "energy assistance" benefits for its high-range poverty households by supporting efforts to promote the Earned Income Tax Credit. The view frequently articulated is that few jurisdictions exist that cannot, with a reasonable amount of effort, increase the penetration of income-eligible households claiming their EITC by at least five percent. In Pierce County, alone, a five percent (5%) increase in the number of EITC claims would result in more than 2,300 households newly receiving the EITC, generating an additional $4.2 million in benefits flowing to Pierce County.

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[3] Simpson, et al. (October 2006). The Efficacy of the EITC: Evidence from Madison County (New York), Colgate University Department of Economics.

[4] Timothy Smeeding, et al. (December 2000). The EITC: Expectation, Knowledge, Use and Economic and Social Mobility," National Tax Journal, 53(4): 1187, 1198. Smeeding is with the Center for Policy Research, The Maxwell School, Syracuse University (NY).

[5] Since this data is based on generic EITC outreach directed to the population as a whole, should outreach be focused on payment-troubled customers, it would be expected that these percentages would increase.

Given these benefits, TPU should take the following action steps:

- TPU should direct targeted EITC outreach to customers in arrears. Indeed, combining the "Early Identification Program" recommended elsewhere in this report, TPU could direct EITC outreach to payment-troubled customers that the utility has previously identified as being low-income.

- TPU should fund outreach efforts targeted toward populations that under-utilize the EITC. Rather than doing generic outreach campaigns, TPU could help fund "gap-filling" outreach. According to the national EITC Outreach Campaign, women fill a disproportionate number of part-time and low-wage jobs. Newly employed women, in particular, are less likely to file for EITC benefits. Moreover, Hispanic parents are much less likely to file for EITC benefits. An Urban Institute study found that only 32% of low-income Hispanic parents knew about the EITC, and only 20% of such parents claimed their EITC. TPU should direct funding to specific community-based organizations that can document their ability to reach these under-served populations.

- TPU should refer payment-troubled customers to free tax preparation clinics (called Volunteer Income Tax Assistance, or "VITA," sites). Customers who contact the utility during the tax preparation season who have received energy assistance in the past, are currently receiving the low-income discount, or have otherwise been identified as "low-income" through the proposed Early Identification Program, can be directed toward VITA sites in addition to being directed toward energy assistance agencies. Information on VITA sites can be included with shutoff notices, with written confirmation of payment plan terms, or in other collection initiatives. According to EITC outreach specialists, the primary problem with VITA sites is that not enough people use them. Most people do not know about VITA sites; those that do often find it difficult to find them. Unfortunately, the local IRS telephone assistance lines through which people might obtain information on the location of VITA sites are often busy.

- TPU should add EITC outreach to its existing contacts with its customers. Adding an EITC information message during the call-center hold time would be helpful. Adding EITC outreach materials to the TPU web site would reach a different population. Including EITC outreach with shutoff notices would provide an opportunity for payment-troubled customers to seek additional financial resources.

- In addition to EITC outreach efforts, TPU should financially support the provision of free tax preparation clinics designed to help income-eligible households claim their EITC. In Pierce County, of the 46,704 low-income households claiming the EITC in 2006, 28,241 (61%) used paid tax preparers, while 13,248 (29%) received "tax anticipation loans." In these circumstances, the cost of the tax preparation, according to one Brooking Institution study, is $150, with an additional cost of $130 for the Refund Anticipation Loan (RAL), $280 total. The Brookings Institution found that low-income households receiving such Refund Anticipation Loans pay an annual percentage rate of 171% in interest. These two processes (i.e., the use of paid tax preparers and the use of RALs) pulled $6.0 million out

of the low-income community in Tacoma in 2006 alone. Efforts providing on-site mobile free tax preparation in Pierce County have been extraordinarily successful through SSOS.

Finally, while this report recommends specific action steps for TPU to take as the local utility, not all steps need be funded and advanced by TPU. Increasing the number of EITC claims in Pierce County would benefit the community as a whole, including the business community. Using the 1.58x multiplier effect described above, and the previous research documenting that each $37,000 in benefits supports one fulltime job, a 5% increase in EITC claims in Pierce County would generate $6.7 million in economic activity in Tacoma and 180 new fulltime jobs. Accordingly, TPU should convene a business roundtable in Tacoma, along with appropriate leadership within the nonprofit community, to develop and implement plans specific to Pierce County for EITC outreach above and beyond that outreach that TPU directs to its own low-income, payment-troubled population.

SECTION 3.

DEDICATED LOW-INCOME CUSTOMER ASSISTANCE UNIT

Problem Statement #3

Low-income customers present both obstacles and opportunities to utility customer service representatives who are called upon to address the payment troubles resulting from poverty. Obstacles flow from insufficient financial resources available to pay current bills (let alone current bills plus arrears). In contrast, multiple public resources are available to the payment-troubled poor household that are not available to the payment-troubled non-poor household. Utility customer service representatives, however, lack the specialized training and expertise to recognize and understand unique low-income problems, or to know how and where low-income customers might access unique resources. Nor do customer service representatives have the time to work with low-income customers to gain specific knowledge of their circumstances and to offer appropriate consultation.

Strategy

Apply skills-based response to unique needs of the poor.

Objectives

1. Increase external resources to help low-income payment-troubled customers.
2. Reduce collection initiatives directed toward low-income payment-troubled customers.
3. Generate increased payment success among low-income payment-troubled customers.

Tactics

1. Establish an "early identification program." Seek information through service applications, during call center contacts, and at other points of contact.
2. Record "confirmed low-income status" as a flag on a customer's SAP screen, to appear at the top of a low-income customer's screen.
3. Establish a dedicated Low-Income Customer Assistance Unit (LICAU) within the Call Center. Refer calls from confirmed low-income customers to dedicated unit. Unit receives specialized training and information.

DISCUSSION IN SUPPORT OF
LOW-INCOME CUSTOMER ASSISTANCE UNIT (LICAU)

There can be little question but that Tacoma's low-income population presents needs that are different from the utility's other residential customers. Frequently, however, programs exist that can help address these unique low-income customer needs should customers have effective knowledge of the programs. Effective knowledge involves not simply knowing that the program exists, but knowing *where* and *how* to access the programs to gain their benefits.

In the absence of that effective knowledge, low-income customers fail to access programs, to the detriment of both themselves and TPU, the utility that provides them service. When bills go unpaid, not only do customers experience the social and financial consequences, but the utility, too, experiences the political and financial consequences.

Accordingly, Tacoma Public Utilities should create a dedicated staff unit specifically assigned the responsibility of addressing the customer service and bill payment needs of low-income customers. The dedicated staff unit should be trained as specialists in understanding and addressing the unique needs of low-income customers. These specialized staff can generate additional resources to be applied to low-income bills to the advantage of both the low-income customer base and the utility.

The discussion below consider three situations that illustrates the three objectives articulated for the dedicated low-income staff unit:

- Generating additional external resources in response to understanding the needs of, and opportunities available to, low-income customers;
- Reducing potential collection initiatives among low-income customers through an understanding of low-income circumstances; and
- Generating increased payment success through an understanding of low-income circumstances.

Generating External Assistance: Energy Assistance Resources Associated with Shelter Cost Burdens

Low-income utility bill payment troubles are frequently driven by unaffordable overall shelter expenses. As a general rule, households that have shelter burdens –"shelter" costs include all utility costs except telephone—exceeding 30% of income are considered to be "cost-burdened." Households that have shelter costs exceeding 50% of income are considered to be "severely cost-burdened." Households that are severely cost-burdened are likely also to be in payment trouble with their utility.

A substantial number of low-income households in Pierce County are severely cost-burdened relative to their shelter costs. According to the 2007 American Community Survey (ACS), Pierce County had nearly 10,000 households who:

- have incomes at or below 100% of the Federal Poverty Level; *and*
- use electricity or natural gas as their primary heating fuel; *and*
- own their home (either with a mortgage or with a paid-up mortgage); *and*
- experience overall shelter costs exceeding 50% of income.

These severely cost-burdened households often, but not always, involve aging households. An additional population of low-income households in Pierce County are severely cost-burdened as tenants.

As the table below documents, these severely cost-burdened homeowners do not experience high shelter costs simply because of their space heating fuel selection. Indeed, more households using natural gas space heating have Selected Monthly Owner Costs (SMOC) exceeding 50% of income (n=5,164) than do households using electricity for space heating (n=4,683). Accordingly, weatherization is not necessarily the most appropriate electric utility response to high shelter burdens.

Homeowners with Shelter Costs Exceeding 50% of Income by Number of Persons Over Age 65 in Household and Ratio of Income to Federal Poverty Level 100% or Less (Pierce County) (2007)

	Electric Space Heating				Natural Gas Space Heating			
	Total	0 Persons Over 65	1 Person Over 65	2+ Persons Over 65	Total	0 Persons Over 65	1 Person Over 65	2+ Persons Over 65
PUMA #1300	2,036	1,990	0	46	1,452	1,173	67	212
PUMA #1401	62	0	62	0	1,123	933	0	190
PUMA #1402	1,813	1,792	21	0	1,755	1,755	0	0
PUMA #1403	378	306	72	0	650	285	365	0
PUMA #1404	394	248	68	78	184	0	184	0
Total PUMAs	4,683	4,336	223	124	5,164	4,146	616	402

PUMAs are Public Use Micro-data Areas. They represent geographic regions for which Census data is reported on the annual inter-Decennial Census American Community Surveys (ACS). PUMAs are designed to be sufficiently large to yield statistically significant results while at the same time protecting the privacy of survey respondents. Pierce County (WA) has five PUMAs.

The significance of having shelter costs that exceed 50% of income, however, is that a specific remedy exists to respond to such high costs, albeit not in a program that is typically viewed as a "utility assistance" program.

One part of the calculation of a family's Food Stamp benefits is a determination of whether the family is entitled to an "excess shelter cost deduction." To the extent that a family has excess shelter costs, the amount of the excess is, under a prescribed formula, deducted from the family's income for purposes of determining an appropriate monthly Food Stamp allotment. "Shelter costs," as with most such calculations, include both rent/mortgage and utility costs.

In brief, the excess shelter cost deduction for Food Stamps works like this. The amount of Food Stamps a family receives is based on the family's "countable income." Countable income includes pre-tax earnings and welfare benefits, minus an earnings deduction (for families with earnings), minus a child care deduction (for families with out-of-pocket child care expenses), minus the excess shelter cost deduction (for families with high shelter costs relative to their incomes).

The "excess shelter cost" is the extent to which the shelter costs exceed 50% of the family's total adjusted income up to a maximum dollar amount established by federal regulation. The calculation of the shelter costs can take one of two forms for purposes of Food Stamps. A state Food Stamp program may simply add a "standard utility allowance" to a family's housing costs and use the result (i.e., housing costs plus utility allowance) to determine the family's shelter deduction. If, however, a family's *actual* utility costs are greater than the standard deduction, the family can document its actual utility costs and those greater costs will be added to their rent.

In 2007, the amount of the Excess Shelter Deduction was limited to $417 for households without elderly and disabled members. The table above separates aging households out for separate identification because households having elderly or disabled members have no limitation on the amount subject to deduction. The Excess Shelter Deduction is indexed to inflation increases. According to the U.S. Department of Agriculture's most recent report on the characteristics of Food Stamp recipients (2007, released September 2008), nearly 80% of Washington State Food Stamp recipients received the excess shelter deduction. Fewer than 20% of recipients receiving the deduction, however, were at the shelter cap. Average monthly statewide shelter expenses (of recipients with shelter expenses) was $559, with an average shelter deduction of $275.

In general, Food Stamp eligible households that spend more than half of their income on shelter expenses receive an additional 30 cents in food stamps for every dollar that their shelter expenses exceed half of their income. In a 2002 study of the excess shelter deduction, the Washington D.C.-based Center on Budget and Policy Priorities found that Food Stamp recipients receiving the Excess Shelter Deduction in Washington State received an average additional Food Stamp allotment of $51 per month. At the rate of $0.30 in Food Stamps for each dollar in deduction, ensuring that low-income payment-troubled customers receive the deduction could generate more than $80 each month in household resources ($275 deduction x $0.30 added Food Stamps / dollar of deduction = $82.50 in additional Food Stamps). As can be seen, the potential money involved is substantial.

The number of households potentially affected is substantial as well. While data is not available on a county-specific basis, in 2007, 214,000 Washington State Food Stamp recipient households (79.6% of all Food Stamp households) received the Excess Shelter Deduction. In contrast, in 2008, Washington State provided LIHEAP heating assistance benefits to 70,167 households. Not only is the household population receiving the Food Stamp Excess Shelter Deduction three times higher than the LIHEAP recipient population, the Food Stamp program (including the Excess Shelter Deduction) is an entitlement program; the state does not stop taking applications and distributing benefits when a pre-set budget limit is reached.

Given the established relationship between high energy consumption and unpaid utility bills, the Food Stamp program, through its Excess Shelter Deduction, can provide an important source of additional financial resources for payment-troubled TPU customers. While Food Stamps cannot be used directly to pay for utility costs, the additional dollars of benefits provided through the

Excess Shelter Deduction would free up scarce household resources and make bill payment more likely. Recognizing that the CBPP study is now seven years old, and that benefits would be higher today, funneling an additional $600 - $1,000 of annual resources into the household budget of a payment-troubled low-income TPU customer would only serve to help that household meet its bill payment responsibilities.

Improving Collection Effectiveness: Understanding Unique Constraints on Low-Income Ability to Pay

Addressing all payment troubles with the same collection initiatives is an inefficient, and ultimately ineffective, way to optimize the collection of revenue. Customers with differing circumstances will respond differently to collection initiatives. Moreover, customers presenting differing circumstances may well respond differently to collection initiatives at different times of the year. Offering the same collection responses to all low-income customers at all times redounds to the detriment of both the customer and the utility.

Consider, for example, the circumstances facing low-income households with school-age children.

Households with children present not only particular problems, but particular opportunities, to TPU with respect to crafting responses to the nonpayment of utility bills. A significant number of families with children live with incomes less than the Federal Poverty Level in the Tacoma Public Utilities service territory. More than 12,000 households live with incomes below the Federal Poverty Level

Families Under Federal Poverty Level
with Children Under Age 18 by Family Type (2007)

	Married Couple Family				Male with no Wife				Female with no Husband			
	Total	<5	Both	5 – 17	Total	<5	Both	5 – 17	Total	<5	Both	5 – 17
PUMA 01300	654	210	294	150	781	571	64	146	3,166	320	1,190	1,656
PUMA 01401	405	0	145	260	337	0	14	323	966	284	213	469
PUMA 01402	768	184	110	474	532	0	306	225	2,109	616	457	1,036
PUMA 01403	196	96	100	0	444	64	40	340	2,240	459	1,033	748
PUMA 01404	379	---	---	---	47	---	---	---	747	---	---	---
Total PUMAs	2,023	490	649	884	2,094	635	424	1,034	8,481	1,679	2,893	3,909

ACS (2007). Table B17010.

The dollar amount by which these families with income below Poverty Level fall below Poverty Level is devastating. While the Census does not report income deficits specifically for families with children based on ACS data, the Table below[1] presents the income deficit for all families by

[1] Note that the Table reporting income deficits differs from the preceding table in that the income deficits include *all* families, not merely families with children.

family type.[2] The dollar amount by which families with incomes below the Federal Poverty Level fall below Poverty Level ranges from nearly $16 million (PUMA 1404) to more than $41 million (PUMA 1300). (Insufficient sample size existed with the ACS data to report income deficits for PUMA 1401.) Simply in the four PUMAs reporting for Pierce County, there is an income deficit of nearly $116 million. In these four PUMAs, in other words, it would take nearly $116 million to bring families with income below the Federal Poverty Level up to the Poverty Level. TPU bill payments, in whole or part, come out of that $116 million income deficit.

Income Deficit Relative to Federal Poverty Level
by Family Type (2007)

	Total	Married Couple	Male—No Wife Present	Female—No Husband Present
PUMA 01300	$40,146,400	$7,623,100	$5,448,600	$27,074,700
PUMA 01401	---	---	---	---
PUMA 01402	$31,570,100	$7,288,700	$7,250,600	$17,030,900
PUMA 01403	$28,362,400	$4,208,900	$4,036,700	$20,116,800
PUMA 01404	$15,744,400	$7,191,500	$326,900	$8,226,000

ACS (2007). Table B17011. Excludes "other" family-types.

The question presented to TPU, therefore, is how to maximize collections from these low-income customers who have a $116 million income deficit. One response to that question is for TPU customer service staff to understand when it is more likely, and when it is less likely, that households will have an ability to pay in crafting collections messages.[3]

For example, the Table below presents a "basic family needs budget" for a variety of household types and sizes. As is evident from this Table, as household sizes get larger because of the addition of children, the resources needed to fully meet those resources increase accordingly. While a one-parent/one-child family has a basic family needs budget of $36,883, for example, a two-parent/two-child family has a basic family needs budget of $51,194. A one-parent family with two children has a basic family needs budget roughly $9,000 higher than a one-parent family with one child ($45,786 vs. $36,883). The same is true for a two-parent family with two children compared to a two-parent family with one child ($51,194 vs. $42,642).

[2] By definition, a "family" must have at least two persons related by blood or marriage. In this respect, a "family" differs from a "household." A one-person "household" can exist but, by definition, a one-person "family" cannot.
[3] It would be a mistake to assume that this reference to "collection messages" implies a consistently *reactive* collections response. As indicated in the discussion of outreach for the Earned Income Tax Credit (EITC), a proactive outreach to low-income payment-troubled customers may better serve the utility.

Tacoma (WA) Monthly Basic Family Needs Budget (2007)									
Family Type	Housing	Food	Childcare	Transport-ation	Health care	Other Necessities	Taxes	Monthly Total	Annual Total
1P1C	$845	$317	$757	$339	$220	$279	$316	$3,074	$36,883
1P2C	$845	$465	$1,211	$339	$322	$315	$319	$3,816	$45,786
2P1C	$845	$514	$757	$482	$294	$327	$335	$3,554	$42,642
2P2C	$845	$643	$1,211	$482	$396	$358	$331	$4,266	$51,194

Economic Policy Institute (May 2009)

One of the most substantial differences in the basic family needs budget, of course, is in the food expense associated with families of different sizes and make-up. The addition of one child (from one-child to two-children) adds nearly $150 each month in food expenses ($1,800 a year) for one-parent families (nearly $130 each month for two-parent families).

Responding to the payment troubles of low-income families with children requires special knowledge of the unique financial pressures placed upon these families. The impact of summer food costs is but one example. During the normal course of the school year, low-income families facing constrained food budgets can rely on the federal Free and Reduced School Breakfast/School Lunch programs to financial assistance. In Washington State, the participation rate in the School Breakfast/School Lunch program is nearly 162,000 students each day during the school year.

Most low-income families, however, *lose* that financial subsidy during the summer months. Even though the Federal government provides summer food subsidies through its Summer Food Service Program, in Washington State as a whole, only 12.3% of the students who participate in the federal Free and Reduced School Lunch/School Breakfast program *also* participate in the federal Summer Food Service Program. Indeed, in Washington, the participation of low-income kids in the Summer Food Service Program is only 70% as high as the participation of students nationwide.

While this lack of participation has nutrition impacts for the low-income children of Pierce County, it also has a distinct impact on Tacoma Public Utilities as well. As a result of the lack of participation in the Summer Food Service Program, low-income households in Pierce County bear a significant summer expense (food) that is not borne during the school year. To respond to bill payment troubles in these constrained summer months as though there is no difference from any other month would be counterproductive.

One nutrition advocacy organization, the Food Research Action Center (FRAC), estimates that reasonable outreach could increase Summer Food Service Program participation to 40%. Should this occur, an additional 76,000 students would receive food assistance.

The purpose of a dedicated TPU low-income staff unit is not to increase the participation rate in nutrition assistance programs for low-income families. However, the purpose of a dedicated TPU low-income staff unit would be to understand that for the overwhelming majority of low-income families in Washington State, treating low-income customers with payment-troubles in

July as though they had the same resources available to them as they might have had in May (or October or some other school month) would be to refuse to see the additional financial food obligations faced by these households (between $130 ad $150 per child) during the summer months. In these circumstances, the best "energy assistance" referral may not be to an energy assistance agency, but rather to a Summer Food Service Program.

Improving Collections Effectiveness: Improving Communications through Understanding Cultural Constraints

Linguistic isolation is a serious problem in Pierce County's population living at lower income levels. Linguistic isolation occurs when no person in a household age 14 or older speaks English "very well." In other words, all members of the household 14 years old and over have at least some difficulty with English.

Pierce County has substantial linguistic isolation throughout the area. The linguistic isolation is evident over multiple languages. The Table below shows the number and percentage of households experiencing linguistic isolation in Pierce County. Roughly one-in-six households speaking either Spanish (16%) or an Indo-European language (17%) as their primary language at home experience linguistic isolation. A total of somewhat less than 4,400 of these households experience linguistic isolation.

Households by Linguistic Isolation by Primary Language Spoken at Home and PUMA (2007)

	All	Spanish			Other Indo-European languages:			Asian and Pacific Island languages:		
		Total	Linguistically isolated	Percent	Total	Linguistically isolated	Percent	Total	Linguistically isolated	Percent
PUMA 01300	77,281	5,229	1,268	24%	2,553	265	10%	5,298	1,958	37%
PUMA 01401	64,081	2,449	295	12%	1,866	176	9%	2,148	177	8%
PUMA 01402	66,120	4,210	375	9%	1,725	330	19%	5,493	2,026	37%
PUMA 01403	44,308	3,772	718	19%	2,080	736	35%	4,715	1,432	30%
PUMA 01404	37,686	1,573	101	6%	1,282	91	7%	938	209	22%
Total PUMAs	289,476	17,233	2,757	16%	9,506	1,598	17%	18,592	5,802	31%

A more substantial problem, however, exists with households primarily speaking Asian and Pacific Island languages at home. Nearly one-third of these households (31%), representing nearly 6,000 households, experience linguistic isolation. Not only is the Asian and Pacific Island population a greater population in Pierce County, but a more substantial proportion of that population has no-one in the household over age 14 that speaks English well.

While the above data does not distinguish between households with higher incomes and households with lower incomes, the impact of linguistic isolation can be expected to be dramatic for low-income households in payment troubles. The linguistic isolation would not only impede the ability to communicate with the utility about payment troubles, but would impede the ability of these households to access necessary public assistance as well.

In addition to improving the communications process through an understanding of language problems, a dedicated low-income staff unit should understand the cultural implications of

households with different languages as well. The National Regulatory Research Institute (NRRI), the research arm of the National Association of Regulatory Utility Commissioners (NARUC), for example, documented the cultural differences in where customers of different ethnicities turn for assistance when facing payment troubles.[4] NRRI reports, for example, that:

- Hispanics go more frequently to friends and relatives than either low-income consumers or seniors.

- Consumers over age 55 are more likely to look for help directly from the utility company.

According to NRRI, understanding the cultural differences (not simply ethnic but age-wise) is important to the delivery of bill payment assistance. "Nontraditional consumer education such as grass-roots campaigns might be more appropriate for hard-to-reach groups such as Hispanics." The group of households over age 55 "relies much less on people close to them, compared to younger people, and much more on the utility company."

The purpose of this discussion is not to establish what outreach initiatives are most appropriate in Tacoma. The purpose here is simply to note the differences in where people go for help in paying utility bills and to note the need for a specialized low-income customer assistance unit that has specialized knowledge, training and skills to understand those differences and to respond accordingly.

A Dedicated Low-Income Customer Assistance Unit

A dedicated Low-Income Customer Assistance Unit (LICAU) would consist of the following separate action steps on the part of Tacoma Public Utilities:

- Implementation of an "early identification program" (EIP);

- Creation of a process of special "skills-based routing" for low-income customers;

- Implementation of a specific skills training for the LICAU staff; and

- Charging LICAU staff with the responsibility for developing the TPU presence within the network of low-income service providers, including both energy and non-energy assistance providers.

<u>Early Identification Program</u>

The efficacy of a Low-Income Customer Assistance Unit depends upon the ability of the utility to identify its low-income customers. Utilities frequently note that "we don't know who our low-income customers are." While that may be true, it <u>*need*</u> not be true.

[4] National Regulatory Research Institute (April 2003). "Where Consumers Go for Help Paying Utility Bills." National Regulatory Research Institute: Ohio State University.

Responding to payment troubles of residential customers can be enhanced through a process of specialized training for customer service representatives. The representatives benefiting from such education include any individual that might have personal contact with a customer on behalf of the utility. Early identification involves more than noticing an arrears when it appears on a customer's bill. It involves "hearing" indicators of financial distress on the part of the customer during normal day-to-day customer contacts.

- References, for example, to the need to make choices between competing needs (e.g., "I just *had* to get the car fixed this month", "Maria could not go another month without seeing the dentist") should alert the customer service representative (CSR) to the potential that the customer has limited income and could benefit from a reference to public assistance.

- Customers may make references to illness, job loss, or disability, any one of which merits an appropriate referral. A reference to wage loss due to illness indicates to the customer service representative the hourly-wage type of employment available to the customer.

- The customer may directly mention participation in another program ("I *asked* LIHEAP for assistance, but they said they don't pay for water bills") or may be more oblique ("when I stopped at State Street last week," with "State Street" being popular parlance for the local community action agency).

One first step in the Early Identification Program should be training customer service representatives how to listen for indicators of payment distress.

The second component of an Early Identification Program is to archive objective information in the SAP indicating whether a customer received some type of low-income assistance. Receipt of a pledge from a LIHEAP agency or other energy assistance agency would indicate low-income status. Participation in the Low-Income Discount program, or receipt of Family Assistance benefits would indicate low-income status. Given SAP's ability to mark certain transactions as "high priority," and to move those high priority items to a "red flag" basis and to the top of the SAP screen, identifying a customer as a low-income customer through a high priority red flag should not be difficult.

The Training and Customer Service Charge of LICAU Staff

Having identified a low-income customer, the second step in implementing the LICAU would be the transfer of customers to staff having received specialized training in responding to low-income payment troubles. The specialized skills-based training would not only allow these dedicated staff to identify particular problems, and to respond in a culturally-appropriate way, but would involve knowing what assistance might be available to respond to the problem. This knowledge involves knowing the "how" and the "who" of how to access financial assistance.

Customer service training should involve more than knowing that the payment-troubled customer might want to enroll his or her children in the free or reduced school lunch program. Research shows that even when individuals have knowledge about a program, they frequently lack what is called "effective knowledge." "Effective knowledge" involves that information needed about how to access a program. The statement "yes, I know about LIHEAP" is *different*

from the statement "yes, I know how to apply for LIHEAP." LICAU staff should be an important resource in conveying information not only on *what* to do, but on *how* to do it ("now, you call Mrs. Treisch at this phone number for the help that we talked about"). If the LICAU staff cannot learn the various programs, that staffperson should, at a minimum, learn how to access an internal data base at the utility to quickly and accurately find the contact information.[5]

Overall, to be particularly effective in bringing cross-cutting activities to bear on the resolution and management of current and future low-income payment troubles, LICAU staff should be trained in pattern analysis. The job of the LICAU is not simply to look at an account history to determine the most recent account balance (or the balance underlying the pending notice of disconnection for nonpayment). The job of an LICAU staffperson is to *notice* things. . .patterns (or perhaps deviations from patterns) that will help inform and explain a nonpayment situation, lead to a resolution of that problem, and perhaps contribute to preventing a future payment problem.

- "Mrs. Mendez, I notice that about six months ago, your usage spiked. Do you want to talk to one of our service representatives about how to look for a leak to make sure that you're not paying for water that is simply going down the drain?"

- "Mr. Jones, you've been a great customer for 35 years, but the last six months have been a challenge. Can I refer you to our local Community Action Agency that works with the budget problems of aging customers?"

- "Ms. Stein, you've always been a wonderful paying customer, but that two month period last fall was a killer that you haven't been able to get past. Can I refer you to a local fund that might be able to help you get that bill off the books so you can stop worrying about it?"

In each of these instances, the LICAU looked not simply at the current balance, but at the account history as a whole to assess what might be going on. The underlying training was not simply of the need to do such an inquiry, but of the possible patterns to look for and the significance of particular patterns should they be found.

It is the difference between resolving reducing arrears and managing arrears.

[5] Work with low-income customers has revealed that the more personal the referral, the more likely it will be viewed as a genuine effort to help rather than a bureaucratic brush-off.

SECTION 4.

USAGE REDUCTION FOR TENANT-OCCUPIED HOUSING

Problem Statement #4

The poverty status of low-income households contributes to the inability to pay utility bills. Because of their inability to pay, low-income customers generally pay more for their utility service, as they experience various fees and charges that are added to their bills for current usage. In addition, the very poverty status facing low-income households contributes to inefficient utility use. They often live in old and inefficient homes and use old and inefficient appliances. Accordingly, not only do low-income customers lack the funds to pay their utility bills, but those utility bills encompass wasteful consumption that could be eliminated or reduced on the front-end.

Strategy

Direct energy conservation/usage reduction investments to low-income housing, including tenant-occupied housing.

Objectives

1. Reduce energy consumption by low-income payment-troubled customers.
2. Reduce arrearages within low-income customer population.
3. Increase payment coverage ratio of low-income customer population.
4. Reduce collection interventions directed toward low-income customer population.

Tactics

1. Deliver a baseload electric usage reduction program that includes the replacement and removal of energy inefficient refrigerators targeted to high use, high arrears low-income customers.
2. Operate a piggyback appliance replacement program in collaboration with existing non-electric weatherization programs.
3. Offer appliance replacement program to section 8 landlords in collaboration with local public housing authorities offering an “energy efficient utility allowance.”

DISCUSSION IN SUPPORT OF LOW-INCOME USAGE REDUCTION PROGRAMS

Tacoma Public Utilities should expand its usage reduction programs for low-income customers beyond its current focus exclusively on low-income homeowners with permanently installed electric heating systems. TPU policy in this regard is consistent with traditional electric utility actions. Historically, electric utilities have limited their usage reduction investments exclusively to electric space heating customers for several reasons:

- **Effectiveness:** Given the higher usage associated with space heating customers, there was a greater potential for usage reduction outcomes within the space heating customer base. With higher initial usage, there was a greater potential for usage reduction.

- **Cost-effectiveness:** To the extent that a customer was using a fuel other than electricity for heating, improved efficiency in the home would yield reductions in the consumption of those other fuels. That non-electric usage reduction, however, would not contribute to electric avoided costs and, accordingly, would not contribute to the benefit:cost determination of the electric investment.

- **Equity:** Similarly, to the extent that a customer was using a fuel other than electricity for heating, improved efficiency in the home would yield reduction consumption in those other fuels. It would, however, be unreasonable to use *electric* rate dollars to generate non-electric usage reduction.

Despite these historically-based reasons for avoiding the use of electric usage reduction dollars in non-electrically heated homes, in a substantial number of low-income homes, that historic prohibition should be relaxed. In these homes, the policy requirement that electric usage reduction dollars be devoted exclusively to homes with permanently-installed electric heating systems ill-serves the utility.

Low-income customers have a need for external assistance in making energy efficiency investments. The discussion below explains why low-income electric usage patterns are not influenced primarily by behavioral choices made by the households. As a result, low-income households cannot generate substantial energy savings through changes in day-to-day behavior or decisionmaking. What is necessary, instead, is financial investment in improving the housing infrastructure and appliances used by low-income households.

TACOMA PUBLIC UTILITIES EXISTING LOW-INCOME USAGE REDUCTION PROGRAM

Tacoma Public Utilities offers a "weatherization services" to its customers. The program is not a program specifically directed to low-income customers.[1] In order to participate in the weatherization services program, a customer:

[1] Throughout this discussion, the term "usage reduction program" is used to encompass the full range of programs that are commonly referred to as "energy conservation," "energy efficiency" and the like. A "usage reduction" program, however, does *not* encompass demand management programs directed primarily at controlling peak demand.

- Must have electric heat as the permanent primary heating source; *and*
- Must live in a home built before 1988; *and*
- Must have a "good payment history" over the immediately preceding twelve month period.

Renters are not permitted to enter into a weatherization services agreement. Instead, if a customer rents his or her home, the landlord must agree to participate in the weatherization services program and sign all agreements with Tacoma Power.

TPU offers free insulation and duct sealing to income-eligible homeowners. The low-income program, however, is limited to homeowners and to those who have permanently-installed electric heating equipment. No baseload low-income usage reduction program is offered.

THE EXCLUSIONARY NATURE OF TPU'S EXISTING LOW-INCOME USAGE REDUCTION PROGRAM

Through a review of various housing characteristics in Pierce County, it is possible to gain some insight not only into the need for low-income energy efficiency investments, but also into the capacity of low-income Pierce County residents to generate those investments without outside assistance. The discussion below considers three types of housing characteristics:

- the housing-related characteristics of the people who live in those units;
- the characteristics of the housing units themselves; and
- the cost characteristics of housing in Pierce County.

Household-Related Characteristics

The housing-related characteristics of Pierce County's low-income households that tend to make energy efficiency investments unavailable to low-income households without outside assistance are relevant to a consideration of what usage reduction programs TPU should deliver to low-income customers. Low-income households are systematically excluded from being able to access energy efficiency as a mechanism to control home energy bills because of market barriers that are unique to low-income households. The existing TPU usage reduction approach, which limits usage reduction investments to homeowners having permanently installed electric heating, fail to address these barriers.

Market barrier issues are of particular significance to the low-income community. Low-income households face market barriers that are different from, and more extensive than, those residential households face in general. These market barriers impede the availability of energy efficiency to low-income customers, even if such efficiency would be an effective, and cost-effective, mechanism to use in controlling home energy costs. Many efficiency investments are beyond the

financial ability of low-income customers to implement. Other market barriers prevent low-income customers from being able to realize the bill reductions generated by energy efficiency.

Two illustrative "market barriers" related to the characteristics of Pierce County's low-income households are considered below: (1) the tenure of households; and (2) the mobility of Pierce County households.

Pierce County's low-income households tend to live in rental dwellings. This finding has two significant applications to the consideration of whether energy efficiency is accessible to low-income households. First, tenants have little or no incentive to improve their landlord's property and receive little, if any, of the increased value of the property. Second, tenants do not generally have the authority to make decisions over improvements to major housing systems, whether it be a heating/cooling system or a hot water system. Indeed, even major appliances such as refrigerators are often owned (and thus controlled) by the property owner rather than by the household.

It is important to understand the relationship between tenure status and income for Pierce County households. Pierce County's low-income households are predominantly renters. On the one hand, Pierce County had 165,623 homeowners at the time of the 2000 Census, of which only 7,051 (4%) had income at or below 100% of the Federal Poverty Level. On the other hand, Pierce County had 95,177 renter households at the time of the 2000 Census, of which 18,393 (19%) had income at or below 100% of the Poverty Level.

The discussion presented below considers housing units by tenure because of this disproportionate presence of low-income renters. The distribution of renters by income level is particularly important. More than 4,600 renter households in Pierce County (4%) had an annual income less than $5,000, while more than 13,100 (14%) had an income of less than $10,000, at the time of the 2000 Census. Nearly one-in-four Pierce County renter households (21,899) had an annual income of less than $15,000.

Households with income at these levels are likely to be facing home energy affordability problems. The very lack of income, however, also impedes the ability of these households to invest in energy efficiency measures. It is difficult to invest in a long-term response to home energy affordability when constantly faced with an immediate payment need.

The very fact that these households are renters presents market barriers that homeowners do not face when considering the accessibility of energy efficiency measures as a bill reduction technique. The additional fact that these households are *low-income* renters presents additional market barriers. For example, one consequence of the income data presented above involves the inability of low-income households to afford even cost-effective energy efficiency improvements. As might be expected for households with annual incomes at or below $10,000 or $15,000, low-income households tend to have extremely low liquidity. The payback period for any particular energy efficiency measure becomes irrelevant if the household does not have the investment capital with which to begin.

The importance of this, for example, might lie with appliance replacements. It is often cost-effective for a consumer to spend somewhat more money for a more energy efficient new appliance. In such a purchase decision, if a less efficient refrigerator costs $600 and the more efficient refrigerator

costs $800, it may well be cost-effective for the customer to pay the $200 difference to purchase the more efficient appliance. A reliance on such purchase decisions, however, will by definition exclude households that are not in the market to purchase a new refrigerator with which to begin. It is axiomatic to note that it is unlikely that many low-income households have recently spent $600 for a new refrigerator. Nor would their landlords spend more than the minimum to replace a refrigerator.

In addition to their tenure, and their income status, a third attribute of low-income tenants that impedes their ability to use energy efficiency as a mechanism to reduce home energy consumption, is their tendency to be more mobile. Census data demonstrates quite clearly that, compared to the proportion of the total population that changes residences each year, nearly twice as many low-income households move. As a result, even in those instances where a tenant may have the authority to invest in an energy efficiency measure, and assuming a financial ability to do so, the payback period required to justify such an investment would need to match the household's tenure.

Pierce County's low-income tenants are substantially more mobile than are low-income homeowners (and certainly more mobile than non-low-income households). While the median "year household moved in" for homeowners was 1992 in Pierce County, it as 1998 for Pierce County tenants (remembering that the 2000 Census Survey was administered in 1999). While 61% of Pierce County homeowners had moved into their homes in 1990 or before, only 17% of Pierce County tenants had. Conversely, while 83% of Pierce County's tenants had moved into their rental units between 1995 and 1999, only 39% of Pierce County's homeowners had moved into their housing units that recently.

This data can be used as a surrogate for households that do not have a sufficient length of tenure to be able to justify nearly any energy efficiency investment. Few energy efficiency investments provide a one-year payback.

Housing Unit-Related Characteristics

The energy inefficiency experienced by low-income households is not subject to substantial reduction through behavioral changes. To the extent that reductions are to be realized, investment in infrastructure and appliances is needed, not merely "education" or low-cost/no-cost measures. Having found that a substantial number of Pierce County's low-income households, particularly those that are tenants, cannot be expected to implement energy efficiency on their own, this section turns to a discussion of the extent to which there is likely to be a *need* for energy efficiency investments. The first way to develop a surrogate for energy efficiency is to consider the age of the housing units in which low-income households live. While no direct measurement exists of the number of energy inefficient housing units in Pierce County, some correlation can be drawn between energy efficiency and the age of housing units.

Low-income households tend to have inefficient heating consumption because they live in old and energy inefficient housing units. There can be no question about the relationship between income and the age of the housing units in which these households live. According to the 2000 Census, while only 1.6% of Pierce County's Poverty Level homeowners live in homes that were

constructed before 1960 (i.e., are 50 or more years old), nearly four times that many (6.0%) of the County's Poverty Level tenants did.

While the age of the housing unit is not a conclusive indicator of energy inefficiency for all end-uses, the age of a housing unit and the efficiency of home heating has been found to be closely associated. The U.S. Department of Energy's Residential Energy Consumption Survey (RECS), for example, reports on energy consumption devoted to space heating disaggregated by the year in which a housing unit was constructed. According to this RECS data, housing units built between 1950 and 1959 use 30% more electricity for space heating than do housing units after 1990. Housing units built before 1950 use 60% more electricity for space heating than do the more recent units.

These energy-consuming characteristics are not limited to electric space heating. DOE's Residential Energy Consumption Survey goes on to document that the age of refrigerators is positively associated with the age of housing. To the extent that low-income households tend to live in older housing units, they will tend to have older, and presumptively less efficient, appliances as well.

It is necessary to make some associations from the data presented above, but the conclusions flowing from those associations are not difficult to reach. Low-income households disproportionately live in the oldest housing units in Pierce County. Moreover, there is a clear relationship between older housing units and higher energy consumption for space heating (that consumption most related to the quality of the building shell). It is reasonable to conclude that the magnitude of need for energy efficiency within Pierce County's low-income population is extensive. There is further a relationship between the age of housing units and the age of appliances, including refrigerators.

HIGH ENERGY BILLS AS A BARRIER TO USAGE REDUCTION INVESTMENTS

The very fact of high energy costs to Pierce County's low-income customers creates a barrier to the implementation of usage reduction measures as a strategy to control those costs. As home energy prices increase as a percentage of income, low-income households have fewer available discretionary resources to invest in measures that could reduce their family expenditures. The discussion below examines the stress on household income by focusing on total shelter costs.

One impact of the high home energy bills facing Pierce County's low-income households is the stress that such bills place on the household budgets of Pierce County's poor. A common assumption in reviewing basic family budgets is that total shelter costs should represent no more than 30% of a household's income. A household devoting in excess of 30 percent of income toward shelter costs is, under this reasoning, considered to be over-extended. The affordability of housing under federal programs such as the Low-Income Housing Tax Credit and Home Investment Partnership Program (HOME) programs, for example, is determined by reference to the 30% burden figure. In addition, programs such as the Section 8 subsidized housing program, as well as public housing, are governed by the principle that total shelter costs should not exceed 30% of income.

The U.S. Census Bureau reports shelter burdens, disaggregated by rental burdens and homeowner burdens in its American FactFinder data sets. In Pierce County, 80% of all renters with income less than $20,000 a year have rent burdens exceeding 30% of income. Indeed, 74% of renters with income less than $10,000 have rent burdens exceeding 35% of income, while 73% of renters with income between $10,000 and $20,000 do.

By the time annual incomes increase to $20,000 - $35,000, rent burdens drop dramatically (38% with burdens exceeding 30%; 22% with burdens exceeding 35%).

High shelter burdens relate to energy efficiency in two ways. First, the high shelter costs, themselves, present an impediment to low-income households being able to invest in energy efficiency measures. If the household struggles to meet its day-to-day bills, it does not have the discretionary income to invest in energy savings measures, even if those measures are "cost-effective" over some reasonable period of time. In addition, as home energy takes up an increasing proportion of total shelter costs, there is less money "left" to pay for the housing component of total shelter costs. As a result, Pierce County households are either forced into increasingly lower-priced (and presumptively lower quality) housing, or those households face ongoing bill payment problems attributable to the mismatch between household resources and household expenses. In either case, the very housing cost characteristics that cause the need for improving energy efficiency in order to reduce bills is also the characteristic that makes it less likely that such investments in energy efficiency can occur.

REASONABLE LOW-INCOME ELECTRIC USAGE REDUCTION PROGRAMS

A good inventory of electric efficiency programs directed toward low-income households exists today. Organizations such as the American Council for an Energy Efficient Economy (ACEEE) and the National Community Action Foundation (NCAF), as well as the Oregon Energy Trust, have catalogued a series of programs that can save substantial amounts of electricity, improve affordability, and reduce lost opportunities for low-income efficiency.

The ACEEE "Exemplary" Low-Income Usage Reduction Programs

The American Council for an Energy Efficient Economy (ACEEE) has published perhaps the most widely respected compendium of "exemplary" low-income programs. First released in 2005, and updated in 2008, ACEEE explicitly focused on "identify(ing) exemplary programs that could be emulated in other areas and jurisdictions." The ACEEE initiative was designed to provide "practical, state-of-the-art information about successful programs that are providing critical energy and efficiency services to low- and limited-income households." The information was developed in the context of Xcel Energy undertaking "a comprehensive re-examination of its low-income energy efficiency program in Minnesota."

The low-income programs identified by ACEEE as "exemplary" were chosen based on the following four criteria:

- They demonstrated "positive energy and cost savings impact," either in terms of delivering a substantial magnitude of energy savings or by delivering a substantial impact per dollar spent (very cost-effective).

- They were "well-documented and had characteristics amenable to easily replicating the program design in other settings;"

- They had "good quality ex post evaluations and verification methodologies to document savings impacts and/or other beneficial impacts;" and

- They were noteworthy in "terms of program implementation performance, innovation, customer participation, participant satisfaction, unique services, and stakeholder support. . ."[2]

Based on a review of information presented by ACEEE and others, the low-income electric efficiency programs deserving emulation by TPU include:

1. **National Grid Appliance Management Program (AMP).** The AMP consists of two basic components. The basic AMP is directed toward income-eligible customers who use at least 10 kWh base load per day and have a minimum nine months of billing history. Base load usage is defined as daily usage in the most recent May or September months. The basic AMP provides appliance audits to these high use customers and replacement appliances where appropriate. The second component is referred to as the "mini-AMP," which is directed toward households with base load usage of less than 10 kWh per day. Operated as a piggyback on other agency field services, this mini-AMP provides refrigerator metering and replacement. The AMP generates high and consistent electric savings, an average of more than 1,200 kWh per treated household. The AMP has a cost-benefit ratio of 2.56 using a Total Resource Cost (TRC) test.

2. **Vermont Low-Income Single Family Service (LSF).** LSF involves the delivery of electric efficiency measures in collaboration with the state's Weatherization Assistance Program (WAP). LSF provides not only comprehensive fuel-switching services (for both space heating and electric hot water), but also the installation of efficient light fixtures, and the replacement of inefficient refrigerators and freezers. The electric services are virtually all delivered at the same time WAP agencies are evaluating a home for weatherization services. Beginning in 2005 and 2006, LSF began working with housing agencies outside the WAP program to target affordable housing units with services similar to those delivered through the WAP agencies. The program saves 2,071 kWh per participant per year.

3. **Indiana Low-Income Weatherization and Refrigerator Replacement Program**. The State of Indiana operates a refrigerator replacement program in collaboration with Cinergy/Public Service of Indiana (PSI). Through the Indiana refrigerator program, households receiving WAP services receive additional weatherization and refrigerator

[2] Martin Kushler, et al. (September 2005). *Meeting Essential Needs: The Results of a National Search for Exemplary Utility-Funded Low-Income Energy Efficiency Programs*, Report No. U053, American Council for an Energy Efficient Economy: Washington D.C.

replacements paid for by the utility. Refrigerators tested to be of high usage are removed and replaced with efficient Energy Star-rated units. To be replaced, replacing the tested unit must save at least 400 kWh per year. In fact, to date, the Indiana program is replacing roughly 57% of the units being tested, while saving, on average, 1,260 kWh per unit. The cost of the program is split between the utility and the state, with the utility contribution increasing as the tested savings increase.

4. **Ohio Electric Partnership Program (EPP)**. The Ohio Electric Partnership Program (EPP) is designed to provide electric efficiency services to high use baseload participants in the state's Percentage of Income Payment Plan (PIPP). Defining "high usage" as baseload consumption exceeding 6,000 kWh per year (baseload consumption excludes heating and cooling usage), the program targets extensive lighting retrofits, the replacement of inefficient refrigerators and freezers, electric hot water retrofits, and some miscellaneous measures. The program also provides energy education. Ohio's EPP saves 1,615 kWh per household per year. Participants in EPP are selected from electric customers referred to the program by the Ohio Energy Office (OEO). Participant selection is targeted to the highest use customers. Between November 2001 and June 2006, the program delivered over 19,000 energy efficient refrigerators, more than 7,000 energy efficient freezers, and more than 34,000 compact fluorescent light bulbs to EPP participants. The program has been found to have a benefit-cost ratio of 1.34.

The "exemplary" programs cited above document several critical lessons for TPU in Pierce County:

- First, significant electric low-income energy efficiency programs can be directed toward low-income customers. Each of the six programs cited above devotes millions of dollars each year to cost-effective electric usage reduction.

- Second, significant electric energy efficiency programs can be directed toward low-income *baseload* customers. While it is both possible, and necessary, to devote resources toward traditional weatherization for electric heating customers through a partnership with the U.S. Department of Energy's Weatherization Assistance Program (WAP), the programs cited above stand apart from efforts directed toward heating customers. Each of these programs is directed toward baseload electric usage reduction.

- Third, while the baseload programs above are directed toward low-income customers, and thus have affordability implications to them, they are primarily usage-reduction programs. They are justified on traditional benefit-cost grounds, not simply because they deliver benefits to low-income customers.

The Pennsylvania "Low-Income Usage Reduction Program" (LIURP)

Pennsylvania's natural gas and electric utilities have operated what that state's Public Utility Commission (PUC) calls the Low-Income Usage Reduction Program (LIURP). LIURP involves the offer of the following types of usage reduction packages to low-income households: (1) an electric space heating package; (2) an electric water heating package; (3) a baseload electric

package; and (4) a natural gas heating package. The baseload electric LIURP program provides a feasible program which TPU can and should emulate.

Pennsylvania's electric utilities deliver "baseload" electric LIURP services to homes that do not heat with electricity. Since LIURP first began in 1989, baseload electric jobs have represented roughly two-in-five (115,098 of 292,071 total jobs: 39.4%) of all LIURP homes.[3] Over a 20-year period, baseload electric usage reduction jobs have outnumbered each other type of usage reduction treatment, including the treatment of electric space heating homes (n=85,999).

The objectives established for the Pennsylvania LIURP initiative are multi-fold, including:

- To assist low-income residential customers in conserving energy by reducing their energy consumption;

- To assist participating households in reducing their energy bills;

- To decrease the incidence and risk of customer payment delinquencies and the attendant utility costs associated with customer arrearage and uncollectible accounts; and

- To reduce residential demand for electricity and gas, and peak demand for electricity.

According to the January 2009 evaluation of the LIURP initiative:

> To meet these goals, LIURP is targeted toward low-income households with the highest energy consumption. Of these households, those with payment problems and high arrearages are targeted. Since the program's inception in 1988 through 2006, the major electric and gas companies required to participate in LIURP have spent over $330 million to provide weatherization treatments to more than 292,071 low-income households in Pennsylvania.

The term "weatherization services" includes investments in electric baseload usage reduction measures. To receive LIURP services, a household must have utility-provided heating service and have income at or below 150% of the Federal Poverty Level. Nearly one-third of all households receiving LIURP services were renters.

In January 2009, Penn State University released a comprehensive long-term evaluation of the LIURP program. Prepared for the Pennsylvania PUC, the evaluation examined data over the first 18 years of program operation. The evaluation provides important lessons for the offer of electric usage reduction services by Tacoma Public Utilities. The LIURP evaluation reported:

- "LIURP is a cost-effective method of reducing both energy consumption and energy bill arrearages. . .Sixty nine percent of LIURP households reduce their energy

[3] Customer Services Information System Project, Pennsylvania State University (January 2009). *Long-Term Study of Pennsylvania's Low-Income Usage Reduction Program: Results of Analyses and Discussion*, prepared for Pennsylvania Public Utility Commission, Penn State University: State College (PA).

consumption following weatherization treatments, with an average reduction of 16.5 percent." Electric baseload jobs generated a usage reduction of 698.2 kWh, or 19.1%.

- "Removing or replacing inefficient refrigerators or freezers is the greatest contributor to reductions in electric energy consumption." Indeed, the LIURP evaluation reports that "the largest single contributor toward reduction in energy consumption appears to be the changing out of refrigerators and freezers. . .If such inefficient appliances are identified and swapped, even as part of gas heating jobs, this can contribute to significant reductions in energy consumption."

- "Of those households with energy bill arrearages, 40 percent reduce their arrearage following weatherization services. Thirty-seven percent of electric industry households reduce their arrearages. . ."[4] LIURP was targeted to households with arrears (within the population of large consumers). The LIURP evaluation found that "by the end of the year following weatherization, 68 percent of the households have an energy bill arrearage, a decrease of 29 percent. . .Although the average number of full payments made does not vary from the pre- to post-period, the percent of households with missed payments decreased and the average number of partial payments increased."[5]

- "The [third] most significant, and most common, variable that is positively related to reductions in energy consumption is the amount of arrearage owed in the pre-period [before usage-reduction treatments are installed], suggesting that households with large arrearages are motivated to make the necessary behavioral changes to contribute toward additional reductions in energy consumption. It therefore makes sense to target households with higher arrearages when prioritizing LIURP jobs."

In sum, the LIURP evaluation noted most significantly for our purposes here that:

> Although energy consumption and the amount of arrearage in the pre-period are significant predictors of the degree to which households reduce their energy consumption, there are also specific weatherization measures that have powerful impacts on reduced energy consumption. Most notably, the replacement of refrigerators and freezers with more efficient models, or the removal or disconnection of unnecessary units, is positively related to energy savings.

Based on the above data and analysis, a low-income refrigerator replacement program is recommended for TPU. This refrigerator replacement program should be directed toward both high-use tenants and high-use homeowners. As with LIURP, within the population of high-use

[4] The LIURP evaluation found that this result was consistent with prior U.S. Department of Energy (DOE) research, which found that "low-income families who receive weatherization have a lower rate of default on their utility bills and require less emergency heating assistance." Bruce Tonn, et al. (2001). "Weatherizing the Home of Low-Income Home Energy Assistance Program Clients: A Programmatic Assessment," U.S. Department of Energy: Washington D.C.

[5] The evaluation noted that participation in LIURP was associated with increased participation in energy assistance programs. It was difficult to distinguish the impact of the two.

customers, TPU should prioritize its delivery of the stand-alone refrigerator replacement program based on the level of arrearages.

AN APPROPRIATE BUDGET

Using a dedicated system benefits charge to fund low-income usage reduction programs is a reasonable mechanism to financially support such programs. A Usage Reduction Program (URP) charge of 0.2% yields a low-income baseload program budget of $566,000. Such a budget allows for a meaningful investment without overburdening nonparticipating ratepayers.

Tacoma Public Utilities: Low-Income Usage Reduction Program (URP) Budget Given Volumetric Charge

	Sales Revenue	URP Charge	Program Revenue
Residential	$127,515,000		
Commercial	$38,709,000		
Industrial	$116,837,000		
Total	$283,061,000	.02%	$566,122

The $566,122 program budget would not represent the net cost to nonparticipating ratepayers. Research by Oak Ridge National Laboratory has documented that low-income usage reduction programs yield a return in avoided non-energy benefits of roughly $200 per treated household. Non-energy benefits quantify the impacts on collection costs, working capital, bad debt, and the like. Assuming that a $570,000 budget would support baseload services to 700 low-income households, TPU would recognize a return of nearly 30% of the program costs strictly in the form of non-energy benefits.

ADDRESSING THE PROBLEM OF THE "SPLIT INCENTIVE"

One primary impediment to low-income implementation of energy efficiency investments –other than the impediments involving a lack of discretionary income to invest and a high "hurdle rate" for efficiency investments—involves the fact that a large proportion of Pierce County's low-income population lives in rental housing. Because of their renter status, low-income households face two barriers to taking advantage of energy efficiency. First, they generally do not have the authority to make decisions about whether to improve a housing unit's major energy consuming systems (including refrigerators). Second, the tenants are often sufficiently mobile that they would not choose efficiency investments that have a payback longer than their anticipated length of tenure at the rental unit. In contrast, the property owner has little incentive to invest in energy efficiency measures given the fact that he or she does not pay the utility bill. This phenomenon, where the bill-payer does not control the energy-consuming systems and the person with dominion over the energy-consuming systems is not the bill-payer, is often called the "split incentive" for rental housing.

Working with Section 8 Property Owners

Despite the real problem posed by split incentives in rental housing, TPU could work with local housing providers to identify a significant population where that split incentive could be addressed.

These utility efforts would focus on Section 8 housing units with tenant-paid utility bills. Section 8 is a federal housing program under which low-income tenants are provided subsidies to live in private rental housing. The assistance provided to Section 8 tenants is designed to subsidize two different shelter costs. On the one hand, the Section 8 subsidy includes a "utility allowance." The utility allowance is, by federal law, intended to cover the *entire* utility bill by the tenant. On the other hand, the Section 8 payment includes a benefit that subsidizes a tenant's contract rent. The "contract rent" is that amount of money that a landlord can charge for the housing unit.

Under this framework, the "split incentive" typically applicable to a rental housing situation can be overcome in the Section 8 rental market. This can occur because of the unique constraints on rents created by federal law. In the Section 8 program, the sum of the utility allowance and the contract rent cannot exceed the Fair Market Rent (discussed above). Accordingly, as the local utility allowance increases to reflect increasing home energy prices, the amount of the FMR that is available to be paid to the landlord as the contract rent decreases. Placed within the context of the FMR discussion above, if home energy comprises 25% of the FMR rather than 15%, the property owner may charge a contract rent equal to only 75% of the FMR rather than 85%.

Because of these circumstances, even though the Section 8 tenant is responsible for paying the home energy bill, the Section 8 property owner is not disinterested in what the level of that bill is. To the extent that energy efficiency can be implemented to reduce the home energy bill, an "energy efficient utility allowance" could be adopted that allows the property owner to capture all or part of the reduction in the energy bill through an increase in the contract rent. The total amount paid by the tenant remains the same, capped at 30% of the tenant's income. The Section 8 tenant benefits, however, by a reduction in the month-to-month, and year-to-year, variability in financial burdens caused by volatile energy prices.

Working with Pierce County's local housing authorities (LHAs) (as well as with Pierce County's Housing Finance Agency), as well as other community-based organizations that might administer Section 8 units, to deliver energy efficiency to the state's Section 8 rental housing would provide tangible benefits to thousands of low-income households. As previously discussed in this planning document, the Pierce County Housing Authority and Tacoma Housing Authority administer nearly 4,800 Section 8 housing units (4,596 tenant-based vouchers; 203 project-based vouchers) between the two of them.

Working with Existing Weatherization Programs

The Oak Ridge National Laboratory (ORNL) published a report titled *Standard Practice: Estimating the Cost-Effectiveness of Coordinated Energy Efficiency Programs* (December 1994). According to ORNL, it is possible to identify three distinct types of energy efficiency piggyback programs (called "coordinated programs" by ORNL):

- A *parallel program*, in which a government agency runs two programs, one funded and designed by the agency and a parallel one funded and designed by an electric or gas utility;

- A *supplemental program*, in which the program relies on utility funding to support a government agency's ongoing program, with no changes in the program's design or operation; and

- A *coupled program*, in which a government agency and electric or gas utility fund, design, and implement the energy efficiency efforts.

According to ORNL, a parallel program is implemented by the government agency, but its design is heavily influenced by the utility. The utility program may differ significantly from the design of the agency-funded program. In contrast, the supplemental program involves no changes to the agency's design and operation. The result of the utility participation is to allow the program to reach more people, to allow the program to more comprehensively treat those persons reached, or a combination of the two. Finally, a coupled program involves a discernible impact of the utility on program design. According to ORNL, for example, different types of customers may be served (or a different targeting mechanism may be used). In addition, different measures may be installed and the amount invested per participant may be different than in the pre-existing government-only program.

TPU should pursue a coupled low-income electric usage reduction program. Based on this Oak Ridge partnership model, TPU should design its refrigerator replacement program, also, to work in partnership with local programs delivering weatherization services. Rather than operating as a stand-alone program, TPU should deliver its refrigerator replacement services through a piggy-back program with:

- The local U.S. Department of Energy's Weatherization Assistance Program (WAP) service provider; and

- The local natural gas company-funded low-income weatherization initiative.

TPU should, of course, finally deliver its refrigerator replacement program in tandem with its own low-income insulation and duct sealing program.

Summary and Conclusions

Usage reduction services are a key element in improving the ability to pay of low-income customers. Delivering usage reduction services to low-income customers not only addresses wasteful energy usage, but generates the added advantage of improving payment patterns and reducing arrearages, along with the corresponding reduction in utility expenses associated with those arrears. Reductions in working capital, reductions in bad debt, and reductions in staff resources devoted to collecting unpaid bills are all financial advantages that extend beyond the traditional "avoided costs" associated with usage reduction.

TPU's existing low-income usage reduction services exclude many, indeed perhaps most, of those customers who could generate the greatest benefits for the utility. TPU's focus on delivering energy efficiency investments to homeowners who heat with electricity excludes the delivery of baseload efficiency improvements to low-income tenants.

The delivery of baseload usage reduction services, particularly refrigerator replacements, to tenant housing has been successful throughout the nation. Implementing a system benefits charge of 0.2% of revenue to fund low-income baseload services is a reasonable program for TPU to implement. The baseload program should involve a range of cross-cutting partnerships involving natural gas utilities, the existing federal Weatherization program, and affordable housing providers.

SECTION 5.

USAGE REDUCTION PARTNERSHIPS WITH AFFORDABLE HOUSING DEVELOPERS

Problem Statement #5

Substantial numbers of low-income households, both tenants and homeowners, in Pierce County are "cost-burdened" or "severely cost-burdened" when it comes to shelter expenses. Households that have high or severe shelter cost burdens are likely to be in payment trouble with the local utility as well. While public programs exist to address the *housing* cost of those shelter cost burdens, the production of new and rehabbed affordable housing often does not, due to resource constraints, seek to maximize the energy efficient nature of those housing units. When affordable housing is newly constructed or rehabbed without maximizing efficiency opportunities, the chance to obtain those efficiencies, and to reduce low-income bills, is lost for the useful life of the energy-consuming systems.

Strategy

Direct existing energy conservation/usage reduction incentive programs to developers of affordable housing, including tenant-occupied housing.

Objectives

1. Reduce energy consumption by low-income tenants.
2. Reduce arrearages within low-income customer population.
3. Increase payment coverage ratio of low-income customer population.
4. Reduce collection interventions directed toward low-income customer population.

Tactics

1. Deliver electric usage incentives specifically to developers of affordable housing using public subsidies.
2. Offer a piggyback appliance replacement program to developments that have been historically subsidized with public funds.
3. Request TCRA to require developers and homebuyers accessing public funds to make a specific decision on whether or not to accept TPU energy efficiency rebate incentives.
4. Define "new construction" to include moderate and substantial rehab.

DISCUSSION IN SUPPORT OF USAGE REDUCTION PROGRAMS IN PARTNERSHIP WITH AFFORDABLE HOUSING DEVELOPERS

Tacoma Public Utilities should modify its existing residential energy efficiency guidelines to allow the utility to participate more fully with local affordable housing development to promote the efficient use of electricity.

TPU currently offers no comprehensive low-income electric usage reduction program. While the utility offers a free insulation and duct sealing program to low-income customers, in order to participate in that low-income program, a customer must meet all of the following criteria:

- A customer must heat with electricity; *and*
- The customer's heating system must have been installed prior to 1988; *and*
- The customer must be a homeowner.

In contrast to this free insulation program for the poor, the TPU weatherization program has no income limitations. Nor does TPU offer a baseload energy efficiency program.[1] TPU does offer incentives for persons constructing new homes to:

- Install efficient lighting;
- Install efficient clothes washers;
- Install efficient electric water heaters; or
- Install high efficiency heat pump systems.

Tacoma Public Utilities should increase its level of partnership with local government agencies funding the development, sale and rehabilitation of affordable housing in the community. As part of this partnership, TPU should work through its sister public agencies to deliver energy efficiency services to promote the ability of low-income households to become stable homeowners efficiently using utility resources in an affordable manner. Moreover, TPU should work to deliver its energy efficiency incentives to affordable housing developers, in their capacity as housing developers rather than in their capacity as low-income service providers.

The Potential to Reach Low-Income Tenants and Homebuyers through Public Programs.

Affordable housing developers accessing public funds produce a significant number of new and rehabbed housing units in Pierce County. In the absence of TPU's electric efficiency incentives, these units may not incorporate all cost-effective usage reduction improvements. As a result, the electric efficiency decisions made for each development will remain for the life of the developments. Given the number of units that are developed each year using public subsidies,

[1] TPU does offer rebates to incentivize households to recycle old and secondary refrigerators and freezers.

this loss of efficiency represents a significant lost opportunity, both to achieve usage reduction goals and to achieve improvements in low-income affordability.

The Federal Home Investment Partnership Program (HOME) and Community Development Block Grant (CDBG) Program in Pierce County

Two closely-related federal funding programs support the production of affordable housing units in Pierce County. Perhaps the primary housing funding program involves Pierce County's access to federal Home Investment Partnership Program (HOME) funds. Not only does Pierce County receive HOME funds directly from the federal government as an "entitlement" jurisdiction, but the City of Tacoma has joined with other local governments to access HOME funds as well.

HOME funds have been made available to local governments[2] since 1992. HOME funds can be used in several permitted ways:

- To produce new housing units for home purchase (homebuyer units);
- To produce housing units for home purchase through the rehabilitation of existing buildings (homeowner rehab);
- To produce new and rehabbed rental units; and
- To provide tenant-based rental assistance (TBRA or direct tenant subsidies).

This discussion focuses on the production of homeowner units through new construction or substantial rehab.

Pierce County and Tacoma-Lakewood HOME Consortium: Homeowner and Owner Rehab Units Produced Since 2005

	2009 (Q2)		2007 (Q2)		2005 (Q2)	
	Number of Units Produced Per Year					
	Homebuyer Units	HO Rehab	Homebuyer Units	HO Rehab	Homebuyer Units	HO Rehab
Pierce County	407	513	308	443	256	363
Tacoma Consortium	279	93	263	85	183	58

At the Table above documents, the two HOME participating jurisdictions in the TPU service territory (Pierce County, Tacoma Consortium) have produced nearly 1,300 units of new or rehabbed homeownership housing since the jurisdictions began taking HOME dollars. Just since the beginning of 2005, the two jurisdictions produced 247 units of new homeownership housing, and an additional 185 units of rehabbed ownership units.

[2] The State of Washington also accesses HOME funds in its capacity as a state. Those state funds are not discussed in this analysis.

The HOME program is not the only public program used in Tacoma to produce new and rehabbed affordable housing units. The Tacoma-Lakewood Consortium, as a recipient of federal housing and community development funds, must periodically file its Consolidated Annual Performance and Evaluation Report (CAPERS) with HUD. According to the Consortium's 2007/2008 CAPERS, the Consortium devoted Community Development Block Grant (CDBG) and HOME funds to a variety of affordable housing projects, including:

- Units by the Tacoma Housing Authority (e.g., Hillsdale Heights) (60 units);
- Units by Catholic Community Services (e.g., Guidalupe Vista) (51 units);
- The continuing redevelopment of Salishan, a HOPE VI project on Tacoma's Eastside;
- Habitat for Humanity homes (e.g., Reynold's Park, Larrabee Terrace) (28 units).

This list, which is not intended to be comprehensive (it does not, for example, include any of the work of the Homeownership Center of Tacoma), is illustrative of the entry points where TPU can introduce energy efficiency investments into the continuing development of affordable housing.

TPU should work as a top-of-mind partner with the Tacoma Redevelopment Authority to ensure that new and rehabbed housing pursued with the financial involvement of the city is produced to the maximum cost-effective level of energy efficiency. For example, when TCRA partnered with the United Way of Pierce County in its matching and redistribution of un-used Urban Development Action Grant (UDAG) funds (some of which funds were devoted to Reynolds Park, Larrabee Terrace, Salishan Five and Six, and Guadalupe Vista), TPU should have been a partner promoting energy efficient development.

The Low-Income Housing Tax Credit Program

The potential affordable housing market with which TPU might work extends beyond those units developed using local HOME and CDBG funds. In addition, developers constructing (or rehabbing) affordable rental housing can access federal subsidies through the federal Low-Income Housing Tax Credits (LIHTC) program. The LIHTC is considered by many to be the country's primary affordable housing program. LIHTC developments tend to involve exclusively rental units.

Pierce County has seen substantial LIHTC development in the past twenty years. The U.S. Department of Housing and Urban Development (HUD) publishes information on the number of LIHTC units developed in each state. Between 1987 and 2006 (the last year for which data is available), Pierce County has seen the development of 4,087 LIHTC units for low-income tenants.[3]

[3] Not all LIHTC units are "low-income." In Pierce County, 4,117 Tax Credit housing units were developed from 1987 through 2006, of which 4,087 were for low-income households.

Low-income housing tax credit (LIHTC) housing units are important for Pierce County's utility efficiency programs in two respects.

- First, the utility allowance structure for LIHTC provides a "population" of nearly 4,100 low-income housing units for which TPU Energy can overcome the problem of the "split incentive" normally found in low-income rental housing.

- Second, over the past five years, more than 300 low-income housing units were *newly* placed in service *each year* through LIHTC developments. Over the past ten years, an average of 330 low-income Tax Credit units were placed in service each year. Not only do LIHTC units provide TPU Energy an opportunity to reach existing housing, in other words, but they also provide TPU Energy an opportunity, every year, to reach hundreds of new or rehabbed low-income housing units on a going-forward basis.

The Affordability Impacts of Improving the Efficiency of New Affordable Housing Developments

TPU should include affordable housing units produced with subsidies through the HOME, CDBG and LIHTC programs in its residential energy efficiency programs for a variety of utility-related reasons. On the one hand, by partnering with its sister local agencies, TPU can experience a reduced level of administration through these programs. While TPU markets its energy efficiency programs to the residential population as a whole, with these publicly funded programs, the funder can require, as a prerequisite to receiving the public subsidy, that the homebuyer or developer make a specific decision on whether or not to accept specified TPU rebates. As a result, TPU can work with the HOME program participant (either home buyer or developer) to determine whether it is cost-effective for the participant to accept the rebate rather than devoting resources to convincing the participant to "pay attention" or to make "some" decision.

In addition, to the extent that TPU does *not* work with these HOME program participants, the energy decisions made by the program participant will be irreversible for the useful life of the energy-consuming system. No public or private agency will devote resources to visit a newly constructed or rehabbed housing unit to determine whether energy efficiency potential exists. The opportunity to maximize the efficient use of energy in the home's systems is lost at the time the housing unit is built or rehabbed.

Despite this real advantages to the utility, the willingness of TPU to serve as such a partner would have ramifications not only for the utility, but for the affordable housing community as a whole. The Consolidated Plan (2005 – 2010) filed for the Tacoma-Lakewood HOME Consortium with the U.S. Department of Housing and Urban Development (HUD) identifies cost-burdened homeowners as being one major problem in the Tacoma-Lakewood region. According to the Tacoma-Lakewood Consolidated Plan, homeowners with income at or below 80% of Median Family Income (MFI) frequently face unaffordable shelter burdens (defining mortgage payments plus utilities as total shelter costs). The data presented by the Tacoma-Lakewood Consortium reports that:

- More than 61% of households with income below 30% MFI pay more than 50% of their income for total shelter costs;

- More than 35% of households with income between 30% MFI and 50% MFI pay more than 50% of their income for total shelter costs; and

- Fifteen percent (15%) of households with income between 50% and 80% MFI pay more than 50%of their income for total shelter costs.

The Consolidated Plan is based on data from HUD's 2000 Comprehensive Housing Affordability Strategy (CHAS) data base. Households paying more than 30% of their income for shelter costs are considered to be "cost-burdened." Households paying 50% of their income for shelter costs are considered to be "severely cost-burdened."

Tacoma Owner Households (2000) by Type and Household Income Percent Cost-Burdened

	Household Size and Composition				
	Elderly (1 – 2 people)	Small Related (2-4 people)	Large Related (5+ people)	All Others	Total Owners
HHs at 0 – 30% MFI	1,079	619	198	628	2,524
% cost burden >30%	69.2%	81.6%	87.4%	73.7%	74.8%
% cost burden >50%	51.3%	67.0%	78.3%	67.4%	61.3%
HHs at 0 – 30% MFI	1,495	812	262	465	3,034
% cost burden >30%	45.5%	77.2%	92.7%	73.1%	62.3%
% cost burden >50%	23.4%	51.5%	36.3%	46.2%	35.5%
HHs at 0 – 30% MFI	2,370	2,440	878	1,044	6,732
% cost burden >30%	28.3%	64.8%	61.8%	69.3%	52.2%
% cost burden >50%	11.0%	18.4%	10.7%	20.0%	15.0%

TPU low-income customers that have shelter burdens above 30% of income, and certainly those with shelter burdens in excess of 50% of income, are likely to present the utility with persistent bill payment problems. By pursuing an efficiency partnership with local affordable housing developers, the utility helps to move customers into stable, affordable living circumstances not only to the benefit of the household, but to the benefit of the utility as well.

Summary and Conclusions

Individuals organizations delivering affordability services frequently get caught up with the specific set of problems their program is seeking to address. Food service program providers see themselves exclusively as addressing nutrition issues. School administrators see themselves as exclusively addressing education issues.

In contrast to this silo perspective of low-income utility bill payment problems, this set of recommendations recognizes the cross-cutting nature of the unaffordability of utility bills with housing issues in particular. These recommendations recognize that household economic issues that may present themselves as unpaid utility bills may well have their roots in the limitations on shelter choices facing low-income households. Old and inefficient housing units result in high utility consumption that results in unpaid bills that cannot be made more affordable by increasingly intense dunning efforts. The solution to these unpaid bills lies with a strategy that addresses the housing as the root cause.

These recommendations finally recognize the interdependent nature of the missions of different components of municipal government. As sister agencies, organizations such as Tacoma Public Utilities, the Tacoma (and Pierce County) Housing Authority, and the Tacoma Community Redevelopment Authority are (or should be) interdependent. In this respect, proposing to overlay TPU's objectives of promoting increased energy efficiency and seeking more affordable utility bills should overlay easily with TCRA's mission of promoting affordable housing and economic development.

The recommendations herein are not complex: (1) expanding the definition of "new construction" for TPU programs to include moderate and substantial rehab units using public funds; (2) marketing TPU efficiency incentives to developers and homebuyers accessing public funding; (3) requesting TCRA to require developers and homebuyers to, at a minimum, make an affirmative indication of whether they wish to access TPU efficiency funds; and (4) offering a piggyback refrigerator replacement program to units that have historically been developed with public subsidies.

The affordable housing/energy efficiency partnerships recommended to be pursued by different components of the same municipal government allow TPU to pursue its own self-interests while at the same time being supportive of the public mission of other municipal agencies. Extending TPU's usage reduction incentives to as many developers of new housing as possible makes eminent sense. To extend TPU's incentive programs to producers of new (and rehabbed) affordable housing, particularly when done with public financial subsidies, has an even greater policy and financial imperative for both parties.

SECTION 6.

USAGE REDUCTION SERVICES TO HOUSEHOLDS WITH SECONDARY ELECTRIC HEATING

Problem Statement #6

Customers with an income at or below a certain level do not have sufficient income to meet their basic household necessities. No degree of budgeting will result in a situation where the household will have sufficient dollars to consistently pay their current bills in a full and timely fashion. As a result, collection efforts will not only be unsuccessful, but will have the adverse consequences of being counter-productive to the utility's objective of collecting the full bills of its customers. Undertaking these bound-to-fail efforts will divert household resources to non-usage fees; undertaking these bound-to-fail efforts will further divert utility resources from being devoted to customers where the efforts might prove to be successful. Unless and until society deems it acceptable to allow some households to be forced to live without power due to their poverty status, the population of customers that have a fundamental mismatch between household needs and household resources will manifest itself as this business problem to the utility.

Strategy

Reduce the wasteful use of electric energy within low-income population that might be subject to nonpayment.

Objectives

1. Reduce arrearages within very low-income customer population.
2. Increase payment coverage ratio of very low-income customer population.
3. Reduce collection interventions directed toward very low-income customer population.
4. Reduce reliance on de facto electric primary heating.

Tactics

1. Identify high use, high arrears de facto electric primary heating with non-permanent electric heating.
2. Explore installation of mini-split heat pumps as a heating alternative.
3. Deliver low-income weatherization services.

DISCUSSION IN SUPPORT OF DELIVERING USAGE REDUCTION TO DE FACTO PRIMARY ELECTRIC HEATING CUSTOMERS

Tacoma Public Utilities should expand its usage reduction programs for low-income customers beyond its current focus exclusively on low-income homeowners with permanently installed electric heating systems. TPU policy in this regard is consistent with traditional electric utility actions. Historically, electric utilities have limited their usage reduction investments exclusively to electric space heating customers for several reasons:

- **Effectiveness:** Given the higher usage associated with space heating customers, there was a greater potential for usage reduction outcomes within the space heating customer base. With higher initial usage, there was a greater potential for usage reduction.

- **Cost-effectiveness:** To the extent that a customer was using a fuel other than electricity for heating, improved efficiency in the home would yield reductions in the consumption of those other fuels. That non-electric usage reduction, however, would not contribute to electric avoided costs and, accordingly, would not contribute to the benefit:cost determination of the electric investment.

- **Equity:** Similarly, to the extent that a customer was using a fuel other than electricity for heating, improved efficiency in the home would yield reduction consumption in those other fuels. It would, however, be unreasonable to use *electric* rate dollars to generate non-electric usage reduction.

Despite these historically-based reasons for avoiding the use of electric usage reduction dollars in non-electrically heated homes, in a substantial number of low-income homes, that historic prohibition should be relaxed. In these homes, the policy requirement that electric usage reduction dollars be devoted exclusively to homes with permanently-installed electric heating systems ill-serves the utility.

The Extensive Use of De Facto Electric Heating

Households that have substantial electricity consumption relative to other electric consumers in the area can be examined as a proxy for customers using electricity as a de facto primary heating source. Households with electric bills of 150% of the blended bills of combined electric heating and non-heating customers are not likely to be using electricity only for non-heating purposes. Households with electric expenditures of this magnitude are instead using electricity as their primary heating source, whether or not those households have permanently-installed electric space heating equipment. It is likely that these households are using electric space heaters as their de facto primary heating source.

The use of electricity as a de facto primary heating source cannot be measured directly from existing public data. It is possible, however, to gain some ideas into the prevalence of such use by looking at the existence of substantial electricity consumption in the absence of reported

electric space heating. The Table below sets forth data from the American Community Survey on the number of households heating with natural gas and fuel oil, but who nonetheless have a monthly electric bill equal to 150% or more of the averaged *combined* electric heating and non-heating monthly bill. A bill equal to 150% of the combined electric heating and non-heating bill in Pierce County would reach $145 per month.

The Table below shows that 7,508 natural gas users with income below 200% of Federal Poverty Level in Pierce County, and 1,778 fuel oil users with income below 200% of Federal Poverty Level, have electric bills that are 150% or more of the averaged combined electric bill in the county. Roughly one-third of the natural gas users with high electric bills (2,764 of 7,508) and somewhat less than half of the fuel oil users with high electric bills (837 of 1,778) have income at or below 100% of the Federal Poverty Level.

The high electric use is not likely attributable to appliances (including lighting). It appears to be associated instead with the type of housing. Nearly 90% of the natural gas users with high electric bills, and 100% of the fuel oil users with high electric bills, live in detached single family homes.

Households with Electric Expenditures Equal to or Greater than
150% of Average Blended Monthly Heating/Non-Heating Electric Bill By Primary Heating Source
and Ratio of Income to Federal Poverty Level
(Pierce County, WA) (2007)

	Natural Gas (200% FPL)				Fuel Oil (200% FPL)		
PUMAs	All Buildings	Detached Homes: #	Detached Homes: %	PUMAs	All Buildings	Detached Homes: #	Detached Homes: %
1300	4,470	4,126	92.3%	1300	247	247	100.0%
1401	1,560	1,176	75.4%	1401	825	825	100.0%
1402	558	400	71.7%	1402	706	706	100.0%
1403	826	826	100.0%	1403	0	0	N/A
1404	94	0	0.0%	1404	0	0	N/A
Total	7,508	6,528	86.9%	Total	1,778	1,778	100.0%
	Natural Gas (100% FPL)				Fuel Oil (100% FPL)		
1300	1,459	1,459	100.0%	1300	0	0	N/A
1401	971	587	60.5%	1401	765	765	100.0%
1402	0	0	N/A	1402	72	72	100.0%
1403	240	240	100.0%	1403	0	0	N/A
1404	94	0	0.0%	1404	0	0	N/A
Total	2,764	2,286	82.7%	Total	837	837	100.0%

What has been found in the large urban areas of Washington is that many low-income customers live in older housing units with old, inefficient (and often inoperable) non-electric heating systems. In addition, as the price of natural gas and fuel oil has spiked for use as a heating fuel, many customers either experience the termination of service for nonpayment or, in the case of

bulk fuels such as fuel oil, cannot afford to obtain a fill-up with a corresponding loss of the use of their primary heating equipment. In such circumstances, these customers turn to electric space heaters as their de facto primary heating source, even though the electric system is not a permanently-connected electric heating system.

The likelihood of this being the case in Pierce County is supported by data showing the connection between the high electricity users and very old homes. The Table below shows that:

- Of the 6,528 households with income below 200% of Poverty Level who report using natural gas for heating, who have electric bills higher than 150% of the combined average electric heating and non-heating bills, and who live in single-family homes, nearly 70% (4,462) live in homes built before 1960; nearly 30% (2,118) live in homes built in 1939 or earlier.

- Of the 1,778 households with income below 200% of Poverty Level who report using fuel oil for heating, who have electric bills higher than 150% of the combined average electric heating and non-heating bills, and who live in single-family homes, 100% live in homes built before 1960; nearly 50% (830) live in homes built in 1939 or earlier.

While clearly old homes do not *necessarily* use old heating systems in 100% of the cases, the combination of the age of homes, the income of the residents, and the presence of high electric bills makes such an inference likely.

Summary and Conclusions

Extensive discussion was presented in the discussion of the need to provide low-income usage reduction services to tenants of the factors that affect the ability of low-income programs to reduce energy consumption and deliver benefits to the utility. Without question, high consumption levels are the primary factor driving the potential for generating electric usage reduction. A second primary factor involves the presence of high arrears.

The requirement that recipients of low-income weatherization services be limited to customers with permanently installed electric heating equipment is a mechanism designed to ensure that the usage reduction associated with TPU programs be limited to electric savings. In circumstances involving de facto electric primary heating, however, the requirement that electric heating be "permanently installed" stands as an impediment to accomplishing utility objectives. Given objectives of reducing wasteful energy consumption, particularly by those customers who cannot afford to pay for that consumption with which to begin, refusing to provide weatherization services not only allows the waste to continue, but reinforces a continuing consumption that is likely to lead to arrears and bad debt, along with the associated expenses of such nonpayment.

In addition to the delivery of weatherization services, the installation of mini-split heat pumps as an alternative to de facto electric primary heating deserves further attention by TPU.[1]

[1] A comprehensive exploration of the use of mini-split heat pumps is beyond the purview of this project.

Natural Gas and Fuel Oil Users below 200% of Federal Poverty Level (FPL) with Electric Bills Greater than 150% of Averaged Combined Electric Heating and Non-Heating by Age of Housing Unit										
	Natural Gas Users in Detached One-Family Homes by Age of Housing Unit (200% FPL)									
	Total	2005 or later	2000 to 2004	1990 to 1999	1980 to 1989	1970 to 1979	1960 to 1969	1950 to 1959	1940 to 1949	1939 or earlier
Total GEOG-102	6,528	0	63	977	395	631	1,002	917	425	2,118
Puma# 01300, Washington	4,126	0	63	66	0	368	538	830	143	2,118
Puma# 01401, Washington	1,176	0	0	511	395	23	174	0	73	0
Puma# 01402, Washington	400	0	0	400	0	0	0	0	0	0
Puma# 01403, Washington	826	0	0	0	0	240	290	87	209	0
Puma# 01404, Washington	0	0	0	0	0	0	0	0	0	0
	Fuel Oil Users in Detached One-Family Homes by Age of Housing Unit (200% FPL)									
	Total	2005 or later	2000 to 2004	1990 to 1999	1980 to 1989	1970 to 1979	1960 to 1969	1950 to 1959	1940 to 1949	1939 or earlier
Total GEOG-102	1,778	0	0	0	0	0	0	888	60	830
Puma# 01300, Washington	247	0	0	0	0	0	0	182	0	65
Puma# 01401, Washington	825	0	0	0	0	0	0	0	60	765
Puma# 01402, Washington	706	0	0	0	0	0	0	706	0	0
Puma# 01403, Washington	0	0	0	0	0	0	0	0	0	0
Puma# 01404, Washington	0	0	0	0	0	0	0	0	0	0

SECTION 7.

EXPANDING THE LOW-INCOME DISCOUNT TO THE VERY POOR

Problem Statement #7

Customers with an income at or below a certain level do not have sufficient income to meet their basic household necessities. No degree of budgeting will result in a situation where the household will have sufficient dollars to consistently pay their current bills in a full and timely fashion. As a result, collection efforts will not only be unsuccessful, but will have the adverse consequences of being counter-productive to the utility's objective of collecting the full bills of its customers. Undertaking these bound-to-fail efforts will divert household resources to non-usage fees; undertaking these bound-to-fail efforts will further divert utility resources from being devoted to customers where the efforts might prove to be successful. Unless and until society deems it acceptable to allow some households to be forced to live without power due to their poverty status, the population of customers that have a fundamental mismatch between household needs and household resources will manifest itself as this business problem to the utility.

Strategy

Reduce utility bills to proactively reflect inability-to-pay.

Objectives

1. Reduce arrearages within very low-income customer population.
2. Increase payment coverage ratio of very low-income customer population.
3. Reduce collection interventions directed toward very low-income customer population.

Tactics

1. Expand existing low-income discount to all customers at or below 100% of Federal Poverty Level.
2. Provide low-income discounts retroactive to beginning of each heating season for households applying before the end of the heating season.
3. Provide for automatic enrollment through state and local assistance agencies.

DISCUSSION IN SUPPORT OF EXPANDING THE LOW-INCOME DISCOUNT

Tacoma Public Utilities (TPU) should undertake a moderate redesign of the rate discount that it provides to low-income customers. At the present time, TPU offers an across-the-board discount to a limited set of low-income customers. As presently designed, TPU offers a 25% discount to all households with income at or below 100% of the Federal Poverty Level (FPL) *and* who either have a recipient of Supplemental Security Income (SSI) or an aging household member as the customer.

According to information provided in response to data requests for this project, over the past three years, TPU has enrolled roughly 7,500 customers into its low-discount program for power customers. An additional 1,000 customers have been enrolled in the TPU low-income water discount. Through April 30, 2009, the utility has devoted $1.1 million to 7,386 customers to provide discounts for all services.

Tacoma Public Utilities Low-Income Rate Discount

	2007		2008		FY 2009	
	Enrollees	Budget	Enrollees	Budget	Enrollees	Budget
Electricity	7,546	$1,678,158	7,143	$1,653,908	7,386	$1,086,456 /a/
Water/sewer	713	$136,408	1,102	$219,444	412	$58,434 /b/
			Family Need Program			
	2007		2008		2009	
Family Need	N/A	N/A	2,212	$331,800	2,660	$399,000 /c/

NOTES:

/a/ All services, January 2009 – April 30, 2009.
/b/ As of March 30, 2009.
/c/ As of March 30, 2009.

The offer of a rate discount to seniors and disabled customers, while perhaps politically popular, does not serve a utility function. The Table below presents a comparison of households with aging members (defined as a household member 65 years or older) and households with children. The Table presents data for the Census Bureau's Public Use Micro-data Areas (PUMAs) corresponding to Pierce county as a whole, in addition to each PUMA within Pierce County.

For the Pierce County region, we see the following:

- There are somewhat fewer households with children under age 6 (1,582) than there are households with one or more household members over age 65 (2,608).

Poverty Level, Income and Electric Bills by Presence of Children and Aging Household Members for Households with Income at or below 100% of Federal Poverty Level (Pierce County, WA) /a/					
		Number of HH Members 65+		Number with Children	
	Total Households	1	2 or more	<6 years	6 – 17 years
Total PUMAs (1301, 1401, 1402, 1403, 1404)					
Number	14,774	1,958	650	1,582	3,501
Poverty	63.3%	62.2%	91.5%	69.5%	65.6%
Income	$26,391	$14,756	$11,295	$44,584	$20,637
Electric bill	$97	$122	$26	$156	$123
PUMA 1301					
Number	4,650	471	212	839	810
Poverty	59.5%	45.7%	96%	78%	52.2%
Income	$32,627	$34,807	$12,000	$58,175	$15,606
Electric bill	$95	$92	$40	$158	$88
PUMA 1401					
Number	3,855	384	190	235	1,325
Poverty	66.5%	87%	99%	N/A	75.8%
Income	$26,076	$8,600	$12,200	$45,500	$19,036
Electric bill	$120	$190	$40	$260	$171
PUMA 1402					
Number	2,952	328	0	413	238
Poverty	76.3%	78.6%	N/A	88.7%	61.7%
Income	$28,475	$7,742	N/A	$23,948	$47,279
Electric bill	$89	$73	N/A	$102	$66
PUMA 1403					
Number	2,106	441	248	95	914
Poverty	55.7	79.2%	82%	73%	62%
Income	$15,084	$13,550	$10,000	$12,000	$11,437
Electric bill	$82	$130	N/A	$120	$93
PUMA 1404					
Number	1,211	334	0	0	214
Poverty	49.6%	18.6%	N/A	N/A	73%
Income	$18,029	$2,035	N/A	N/A	$59,255
Electric bill	$81	$124	N/A	N/A	$153

NOTES:

/a/ Electric bills include only electric non-space heating expenditures.

- There are somewhat more households with school-age children (3,501) than with aging members (2,608).[1]

- While the income of households with children is somewhat higher in dollar terms than the income of households with aging members, the Poverty Level of the households with children is virtually the same. Indeed, households with two or more aging members have a somewhat higher ratio of income to Poverty Level, albeit (by design), the income is still below 100% of Poverty.

- While the income of households with pre-school children is somewhat higher in absolute dollar terms, the electricity bill of these households is substantially higher as well. Households with pre-school children have monthly electric bills 60% higher than all households with incomes below 100% of Poverty Level, while having electric bills 30% higher than households with one member over age 65.

- The highest electric burdens (bill as a percent of income) is experienced by households with one member over age 65 (10%) and households with school-age children (7%).

- Poverty level households in PUMAs 1401 and 1403 have noticeably higher electric burdens than poverty level households in other Pierce County PUMAs. In PUMA 1401, households with pre-school children (under age 6) and school-age children (age 6 – 17) have electric burdens of 7% and 11% respectively. In PUMA 1403, the electric burdens for households with pre-school children and school-age children are 12% and 10% respectively.

In sum, the aging population of Pierce County does not demonstrate substantially greater affordability needs than do households with children in the same area. The number of households with aging members and with children are roughly the same. In addition, the Poverty Level status of households with children is roughly the same as households with aging members. Indeed, the electricity bills for households with children are somewhat higher than households with aging members. No particular reason presents itself to offer utility bill assistance to households with aging members but not to households with children.

The problem addressed by a low-income discount is the inability to afford to pay home utility bills. The problem presents itself not by age of disability status, but rather by income level.

Moderate Program Changes

Two moderate program changes are recommended for the TPU low-income discount. These include:

[1] The number of households with children would be smaller than the sum of the two columns, since some households would fall into both categories (i.e., they would have both children under age 6 and children age 6 – 17.

- Making discounts retroactive to the beginning of the heating season for customers that apply during the heating season; and

- Allowing for the automatic enrollment of customers found to be income eligible by a public or private agency delivering a different type of public assistance.

Retroactive Discounts

TPU should apply its low-income discount retroactive to the beginning of the heating season in those instances where a customer enters the discount program before the end of the heating system. The design of the TPU program requires a low-income customer to enter the program through an application process. That application must be submitted to designated community-based organizations. Those organizations also take LIHEAP applications.

During the period of time in which TPU's administrative agencies are addressing not only Tacoma discount applicants, but LIHEAP applicants as well, staff indicates that there may be a considerable lag time between the date on which a customer is referred to an agency and the date on which the customer obtains his or her first interview with the agency in seeking to establish his or her eligibility. During this time, should the customer not be allowed to collect the discount retroactively, the customer is losing money. . .not because of his or her inaction but rather because of the administrative process.

The administrative process is not a failing of the local agencies. It is simply one aspect of energy assistance attaching to the way in which LIHEAP is funded. Not all LIHEAP participants are enrolled in the energy assistance program at the beginning of the year. And there is no incentive for LIHEAP to do so. Given that LIHEAP is provided as a lump sum payment, a steady stream of applicants more closely fits the administrative capacity of the LIHEAP office to process applications, certify households as eligible, and distribute benefits.

One primary problem with getting households to apply earlier does not lie with LIHEAP, but rather with limited federal funding for LIHEAP. As part of LIHEAP funding cutbacks, Congress has eliminated LIHEAP's "forward funding." As a result, the LIHEAP agencies in Washington State (along with every other state) do not know from year-to-year how much money they will have to distribute in LIHEAP benefits. As a result, the state does not know where to set its eligibility (or how aggressively to pursue program outreach) until after Congress appropriates the LIHEAP budget for that year. At times in recent years, Congress had not appropriated money for the program until *after* the program year began. LIHEAP must consider not only the official program year, but the effective program year as well. The effective program year is limited not only by *how much* federal money is provided by Congress, but by *when* it is provided as well.

Because of these program limitations, TPU customers should not be penalized by the Congressional appropriations process. The calculation of the total discount to be provided by TPU assumes that customers are eligible for the discount for the entire winter heating season. The program should operate to allow credits to be applied against bills previously incurred in the winter heating season in which they apply for LIHEAP, even if applications are not taken and processed before the beginning of the winter heating season.

Automatic Enrollment

TPU should adopt an automatic enrollment process for its low-income discount program. Known also as "express lane eligibility," an automatic enrollment process provides that an eligible customer may be enrolled in a program in any of three ways:

- A customer may apply for the discount program and establish his or her eligibility through the community-based organizations with whom TPU contracts to provide this service;

- A customer may apply for the discount program and establish eligibility for the discount by documenting his or her participation in a different program that has the same or stricter eligibility requirements. TPU uses this type of "express lane eligibility" in enrolling disabled customers upon a documentation of receipt of Supplemental Security Income (SSI). Also known as "adjunctive eligibility," this process adopts the simple notion that families who have met the income test for these income-comparable programs should have their eligibility expedited and do not need to provide duplicative income information to qualify for the TPU discount.

- Finally, express lane eligibility can be pursued through use of a single application. Through such a one-stop shopping process, families are required to fill out and submit information only once. A family applying for LIHEAP, for the local telephone lifeline program, for Food Stamps, or for other income comparable programs can ask to be enrolled in TPU's low-income discount as well. The administering agency would certify a household's eligibility to TPU without need of providing the exact household income. The only required information would be a yes/no indicator of whether the household is eligible.

In expanding its low-income discount program, TPU should expand its enrollment process as well. The use of "express lane eligibility" (or adjunctive eligibility) assures that the interests of the utility will be served in limiting the grant of the discount to income-eligible customers while minimizing the barrier that the application process, itself, presents to program enrollment.

Funding the Expansion of the Low-Income Discount

Tacoma Public Utilities can offer a reasonably priced electric rate discount program to all households in Pierce County with income at or below 100% of the Federal Poverty Level. Table 2 below presents a cost analysis of offering a discounted electric rate to Pierce County residents with income at or below 100% of the Federal Poverty Level. Based on data reported in the 2007 American Community Survey, roughly 30,000 households live with income at or below 100% of the Federal Poverty Level.

The Cost of an Expanded Electric Rate Discount Program: Tacoma Public Utilities (WA)
(all households below 100% of Federal Poverty Level) /a/

Below 100% Poverty (all)	Households with Electric Bills	Monthly Non-Heating Electric	Annual Non-Heating Electric	Annual Electric Burden	Average Annual Household Income	Average Poverty Level	Discount Level	Discounted Bill	Discounted Burden	Per Participant Discount (dollars)	Participation Rate	Total Cost
Sum PUMAs	28,510	$120.40	$1,445	8%	$18,908	58.0%	25%	$1,084	6%	$361	40%	$4,119,078
Puma# 01300, Washington	10,906	$152.20	$1,826	10%	$18,333	60.7%	25%	$1,370	7%	$457	40%	$1,991,869
Puma# 01401, Washington	4,425	$116.60	$1,399	7%	$21,366	52.7%	25%	$1,049	5%	$350	40%	$619,197
Puma# 01402, Washington	5,432	$99.80	$1,198	5%	$22,314	61.7%	25%	$898	4%	$299	40%	$650,500
Puma# 01403, Washington	5,800	$89.30	$1,072	7%	$15,270	55.2%	25%	$804	5%	$268	40%	$621,532
Puma# 01404, Washington	2,435	$113.40	$1,361	8%	$16,680	53.9%	25%	$1,021	6%	$340	40%	$331,400

The costs identified in this table are not incremental costs to the existing program. The incremental costs of the expanded program would be those costs above existing budget levels.

In making this observation, it is important to note the "or below" language of "at or below" 100% of Federal Poverty Level. In fact, these households live, on average, at 58% of the Federal Poverty Level.

These households spend roughly 8% of their total household income simply on their non-heating electricity bills. To be affordable, *total* home energy bills should not exceed 6% of income. Tacoma Public Utilities can reasonably address these unaffordable bills.

A program designed to expand the Tacoma Public Utility's 25% discount to all customers with income at or below 100% of the Federal Poverty Level would cost $4.2 million dollars. While this budget is larger than the current program –not surprising since its objective is to expand the population to whom the discount is offered—it nonetheless can be met with a reasonable system benefits charge.[2]

Table 3 presents the system benefits charge needed to fund a 25% discount program for customers with income at or below 100% of the Federal Poverty Level. The data on the number of customers by customer class was obtained from the 2007 Form 861 filed with FERC by Tacoma Public Utilities. The FERC Form 861 reports that, in 2007, TPU had:

- 146,708 residential customers;
- 14,952 commercial customers; and
- 3,461 industrial customers.

Given this customer base, a meters charge as follows will generate a rate affordability budget of $4.2 million:

- $0.80 per month for residential customers;
- $3.00 per month for commercial customers;
- $40.00 per month for industrial customers.

Tacoma Public Utilities: Low-Income Program Budget Given Fixed Meters Charge

	Number of Customers	Months	Monthly Charge	Program	Sales Revenue	Pct Increase
Residential	146,708	12	$0.80	$1,408,397	$127,515,000	1.1%
Commercial	14,952	12	$4.00	$717,696	$38,709,000	1.9%
Industrial	3,461	12	$50.00	$2,076,600	$116,837,000	1.8%
Total				$4,202,693		

[2] A corresponding expansion of the existing water/sewer and trash discount programs is not proposed. Empirical analysis of the burdens imposed upon low-income customers from these utility services indicates that, on average, bills fall within affordable ranges without an additional discount. The purpose of the expanded discount is not simply to provide additional benefits to low-income customers, but rather to address the unaffordable burdens imposed upon TPU low-income customers.

This meters charge yields results that are virtually identical to imposing a system benefits charge of roughly eight one-hundredths of a cent per kWh on the consumption of TPU customers. While a meters charge generates a budget of $4.203 million, a volumetric charge generates a budget of $4.167 million.

Tacoma Public Utilities: Low-Income Program Budget Given Volumetric Charge

	Usage	Volumetric Charge	Program Revenue	Sales Revenue	Percent Increase
Residential	1,885,268,000	$0.0008	$1,508,214	$127,515,000	1.2%
Commercial	760,805,000	$0.0008	$608,644	$38,709,000	1.6%
Industrial	2,562,171,000	$0.0008	$2,049,737	$116,837,000	1.8%
Total			$4,166,595		

The program budget proposed above involves gross program costs. Offsetting these program costs are two sets of resources:

- Existing program budgets, which would be wrapped into the proposed program; and
- Offsetting reductions in the normal operating costs of the utility, which reductions can be attributed to the operation of the program.

Experience with other low-income programs has found that low-income discounts will generate offsetting program expense reductions. In Pennsylvania, for example, reductions in working capital and bad debt, standing alone, have resulted in expense offsets of between 15% and 20% of total program costs.

In addition, properly designed and implemented programs can actually be revenue neutral when compared to low-income customer payments actually made in the absence of the program. In these revenue neutral circumstances, low-income customers pay a sufficiently higher proportion of their affordable bill to generate more total revenue than is generated without the discount.

Summary and Conclusion

The existing low-income discount offered by Tacoma Public Utilities is supported by sound utility policy. Restricting the discount to low-income seniors and disabled customers, however, excludes some of the most needy of TPU customers. The point of the discount is not to simply deliver dollars of benefits to specific vulnerable populations, but to deliver a discount to those populations that might otherwise have insufficient resources to routinely pay their TPU bill on a full and timely basis. Rather than chasing these customers through the TPU dunning processes, in what is frequently an unproductive (even counter-productive) fashion, the discount proactively recognizes the inability to pay and responds by providing an affordable bill.

Expanding the low-income discount to very low-income customers –defined as customers with annual income at or below 100% of the Federal Povery Level—would generate benefits to the utility as well as to TPU's low-income customers at a reasonable cost.

APPENDIX A:
COMPARISON TO OTHER PUBLIC BENEFITS CHARGES

The Low-Income Public Benefits Charge proposed for Tacoma Public Utilities above is consistent with other charges imposed for low-income programs around the nation. This conclusion is base don an inquiry limited to electric charges for low-income programs.

ILLINOIS

- $0.40 per month on each residential meter
- $4.00 per month on each non-residential meter with a load of less than 10 MW
- $300 per month on each non-residential meter with a load of 10 MW or more.

NEVADA

- 0.39 mils per "retail customer."[3]

NEW HAMPSHIRE

- System Benefits Charge of 3 mils per kWh of which 1.2 mils goes to low-income bill assistance (remainder going to energy efficiency).

NEW JERSEY

- Combined low-income system benefits charge for Lifeline and Universal Service Fund (USF) (both for low-income assistance): electric: $0.001324 per kWh (with 7% sales and use tax included).

OHIO

- Public Utility Commission of Ohio (PUCO) periodically sets the Universal Service Fund (USF) Rider for each Company (or upon application for a change in the Rider). The most recent decision was in a 2006 global proceeding resolved by settlement approved by the PUCO. The electric utility Riders that were approved in that proceeding included:

[3] Any retail customer paying more than $25,000 per quarter may obtain a refund of the excess payment over $25,000.

Electric utility	First 833,000 kWh per month	Above 833,000 kWh per month
Cleveland Electric Illuminating	$0.0008407 / kWh	$0.0005680 / kWh
Cincinnati Gas & Electric	$0.0008982 / kWh	$0.0004690 / kWh
Columbus Southern Power	$0.0010459 / kWh	$0.0001830 / kWh
Dayton Power & Light	$0.0009528 / kWh	$0.0005700 / kWh
Ohio Edison	$0.0012214 / kWh	$0.0010461 / kWh
Ohio Power	$0.0008635/ kWh	$0.0001681/ kWh
Toledo Edison	$0.0010652 / kWh	$0.0005610 / kWh

WISCONSIN

- Varies by year as established by the Wisconsin Department of Administration (*not* the Wisconsin Public Service Commission). However, by statute, "in any month, the low-income assistance fee may not exceed 3% of the total of every other charge for which the customer is billed for that month or $750, whichever is less."

SECTION 8.

EXPANDING THE USE OF BUDGET BILLING

Problem Statement #8

Low-income customers lack the necessary resources to set aside financial reserves. As a result, even if the household budgeting can cover all bills in a "normal" month, months with out-of-the-ordinary levels of bills result in nonpayment. Even a short-term nonpayment imposes costs on the utility and additional fees to the customer. In addition, short-term arrears sometimes begin a cycle of nonpayment that is difficult for the customer to break.

Strategy

Promote regular monthly payments by increasing bill predictability and reducing seasonal bill spikes.

Objectives

1. Reduce seasonal arrearages within the low-income customer population for whom budgeting provides marginally adequate annual income to meet annual bills.
2. Increase payment coverage ratio of low-income customer population.
3. Reduce collection interventions in the post-high-cost months as directed toward low-income customer population.

Tactics

1. Remove barriers to entry into budget bills.
2. Expand availability of budget billing.
3. Expand the available budget billing options.
4. Use budget billing as collection intervention.
5. Require budget billing as prerequisite to participation in low-income discount.

DISCUSSION IN SUPPORT OF EXPANDING THE USE OF BUDGET BILLING.

Budget billing is generally considered to be an effective tool for certain limited income customers to use in avoiding short-term arrears on utility bills. While budget billing cannot address a structural mismatch between household resources and household expenses, it can serve a variety of objectives for households where annual income is relatively adequate to pay annual bills. Levelized monthly budget billing provides the opportunity for customers with marginal incomes to pay their annual home energy bills in equal monthly billing amounts over the course of the year irrespective of the actual monthly bills the customer incurs.[1] Levelized budget billing offers three advantages to the economically marginal consumer.

- First, a levelized bill helps take the peak off seasonal weather-sensitive usage. High monthly bills that might present a problem in any particular severe weather month –that month can reflect either cooling needs or heating needs—are instead spread over several months.

- Second, a levelized bill helps provide certainty to the customer regarding what his/her payment responsibility will be. Rather than trying to "fit" an unexpectedly high summer cooling bill into a warm weather budget that is already strained because of the loss of the children's participation in the free and reduced school lunch/school breakfast program, a customer will know at the beginning of the summer cooling season what level of utility bill to expect each month.

- Finally, a levelized monthly budget billing plan represents a type of "forced savings" for economically marginal households. Rather than needing to set aside an estimated portion of the cold weather electric heating bills, in anticipation of accessing those savings to pay heating bills in cold weather months, the levelized monthly budget billing creates an obligation to pay the time-shifted winter bill when those bills are rendered a little at a time during the lower-usage months. The "overpayment" is accrued by the utility as a bill credit and applied to the higher-cost months as appropriate.

The Advantages of Budget Billing in Tacoma

The advantages of budget billing apply to Tacoma Power customers as well as they apply to customers of other utilities. The Table below presents typical monthly bills for Tacoma Power. The total annual bill is $836, or almost exactly $70 per month. The bills show a distinct seasonal pattern, however, ranging from a low of $45 (August) to $47 (July) up to a high of $103 (February) to $108 (January).

[1] Many levelized budget billing plans provide for occasional adjustments to the budget amount to reflect unanticipated changes in the customer's bill, up or down. While such adjustments can prevent a large "make-up" bill at the end of the year, or prevent a need for the customer to substantially overpay the bill, only to have it refunded at year's end, levelized budget billing plans with adjustments that occur too frequently lose the budgeting advantages which the levelized amount is intended to impart.

Typical Monthly Tacoma Power Bills and Increase/(Decrease) Using Monthly Budget Billing

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly bill	$108	$103	$86	$71	$60	$50	$47	$45	$46	$54	$70	$97
Budget bill	$70	$70	$70	$70	$70	$70	$70	$70	$70	$70	$70	$70
Difference	$38	$34	$16	$1	($10)	($19)	($23)	($25)	($24)	($16)	$1	$27

The table shows that the advantages normally attributed to budget billing would attach to Tacoma Power bills as well. Budget billing would serve the forced savings function in Tacoma. If customers enter their budget billing plan during the non-winter months –increases in Tacoma Power usage occur primarily in the months of December, January and February—they will effectively be called upon to prepay their higher winter bills. Since December through February bills reach more than twice as high as the lower months (July: $47.17; August: $44.70; September: $45.70), this prepayment function can be significant.

Moreover, budget billing would make electric bills more predictable. Customers would have a reasonable expectation of paying $70 each month (given a 12-month budget billing plan). This levelizing of payments would provide greater help during the high cost months than it would impose burdens in the lower cost months. In the three highest cost months, customers would experience bill reductions of $38 (January), $34 (February), and $27 (December). In contrast, there would be moderate bill increases in the three lowest cost months (July: $23; August: $25; September: $24). In two months, the budget bill amount is effectively the same as the normal bill (April, November).

The reductions found for the high cost months can be of substantial benefit to a low-income household. For a household with an income of $700 per month ($8,400 a year), the reduction of the December through January bills (averaging $33 a month) equals roughly five percent of the household's monthly income.

The Collections Impact of High Seasonal Bills

Tacoma Power does not maintain data on monthly bills or arrears, either on an aggregate or on an average customer basis. The utility does not have information on either the number of accounts in arrears or the dollars of revenue in arrears. Some conclusions can be drawn, however, from the limited data that is available.

As measured by the number of customers seeking payment extensions for current bills, seasonally high bills result in noticeably more nonpayment. Significantly more payment plans are "activated" in the warm weather months (lagged by one month to reflect arrears). The Table below presents the data from 2006, the only year for which there is data.

Clearly, more customers were seeking arrangements to pay past-due utility bills in the high cost months. Beginning in January (for bills rendered in December), there is a noticeable increase in the number of payment plans that are activated. The 6,008 January payment plans is 33% higher than the 4,500 payment plans activated in October and November, immediately preceding the higher cost winter months. Over the course of the five months in which payment plans would be

sought for higher cost winter bills (ranging from January for December bills to May for April bills), Tacoma Power customers sought nearly 40% more payment plans (31,745 during cold weather bill months vs. 22,804 for warm weather bill months).

Tacoma Public Utilities: Number of Payment Plans Activated by Month for Cold Weather Month and Warm Weather Month Arrears (2006)			
Payment Plans for Cold Weather Arrears		Payment Plans for Warm Weather Arrears	
January	6,008	July	4,844
February	8,206	August	4,457
March	6,254	September	4,491
April	5,232	October	4,506
May	6,045	November	4,506
Total cold weather	31,745	Total warm weather	22,804

The way in which TPU's winter arrears move through the system has been particularly evident in the past few years. The Table below presents the percentage of dollars that fall into the utility's oldest aging bucket. A February bill that is due, but not paid, in March would be 30-days in arrears in April; it would be 90-days in arrears in June. The flow of the increased high-cost winter arrears through the aging buckets, pushing the 90-day arrears as a percentage of total receivables higher during the warm weather months before receding as year wanes, is seen over the three-year period.

Tacoma Public Utilities: 90+ Day Electric Arrears as Percent of Receivables by Month by Year (2005 – 2007)								
Year	May	June	July	August	September	October	November	December
2005	8.70%	11.50%	11.50%	7.60%	7.70%	7.90%	4.60%	5.40%
2006	6.40%	8.30%	8.30%	9.10%	9.60%	9.50%	3.40%	4.50%
2007	4.70%	5.20%	5.20%	5.10%	6.10%	5.60%	4.0%	2.40%

The figures reported in the Table above represent a percentage of dollars. It would be reasonable to expect that had data been available on the percentage of accounts, a similar pattern would have emerged.

The aging of utility accounts not involving electricity is notable for *not* showing the same seasonable patterns. This lack of a pattern for services such as water, solid waste, sewer and the like lends further support for the conclusion that it is the seasonal variability of the bills that contributes to the pattern. No distinction is made in the data between customers receiving monthly or bi-monthly bills.

Finally, the impact of the seasonal nonpayment is evident from data showing how the collections process plays itself out. As customers either do not succeed on payment plans, or otherwise

work their way through the collections process, accounts owing money are eventually assigned to the collection agency for treatment. As the accounts come out of the winter months, the average dollar amount per account assigned to collections increases, before receding as the year wanes. Again, it is important to take account of the lag between the time an arrears is incurred and the time it works its way through the process sufficiently to be assigned to collections.

Tacoma Public Utilities: Electric Arrears Assigned to Collections by Month by Year (2005 – 2007)

Year	April	May	June	July	August	September	October	November
2007	$277.84	$334.60	$294.21	$330.79	$368.07	$321.01	$321.01	$270.06
2008	$333.10	$275.95	$341.22	$345.07	$359.68	$308.47	$308.47	$286.29

In 2007, of the five months where the per-account arrears was higher than the annual average of those accounts assigned to collections, four were in the months of May through September. In 2008, of the five months where the per-account arrears was higher than the annual average of those accounts assigned to collections, all five fell in the months of April through September.

The data on arrears and collections that is available for TPU paint a consistent picture. One observation that is significant is that, while the puzzle is incomplete, all of the pieces of the puzzle show the same patterns and tell the same story. The seasonality of Tacoma Power bills result in a sharp up-tick in nonpayment. As a result, there is a corresponding increase in the responsive collection activities during the higher-cost cold weather months. The seasonal patterns do not appear to be confined to one year, but rather recur from year-to-year. As a result of these seasonal patterns of nonpayment:

- The utility incurs a cost to maintain its cash flow to replace unpaid billed revenues;
- The utility incurs an opportunity cost as existing staff are devoted to addressing the increased workload associated with the seasonal nonpayment; and
- The utility experiences an increased risk of ultimate nonpayment as some customers leave the system due to their inability to pay.

Much of this nonpayment, however, is avoidable through budget billing.

Budget Billing Initiatives from Other Utilities

The Tennessee state utility regulatory commission faced similar circumstances in 2005. In the winter of 2005, states were faced with predictions that, due to a fly-up in natural gas prices, home heating bills would be as much as 50% higher than they had been the previous winter. In response to such predictions, the Tennessee Regulatory Authority "approved a budget billing plan under which a natural gas customer who cannot pay his or her monthly bill in total will be

enrolled automatically in an equal payment plan."[2] Based on the customer's historical usage, the company divides the customer's bill into 12 equal monthly payments; the payments are then trued up annually with the actual bill received by the customer.[3] The Tennessee program succeeded in reducing service disconnections without imposing undue risk on the state's utilities. Indeed, the program was extended due to its success.

Expanding the Use of Budget Billing

Tacoma Public Utilities should expand the use of budget billing in its residential customer base. The utility should both take those actions necessary to offer budget billing as a widespread billing option and increase the number of budget billing options that are available.[4]

Removing Barriers to Budget Billing

Part of the efficiency of using a budget billing plan to improve the seasonal affordability of home energy involves the extent to which such plans are available to those customers who would most benefit from them. If budget billing is made available only to persons who have the capacity to pay their bills irrespective of the time-shifting inherent in the levelized payment, the plan, while perhaps a sound money management tool, offers no "energy assistance" benefit for improving affordability.

It would be unreasonable to expect a utility to promulgate billing regulations that explicitly make levelized budget billing unavailable low-income customers who might most benefit from it. Public utilities do, however, often tend to promulgate internal procedures that have the *effect* of excluding the poor from taking advantage of levelized Budget Bills. TPU does not articulate the structure of its budget billing plan in its tariffs. As a result, the discussion below does not reference any particular TPU procedure or practice.

In addition to the practice of offering only annual budget billing plans, which practice *is* referenced in TPU policies, utilities often adopt availability criteria that have the effect of excluding the poor. Three such availability criteria stand out:

- **Minimum residency requirements:** Using the reasoning that effective estimates for budget billing depend upon a minimum billing history, some utilities limit the availability of budget billing only to customers who have a minimum of 12 months of residency at the address for which they seek the budget billing. The frequent mobility of low-income customers, particularly low-income tenants, would tend to exclude low-income customers under such an availability criterion.

[2] Historically, a customer was allowed to enter into a levelized budget billing plan only during the warm weather months, in order to pre-pay some portion of the expected heating bills for the forthcoming winter.
[3] "Winter Heating Bills," 3747 PUR Util. Reg. News 6 (December 9, 2005). TRA Docket 05-00281 (Order issued October 17, 2005).
[4] It is understood that TPU would need to modify its billing system in order to truly promote budget billing. Budget bills currently rendered by the utility are, at best, confusing and are frequently in error. Making the investment needed to allow the utility to offer a billing option as fundamental as levelized budget billing is recommended.

- **Limits on arrears:** Many utilities require customers to be free of arrears in order to enter into levelized budget billing plans. Unfortunately, it is the *presence* of arrears that may well be the indicator of a need for budget billing. Those customers who have a marginal ability to pay, but simply cannot afford the higher winter bills associated with heating load, can be expected to exhibit particular payment patterns. Rather than excluding customers with arrears from budget billing, TPU would be well-served to seek out those customers who have seasonal arrears combined with a documented willingness to pay *something* during the winter heating months, even if that "something" is less than full payment.

- **Commencement date:** Many utilities restrict the months in which a customer may enter a budget billing plan to the late spring and early summer months. Companies adopting this procedure do not view budget billing as a mechanism to levelize high winter bills. Instead, they view budget billing as a mechanism through which to obtain prepayment of a customer's winter bills. Low-income customers needing to shave the spike off of home heating bills may well not *know* of the benefits, or even of the existence, of levelized budget billing during a late spring/early summer enrollment period. Indeed, it is likely that it is an unaffordable winter bill that brings the household into contact with the utility, or with an energy assistance agency that can steer the customer onto a levelized budget billing plan beginning in the winter months.

Indeed, as referenced above, Tennessee has found its gas utilities –it is the natural gas utilities in Tennessee that demonstrate substantial seasonal bill variation—have been well-served by making budget billing *mandatory* for customers in arrears during the high cost months. While such an approach is not yet recommended for TPU, TPU Budget Bills should be made available irrespective of arrears status, irrespective of length of residence, and irrespective of the date a household seeks to begin its Budget Bill.

Finally, utilities are increasingly conditioning the grant of their low-income discounts on an agreement by the discount recipients to move to levelized budget billing. Xcel Energy, doing business as Public Service Company of Colorado (PSO), recently implemented a percentage of income-based rate discount requiring participants to take service under budget billing. So, too, do electric utilities operating the Maryland Electric Universal Service Program (EUSP), as well as the natural gas utilities operating the Indiana Universal Service Program (USP), require participants to take service under budget billing. TPU should adopt a mandatory budget billing requirement for its low-income discount.

Increasing Budget Billing Options

In addition to removing barriers to participation in budget billing, TPU should offer an alternative budget billing option. Experience counsels that many customers do not wish to enter into budget billing that significantly increases their warm weather month bills. Even though the whole purpose of budget billing is to time-shift part of a bill, the realization that the elimination of the high winter bill *also* means the corresponding elimination of the low summer bill (assuming a heating customer) creates a barrier to budget billing enrollment.

Given this recognition, TPU would be well-served to offer something other than an *annual* budget-billing plan. A "winter-only" plan would help guard against the high winter bills while also preserving the low-cost summer months for the customer. The data clearly shows that many customers in arrears are simply engaging in short-term time-shifting of high winter bills without the structure of a budget billing plan. Increases in monthly arrears for the residential class as a whole truly begin with the January bill. Moreover, by May, those arrears are being significantly paid down.

To allow customers to move some of that time-shifting *forward* rather than having it merely be *backward* would be consistent with the desire to keep bills paid, and the demonstrated inability to make that happen in the high cost winter months. To move some of those January through March dollars forward to the lower cost months immediately preceding winter should help lower arrears without running afoul of the customers' desires to retain their low-cost summer bills.

Summary and Conclusions

Previous TPU analyses have recommended that the utility place a greater reliance on budget billing. In its June 30, 2008 *Benchmarking Report* for Tacoma Public Utilities, UtiliPoint International recommended that Tacoma Public Utilities "should consider some or all of the following":

- "Offer budget payment plans to customers who indicate they have cash flow issues"; and

- "Offer service payment options including e-bill, direct pay, credit cards, etc. for customers who indicate concerns about writing monthly checks."[5]

The appropriateness of those recommendations is again noted. Indeed, as indicated above, the use of budget payment plans can be promoted and utilized in a variety of ways. Moreover, while the variety in "payment options" is not directly addressed in this discussion, the need for a variety in billing options, even within the budget billing environment, is noted.

Promoting the increased use of budget billing would help Tacoma Public Utilities respond to much of the seasonal nonpayment currently experienced on the utility system. The seasonal nonpayment affects not only customers, but it affects the utility as well. The impact of seasonal nonpayment on 90+ day arrears shows the impact on utility cash flow. The impact of seasonal nonpayment on the number of customers seeking deferred payment arrangements shows the impact on utility customer service staff. The impact of seasonal nonpayment on the level of arrears being referred to collections shows the impact on utility risk of write-offs.

To respond to this seasonal nonpayment, TPU should expand both the availability of budget billing and the range of budget billing options.

[5] UtiliPoint International (June 30, 2008). *Benchmarking Report for Tacoma Public Utilities An Independent Customer Care and Billing Benchmark*."

SECTION 9.

REFORMING THE USE OF DEFERRED PAYMENT ARRANGEMENTS

Problem Statement #9

The inadequacy of household resources for low-income customers poses a particular problem when low-income customers fall behind on their utility bill payments. The inability to retire arrears threatens not only the ability of the utility to collect those previously billed revenues, but also threatens the ability of the utility to bill and collect future revenues as well. The presence of arrears on a low-income account calls for an ongoing balancing of the need to obtain past and future payments out of a limited customer budget.

Strategy

Allow retirement of arrears over time through reasonable deferred payment arrangements.

Objectives

1. Reduce arrearages within very low-income customer population.
2. Improve successful payment of arrears through payment plans with no future collection intervention.
3. Decrease intensity of collection intervention applied prior to payment of arrears.
4. Reduce overall collection interventions directed toward customers in arrears.

Tactics

1. Reform deferred payment arrangement (DPA) process to create DPAs within the existing collection process.
2. Create extended payment plan. Create bifurcated payment plans for large arrears.
3. Incentivize entering and keeping DPAs through the waiver of late payment charges on arrears subject to payment plans.

DISCUSSION IN SUPPORT OF THE REFORM OF DEFERRED PAYMENT ARRANGEMENTS.

Tacoma Public Utilities should modify its processes for offering deferred payment arrangements to allow low-income customers (and others) a reasonable opportunity to retire arrears. Current TPU processes require a customer to retire arrears through any deferred payment arrangements before the utility issues its next bill for current usage.

The process can yield absurd results. If a customer owing $500 in arrears calls ten days prior to the next billing date, TPU customer service representatives will require a 50% downpayment ($250) with the remaining $250 to be paid in the next ten days. If that same customer would have called with the same $500 arrears 45 days before the next (bi-monthly) billing date, the customer would have been required to make a downpayment with six weeks to retire the remainder. As one customer service representative interviewed for this project observed, the earlier in the billing cycle a payment-troubled customer calls, the more lenient the payment terms will be, so long as, in every case, the balance is retired before the next billing date.

The process does not appear to be working. TPU's 2008 UtiliPoint benchmarking study (June 2008) reported that "TPU has a higher than typical number of broken payment arrangements." UtiliPoint further noted that "TPU also has a significantly higher number of contacts logged as making payment arrangements." According to that benchmarking study, nearly 50% of TPU's payment agreements fail. While TPU has 4,400 "total payment agreements" in any given month, it has 2,000 "broken payment agreements" in a month. In contrast, the Reference Group Average involved 14,733 payments agreements in a month, with 2,615 broken agreements. As can be seen, while the Reference Group average demonstrates a roughly one-in-six failure rate, the TPU process documents almost a one-in-two failure rate.

The UtiliPoint data is consistent with other TPU information. According to TPU-provided data:

- In 2007, the utility had 49,382 "activated" installment plans and 24,965 "deactivated" plans;[1]
- In 2006, the utility had 64,637 activated installments plans and 30,856 deactivated plans.

The process of making deferred payment arrangements that customers simply cannot afford to fulfill is not without cost to the utility. Even if no additional customer staff is needed to respond to "broken" payment plans, the effort needed to respond to those customers subject to broken plans diverts staff away from other productive work.

The data reported by UtiliPoint should be of concern to TPU. Out of 80,139 total contacts logged by UtiliPoint in one month, 22,700 (28.33%) involved payment plans, while 2,200 (2.75%) involved broken payment plan terms. These figures are substantially higher than the comparison utilities:

[1] 2007 data was year-to-date through October.

- The 28.33% was nearly six times higher than the comparison "small electric utility" (4.82%) and more than ten times higher than the Reference Group Average (2.42%);

- The 2.75% of contacts responding to broken plans was more than twice as high as the comparison "small electric utility" (1.22%) and more than three times higher than the Reference Group Average (0.83%).

Other contacts, it should be noted, may also be related to the offer of unaffordable payment plans, even though the contact was classified as relating to some other category. The UtiliPoint benchmarking study reported that:

- A substantial number of "energy assistance" inquiries were made (2.75%), more than an order of magnitude higher than either the small electric utility comparison utility (0.05%) or the Reference Group Average (0.01%).

- A substantial number of service transfers were logged by TPU (3.49%), again significantly higher than either the comparison small electric utility (0.47%) or the Reference Group Average (0.11%).

Providing more reasonable payment plans is likely to generate additional revenue collection to the utility rather than placing more revenue at risk. TPU has administered a pilot deferred payment plan program since November 2007. This pilot initiative has been directed toward past-due accounts that have been sent to collections.[2] Through this pilot, TPU offers more flexible payment arrangements than the standard offer through customer service representatives.[3] The payment plan pilot provides the following payment plan options:

Collection Account Payment Options			
If Customer Cannot Pay Any Downpayment		If Customer Can Pay 25% Downpayment	
Initial Balance	Payment Plan Term	Initial Balance	Payment Plan Term
Up to $499.99	2 months	Up to $499.99	3 months
$500 - $999.99	4 months	$500 - $999.99	6 months
$1,000 - $1,499.99	6 months	$1,000 - $1,499.99	9 months
$1,500 or more	9 months	$1,500 or more	12 months
If a customer fails to keep one payment arrangement, an additional arrangement will be provided with a downpayment of 25% plus all outstanding fees. If a customer fails to keep a second payment arrangement, no additional arrangement will be provided. All charges, including accrued interest, becomes immediately due.			

In addition to the more flexible payment terms, TPU offers to waive its 1% per month interest payments on the new payment plan.

[2] To be sent to collections, an account must have been final billed with an outstanding arrears. TPU assigns accounts to its collection agency for collection without selling those accounts to the agency.
[3] The standard offer involves a 50% downpayment with the balance paid before the next bill.

The results of the new flexible payment plan terms are encouraging. A comparison of collections outcomes between 2007 and 2008 documents a significant improvement in revenue recovery. This improvement occurred notwithstanding the economic crisis that enveloped the nation in the fall of 2008.

The two years presented virtually identical collections potential:

- While $2,404,114 was assigned to collections in 2007, $2,404,562 was assigned in 2008, an increase of $449.

- While 7,798 accounts were assigned in 2007, 7,992 accounts were assigned in 2008, an increase of only 194 accounts.

- While an average arrears of $308.30 was assigned to collections in 2007, an average arrears of $300.87 was assigned in 2008, a decrease of $7.43.

Despite the virtually identical circumstances, the collections outcomes were substantially more positive under the flexible collections terms.

- In absolute dollar terms, gross total collections increased by $266,595 from 2007 to 2008. This represents an increase of more than one-third form $741,336 in 2007 to $1,007,930 in 2008.

- The vast majority of the collections increase was returned to the utility. The $266,595 was generated with an increase of only $18,000 to the collection agency. In contrast, TPU netted $248,614 through the new flexible terms.

- Of the increased collections of $260,595, only $6,321 was paid in additional dollars through TPU. The increased collections were driven by increased payments through the flexible terms offered by the collections agency, not by additional dunning activity on the part of the utility.

- The collection agency experienced an across-the-board increase in collections. In each month during 2008, the agency collected more than in the corresponding month of 2007. By the end of the year, the agency had more than doubled its annual collections, from $228,109 in 2007 to $488,377 in 2008, an increase of 114%. This doubling was generated from a cumulative total increased assignment of arrears to collections of less than $500.

- The agency improvement stands in sharp contrast to the success of TPU dunning. In six months during 2008, payments to TPU were below the payments in the corresponding months of 2007. For the year, payments to TPU increased by something more than 1%.

- The improved collections appear to be continuing in 2009. While assignments to collection in the first two months of 2009 were actually *less* than in the first two months of 2007 ($358,656 vs. $362,700), the payments to the agency during that two-month period were nearly $55,000 higher. In January and February 2009, the agency had collected an amount that it took more than five months to collect in 2007, even thought the 2009 assignment to collections was lower.

Finally, the improved collections attributed to the agency can be viewed from the effective number of cleared accounts. In 2007, the agency collected $228,104 off an average assignment of $308 per account. The agency, in other words, effectively cleared 740 of the 7,798 accounts assigned to it ($228,104 / $308 = 740). In contrast, in 2008, the agency collected $488,377 off an average assignment of $301 per assigned account. The agency thus effectively cleared 1,490 of the 7,992 accounts assigned to it ($488,377 / $301 = 1,490). The agency was clearly not only more effective at generating additional dollars, but also more efficient in collecting revenue from the assigned accounts under the flexible payment terms process.

Summary and Recommendations

Several empirical observations and conclusions can be derived from the data available on the flexible payment plan terms initiative. Recognizing that only two months of 2009 data are available, it is nonetheless possible to observe and conclude:

- A higher proportion of revenue assigned to collections is collected through the flexible payment plan terms;

- A higher percent of the dollars assigned to collections is being paid to TPU; and

- A higher percent of the dollars actually collected are being paid to TPU.

Collections Under Flexible Payment Plan Terms

	2007	2008	2009 /a/
Percent collected of that assigned	31%	42%	58%
Percent paid to TPU of that assigned	26%	36%	54%
Percent paid to TPU of that collected	84%	86%	92%
Percent accounts effectively cleared of those assigned /b/	9%	19%	N/A

NOTES:

/a/ 2009 represents year-to-date information through February.
/b/ "Cleared accounts" equals amount of total collections divided by average arrears per account assigned.

Based on the data and analysis presented above, it is recommended that the flexible payment term initiative be made permanent for accounts assigned to collection. In addition, implementation of two modifications would improve the outcomes of the initiative further:

- The two-strikes-you're-out policy should be modified. After a second defaulted payment plan, an additional plan should be permitted for the specified plan terms upon a 50% downpayment. A succession of plans, each with a 50% downpayment, could be expected to generate more collections than an immediate demand for full payment;

- Customers who default on a payment plan should be allowed to reinstate that plan by "curing" missed payments. A cure would involve making up all missed payment plan payments (along with all missed payments toward current bills incurred during the payment plan months). Once cured, the payment plan is reinstated at the point and under the conditions that would have existed had all payments been made in a full and timely fashion with which to begin.

In addition to extending the flexible payment plan terms to become a permanent part of the infrastructure for accounts sent to collections, the flexible payment plan terms policy should be extended to active accounts as well. Recognizing that current payment plan terms are largely driven by the technological inability of TPU's billing system to extend a due date for payment plan payments past the next due date for a current bill, it is recommended that TPU make the needed capital investment to correct the SAP deficiency. During the interim period, a workgroup charged with developing work-arounds is recommended.

SECTION 10.

REFORMING SERVICE DISCONNECTION PROCESSES

Problem Statement #10

Given the lack of resources in the budget of a low-income household, the payment of utility arrears presents a dilemma to the customer. On the one hand, every dollar of household income that is devoted to retiring arrears is a dollar that is *not* available to pay bills for current usage. On the other hand, if a low-income customer simply has inadequate resources to pay his or her current bill plus retire an arrears, the process of contacting the utility is likely to be seen as a futile endeavor, an effort that will accelerate rather than delay the ultimate objective of maintaining service. Nonetheless, despite the fact that the larger an arrears becomes, the greater the dilemma and the more difficult it will be to resolve the dilemma, there is no intrinsic incentive for a low-income customer to engage a utility contact unless the customer views that contact as being potentially productive.

Strategy

Improve the efficiency of existing utility processes to ensure that such processes facilitate rather than impede the successful collection of outstanding bills.

Objectives

1. Reduce arrearages within very low-income customer population.
2. Increase payment of arrears with minimum collection intervention.
3. Decrease intensity of collection intervention applied prior to payment of arrears.
4. Reduce overall collection interventions directed toward customers in arrears.

Tactics

1. Target disconnect for nonpayment (DNP) notices only to those with arrears at or above average arrears subject to DNP.
2. Notify consumers/agencies of the minimum amount of payment needed to stop a pending disconnection of service as part of a Call Center contact.
3. Provide 30-day “hold” for referral to energy assistance agency.

DISCUSSION IN SUPPORT OF REFORM OF SERVICE DISCONNECTION PROCESSES.

Tacoma Public Utilities should make modest changes to its process of providing notices of the potential disconnection of service for nonpayment (DNP). Not only is the existing DNP notice process inconsistent with the stated objective of such notices, but the DNP notice process is likely even to be counter-productive to the prompt collection of unpaid bills.

Articulating the Objective of Service Disconnections and Disconnect Notices

The objective of a service disconnection for nonpayment for Tacoma Public Utilities can be derived from the customer service regulations set forth in the Tacoma Municipal Code. According to the Municipal Code, if bills rendered to Tacoma utility customers "are not paid when due, they shall become delinquent, the Director shall, *if the same is necessary to enforce payment of said bills*, cause a discontinuance of service from the premises affected by such delinquency and service shall remain off until arrangement satisfactory to the Director has been made covering payment of the delinquent bill." (emphasis added)[1]

The function of a DNP notice then flows from this right to terminate service for nonpayment. According to the Tacoma Municipal Code, with unrelated exceptions, "termination of electric service to a premises. . .shall not occur until: (1) Tacoma Power has provided the customer reasonable notice of the intent to terminate electric service; and (2) the customer has been offered the opportunity of a hearing before a hearing officer."[2]

These sections of the Code make clear the objectives of the disconnect process. The disconnection of service is to occur if "necessary to enforce payment of [Tacoma utility] bills." The disconnect notice is to notify the customer of the "intent to terminate electric service." While the cited Municipal Code sections relate to electric bills, the policy statements would be equally applicable to other Tacoma utility services.

The Shortcomings of the TPU Disconnect Notice Processes

It is common for utility companies to send out shutoff notices when they have no intent to terminate service. Either the utility does not have the staff to effectuate a service discontinuance for each customer receiving a notice of discontinuance, or the company finds that it is not cost-effective to discontinue service for customers with arrears that are either less than some internally established "treatment amount" or younger than some internally-prescribed threshold.

"Over-Noticing" Service Disconnections for Nonpayment

TPU staff, as well as the *Credit and Collections Guidelines* (2005), acknowledge that disconnect notices to customers with unpaid bills are computer-generated notices that are sent to all delinquent customers without respect to whether there is a current intent to actually disconnect service. According to the *Credit and Collections Guidelines*, there are two levels of a "disconnect notice" (as distinguished from a "Warning Bill"):

[1] Tacoma Municipal Code, §12.06.110(B) (2009).
[2] Tacoma Municipal Code §12.06.115(E) (2009).

- a "Dunning Level 2" disconnect notice "is when the customer receives a notice from the utility that they (sic) are about to be disconnected if they don't pay the past due amount. It is mailed 25 days after the due date of the original invoice. . ."

- a "Dunning Level 3" disconnect notice "is the actual disconnection notification that is sent to the Field Investigator to go to the premise and disconnect the service. The notification is created and sent to the field 32 days after the original due date of the invoice."

As is evident from these Guidelines, issuance of the disconnect notices are driven by the time that has elapsed since the "original due date of the invoice."

The disconnect notices, themselves, do not distinguish between whether the customer is, in fact, in imminent danger of disconnection for nonpayment. The notice states: "This account must be brought up to date within 48 hours or services are subject to disconnection without further notice. A reconnection fee will be charged to restore service." The notice certainly does not provide completely accurate information on the payment that is required. For example, rather than being required to bring the account completely "up to date" to avoid service disconnection, the customer would, in fact, be required only to make sufficient payment to reduce the outstanding balance below the dunning amount.

The over-reliance of Tacoma Public Utilities on what it terms "delinquency notices" has been previously communicated to TPU. According to the June 2008 customer care and billing *Benchmarking Report* prepared by UtiliPoint International, "TPU sends a unusually high number of delinquency notices in relation to collections calls and outstanding balances." According to the UtiliPoint benchmarking report, TPU issues a average of 50,200 delinquency notices each month. This volume of delinquency notices is three times higher than the "small electric utility" used by UtiliPoint as a benchmarking comparison (17,724 delinquency notices each month), and five times higher than the "reference group average" (10,762 delinquency notices each month) in the benchmarking study.

The problem with automatically sending computer-generated "shutoff notices" at a prescribed time after the due date on a bill is that not all delinquent bills are subject to the disconnection of service. TPU has established dunning thresholds for the collection of accounts. For residential bi-monthly bills, balances of between $200 and $400, for example, receive a disconnect notice 25 days after the original due date, but no field notice is generated. For residential monthly bills, accounts with a balance of between $70 and $100 receive a disconnect notice 25 days after the original due date, but no field notice is generated.

The Business Cost of Over-Noticing Service Disconnections for Nonpayment

Aside from the unlawful nature of threatening collection activities when no present intent exists to engage in those activities, the provision of a notice of a service discontinuance when there is no present intent to engage in the discontinuance is counterproductive to the entire purpose of notice with which to begin. The purpose of a notice is to provide a clear and believable warning

that a service termination is about to occur. In response to such a notice, the customer must either take the steps necessary to prevent the service termination or take those steps needed to protect himself or herself against the dangers to life, health and property that might result from the loss of service.

As can be seen, TPU appears to have fallen into the same trap as did Columbia Gas Company, an Ohio utility whose disconnect notice policies were challenged in federal court.[3] In rejecting the reasonableness of the notices of that Ohio utility, the court found that the company issued between 120,000 and 140,000 notices per year, only about 4% of which were followed by actual terminations. The Federal Circuit Court held that "it is clear that the flood of final notices sent out by the company was, as the District Court expressed it, "a wolf kind of notice" which does not conform to the constitutional requirements that notice be truly informative and be given at a meaningful time."

The purpose of this reference to the Columbia Gas court decision is not to imply that TPU's notice policies raise constitutional issues (though they do). Instead, this discussion is to urge that, as found by the *Palmer* court, the repeated issuance of notices does not conform to requirements that notices be truly informative and be given at a meaningful time. As the *Palmer* court noted: "what we have here is a wolf kind of notice that is very convenient for the computer to issue, but is not, I think, what the statute contemplates, which. . .is a meaningful notice that applies to the person who is going to be affected by it and will be followed by some action."

In TPU's situation, it is not a "statute" that provides the reference point. Rather, it is the municipal code that provides that disconnections are only to be implemented when necessary to enforce the payment of bills. Disconnect notices are to be issued to convey the intent to disconnect service.

Finally, TPU should be aware of the business cost to issuing empty collection threats as well. A study by the New York Public Service Commission staff, for example, reported that:

> The effectiveness of Final Termination Notices as a means to encourage payments or to make payment arrangements prior to field action has deteriorated. The rate of customer non-responses to Final Termination Notices has increased from 33% in 1983 to 46% in 1987. This may result in part from customer perception that utilities threaten to terminate service, but rarely do. In 1983, 16% of the customers who did not make arrangements on their arrears in response to a termination notice had their service terminated; in 1987, only 9% of those customers had their service terminated.[4]

While the New York report is somewhat dated, its conclusions are timeless. When a utility repeatedly issues shutoff notices warning customers of an imminent pending service disconnection unless bills are paid in full, without following up those notices by performing the

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[3] *Palmer v. Columbia Gas*, 479 F.2d 153 (6th Cir. 1973).

[4] David Sawyer and Phillip Teumin, *Gas and Power Utility Uncollectibles and Collection Activity*, A Report by the Consumers Services Division of the New York State Public Service Commission.

threatened collection activity, it conveys the message that customers may ignore the shutoff notice with no adverse result arising.

Consistency with the Purpose and Objective of Issuing Service Disconnection Notices

In order to assess the notice provided by a utility to its customers, TPU should again consider the purposes and functions of a notice. Through a shutoff notice, a consumer should be provided with the information she needs to quickly and intelligently take available steps to prevent the threatened termination of service. The notice should meet sufficiently stringent standards so as to protect all customers, given that customers are of various levels of education, experience and resources. The notice should be made at a meaningful time and in a meaningful manner. It should present truthful information. To meet the requirement that the notice be "meaningful," it must give a clear and believable warning that termination is about to occur. The key word in this formulation is that the notice be "believable."

The issuance of a shutoff notice must be read in light of the purpose of a notice. Shutoff notices serve a number of different functions. One function is to permit the customer to contact the utility, make payment, or arrange an affordable deferred payment arrangement. However, other functions are served as well. One *different* function of a shutoff notice is to permit the customer to make alternative plans after service is, in fact, terminated. Consider, for example, that the right to receive notice does not depend upon the right to contest the disconnection of service. Regardless of whether a customer has a right to contest a discontinuance of service, he or she certainly has a right to know that service is being discontinued to enable him or her to protect himself or herself from damages that might occur as a result.

By sending repeated disconnect notices, with no collection follow-up, TPU destroys the message contained by the notice.

Recommended Reforms of the Service Disconnection Notices

Based on the above data and discussion, TPU should adopt the following policies with respect to the issuance of notices regarding the potential disconnections for nonpayment:

- TPU will not threaten to terminate service when it has no present intent to terminate service or when actual termination is prohibited by law. Notice of the intent to terminate will be used only as a warning that service will in fact be terminated in accordance with stated TPU procedures, unless the ratepayer or occupant remedies the situation which gave rise to the enforcement efforts of the utility.

- TPU will issue every notice of a pending disconnection of service for nonpayment at a meaningful time and in a meaningful manner. To meet this standard, a TPU shutoff notice will contain the following specific information and meet the following specific standards (1) a TPU shutoff notice will state the reasons for having the utility seek the termination of service; (2) a TPU shutoff notice will give a clear and believable warning

that termination is about to occur; and (3) a TPU notice will fully inform the consumer of the required procedure by which the proposed termination can be avoided.[5]

- TPU shall not make a practice of delivering more than two consecutive notices of discontinuance for past due bills without engaging in the collection identified in the notice absent bill payment by the customer.

Low-Income "Holds" on Service Disconnections

Most utilities argue that the disconnection of service is a collection tool to be used to minimize uncollectible accounts. The assumption behind this argument (often unstated) is that the disconnection of service thus leads to the least-cost provision of service to remaining, paying, customers. As will be seen, however, even if the premise is true (that the disconnection of service is an effective collection tool), the conclusion (that it results in least-cost service) does not necessarily follow.

The Implicit as well as Explicit Costs of Disconnecting Service for Nonpayment

The disconnection of service yields both implicit and explicit costs to the utility. Perhaps the most notable explicit costs is the loss of revenue due to bad debt. When customers are removed from the system, TPU tends to lose the majority of dollars that represented the outstanding arrears. When customers have received their final bill and been removed from the TPU system, they are ultimately referred to collections for further processing. In 2007, the utility referred $2.4 million to its collection agency. The agency collected $740,000 (31%), of which $120,000 was kept by the agency as fees (resulting in a 26% collection rate for TPU). In 2008, TPU referred $2.4 million to its collection agency. The agency collected $1.1 million (42%), of which roughly $140,000 was kept in fees (resulting in a 36% collection rate for TPU).[6]

In addition to out-of-pocket lost revenue experienced by TPU, the utility, of course, also lost the expenses associated with the carrying costs of the revenue assigned to collections, the expenses associated with the staff collection activity and customer services directed toward those accounts, and the opportunity costs associated with addressing the nonpayment by these customers rather than other payment-troubled customers.

The implicit costs are substantial as well. With low-income customers, in particular, the costs of disconnecting service are even higher than the costs associated with non-low-income customers. This is true when there is a fee designed to pass on the cost of the disconnect/reconnect process to the affected household as well as when there is not. Even when the cost of disconnection and reconnection is fully recovered from the nonpaying low-income household, that fee tends to divert limited household funds from the payment of current usage to the payment of the costs of the collection process, to the detriment of all involved.

[5] In this respect, informing customers that their only option to avoid the disconnection of service is to pay the "full" bill, when, in fact, payment of a lesser amount that would bring a balance below the dunning level is not only misleading and deceptive, it places at risk receiving partial payments by the utility.

[6] A discussion of how the agency increased its collections not by becoming "stricter" with its payment terms, but rather by providing more reasonable payment terms is set forth in the discussion of deferred payment arrangements.

A utility does not benefit its "paying" ratepayers if, through the disconnection process, it *increases* the unpaid debt of the disconnected household. In the event that a customer makes no payment toward her outstanding arrears, the utility goes uncompensated for both the initial arrears plus the uncompensated cost of the disconnection process. All the utility has thus accomplished through the disconnection process in this case, therefore, is to increase the loss to remaining ratepayers.

Even assuming that the disconnect/reconnect process is paid for through disconnect/reconnect fees, a household which is not permanently removed from the system, but which instead merely has its service disconnected and reconnected, ends up necessarily owing *more* than the arrears underlying the disconnection in the first instance. At the time of reconnection, in other words, in addition to the arrears which led to the disconnection, the household is responsible also for paying any disconnect and reconnect fee. Because of these additional payment obligations, when the household is poor, everyone loses.

The conclusion that imposing a disconnect/reconnect fee can be a losing financial proposition, however, does not depend for its efficacy on an assumption of nonpayment or partial payment. Even in those instances where the customer makes full payment of the outstanding arrears, the utility cannot be found *ipso facto* to have benefitted from the disconnect/reconnect process. So long as the late paying household has a limited *corpus*, if some part of the household's ability-to-pay is diverted to paying disconnect/reconnect fees, there is that much less left to pay current bills.

As with the partial payment, given this information, the question which TPU must face is whether, by increasing the total outstanding bill owed by the low-income household, the utility is in effect diverting scarce household resources from the payment of current monthly bills to other expenses. If indeed this is the case, and if indeed the household has a limited amount of money that can be devoted to its utility bill, the presence of an $60 fee for a disconnect/reconnect expense can only have the impact of putting future payments toward current monthly bills at greater risk.

The Recommended Change in Low-Income Disconnect Procedures

Tacoma Public Utilities should adopt a 30-day “hold” provision for customers that it has identified through its Early Identification Program (discussed elsewhere in these planning documents) as likely being low-income.

The 30-day hold provision could, for example, be based on the regulations of the Iowa Utility Board (IUB). IUB regulations provide that “if the utility is informed that the customer’s household may qualify for winter energy assistance or weatherization funds, *there shall be no disconnection of service* for 30 days from the date the utility is notified to allow the customer time to obtain assistance.” (Iowa Admin. Code, §199-20.4(10)). (emphasis added). Postponing the disconnection of service is mandatory under the regulation.

Implementing a 30-day hold provision would allow reasonable time for TPU's network of community-based organizations to undertake the process by which to determine whether the customer is eligible for public assistance. Public assistance may come in the form of energy assistance toward current bills, energy assistance directed toward arrears, TPU's low-income discount, or other public and private income-supplements. Allowing the 30-day hold for customers identified in the SAP as being "low-income" will lessen the likelihood that the customer will be found ineligible for assistance.

Allowing the 30-day hold presents a least-cost mechanism for obtaining payment of an outstanding utility bill. The implementation of a 30-day hold provision does not impose either the explicit costs or the implicit costs identified above as arising from pursuit of the service disconnection process.

Moreover, allowing such a 30-day hold is most consistent with the objective articulated in the Tacoma Municipal Code. As noted above, the Municipal Code provides that the disconnection of service is to occur *only* when such service termination "is necessary to enforce payment of said bills. . ." If a customer is identified in SAP as likely being low-income, the availability of public assistance makes it more likely that the outstanding bill can be paid without resort to a service disconnection.

Summary and Conclusions

In the world of collections, more is not always better. With utility collections in particular, several tests should be applied to determine the propriety of utility dunning activities. Whether a utility collection practice is effective is but one question in the analysis. Whether the utility collection practice is cost-effective, as well as whether the practice is efficient in operation, present further tests to apply.

TPU should modify its disconnect process to improve the effectiveness, cost-effectiveness and efficiency of its existing termination notice processes. In particular, TPU tends to over-notice the disconnection of service. When TPU routinely provides a notice of its "intent to disconnect" service so many times, with no follow-up activity, payment-troubled customers learn that they need not pay particular attention to the receipt of a shutoff notice. As one Ohio utility's shutoff notices were described, the computer-generated shutoff notice that does not presage the collection action communicated in the notice becomes a "wolf type" of warning.

TPU should modify its disconnect notice process. TPU notices of disconnection should provide clear and believable warnings of the imminent disconnection of service should payment not be made. Moreover, the utility should notify customer not only of the need for full performance, but of what payment performance is required to prevent further dunning activity.

Finally, TPU should emulate the customer service regulations of other states in providing a "hold" provision for customers identified as "low-income" (which identification is recommended and discussed elsewhere). This "hold" process allows an identified low-income customer to apply for and receive a determination of eligibility for public and private assistance that might resolve the customer's payment emergency. The "hold' process not only makes it more likely

that an unpaid low-income will be retired, but also it makes it less likely that the bill will be retired only after expensive and increasingly intense dunning activities.

SECTION 11.

REFORMING COLLECTION FEES

Problem Statement #11

Customers who develop arrears present a utility with the need to exercise responsive collection processes. A utility process that is appropriate to an able-to-pay customer, however, may not be appropriate when directed toward an unable-to-pay customer. Recognizing that the ultimate objective of the utility is to receive payment for a bill, an inappropriately structured and/or badly targeted utility intervention may impede rather than facilitate accomplishing that ultimate objective.

Strategy

Prevent division of limited ability to pay away from payment of current bills.

Objectives

1. Reduce arrearages within very low-income customer population.
2. Increase payment of arrears with minimum collection intervention.
3. Decrease intensity of collection intervention applied prior to payment of arrears.
4. Reduce overall collection interventions directed toward customers in arrears.

Tactics

1. Exempt confirmed low-income customers from the payment of late payment and collection charges.

2. Expand definition of "regular business hours" for purposes of establishing increased fees for collection activities.

3. Accept guarantee in lieu of cash security deposits from public and nonprofit low-income service providers.

4. Substitute guarantees/sureties in lieu of deposits for existing deposits with application of cash to pre-existing arrears.

5. Allow assignment of unclaimed deposits to charitable energy assistance provider in lieu of escheat to state.

DISCUSSION IN SUPPORT OF REFORM OF COLLECTION FEES.

Tacoma Public Utilities should revise its miscellaneous fee structure to recognize the particular difficulties the utility imposes on low-income customers. In particular, TPU should make changes in the way it implements the following fees and charges:

- Late payment charges;
- Field visit fees; and
- Cash security deposits.

Late Payment Charges

Utilities often seek to impose a late payment charge on those households who do not pay by a designated due date. The imposition of such a charge is generally designed to serve either of two purposes: (1) to compensate the utility for expenses incurred as a result of the late payment; or (2) to provide an incentive for households to make timely payments. Unfortunately, not only do utility late payment charges often bear little relation to these two stated purposes, but, in overcharging in cases of delinquent payments, utilities often create other adverse impacts.

With TPU, late payment charges are imposed as an incentive for customers to make their bill payments in a full and timely fashion. In contrast, the cost of nonpayment to the utility is paid for through a series of miscellaneous charges. Under the Tacoma Municipal Code, TPU is authorized to impose a late payment charge of 1% per month (with a minimum of a $3 charge) on accounts that are not paid within 30 days and have a balance of $10 or more.[1] The Tacoma Municipal Code expressly authorizes the Direct to waive late payment charges if the customer is a: "residential customers who (1) qualifies as low-income; (2) receives supplemental security income; *or* (3) is disabled and receives federal or state funds" from designated disability programs. (emphasis added)[2]

It is important to note that the Municipal Code is written in the disjunctive, using the word "or." The Director is authorized to waive late fees if any one of the stated criteria is met. It is not clear whether the Director might implement this section by waiving late payment fees for one of the stated populations without doing so for all three.

The Municipal Code is distinctive in that it does not tie the authority to waive late payment charges to the eligibility criteria of Tacoma's low-income discounts. The discount is available to customers who are low-income *and* either elderly or disabled.[3] There are at least two major differences between eligibility for the discount and eligibility for late fee waivers:

- Unlike the fee waiver, the low-income discount eligibility is in the conjunctive (using the word "and"). A customer must be low-income *and* either elderly or disabled.

[1] Tacoma Municipal Code, §12.01.030 (2009).
[2] Tacoma Municipal Code, §12.01.030(A) (2009).
[3] See, Tacoma Municipal Code, §12.100.400(L) (2009).

- Unlike the rate discount, the late fee waiver does not consider age. Nothing in the Municipal Code requires, or authorizes, the Director to take the age of a customer into account in considering whether to waive late payment charges.

The late fee waiver authorization has some ambiguity to it in that it extends to a customer who "qualifies as low-income." While the Municipal Code does not define "low-income," presumably any customer who qualifies for one of TPU's low-income assistance programs (e.g., low-income discount, family need, free insulation) would fall within this Code provision. Nor does the late fee section of the Municipal Code prescribe how a customer might "qualify" as "low-income.'

Despite the authority given to the Director to waive late payment charges for prescribed vulnerable populations, the Director has chosen not to exercise this authority. And while the Municipal Code gives the Director the ***authority*** to waive late fees for these populations, the Code does not make such waivers mandatory. Today, late fees are imposed on all delinquent accounts irrespective of income or disability status.

The discussion below recommends that the Director reverse that decision and exercise the authority granted by the Municipal Code to waive late payment fees for low-income customers, for customers receiving Supplemental Security Income, and disabled customers. The waiver should further extend to any customers identified as "low-income" through the Early Identification Program recommended elsewhere in this planning initiative; to any customer receiving assistance through a TPU low-income program; and to any customer who a recognized public or private agency has certified as receiving public assistance benefits through a social assistance program.

The recommendation is not to create new authority for TPU. It is rather for the Director to exercise the authority that the Municipal Code has already conferred.

Cost Basis for the Late Charge

No-one can seriously argue today that the late fee imposed on delinquent TPU customers has a cost basis to it. Several factors would belie such an assertion:

- The late fee is imposed on all delinquent accounts with a balance of $10 or more. Active dunning treatment, however, other than a computer-generated "reminder notice," does not occur unless a customer has an arrearage exceeding prescribed dunning amounts, all of which substantially exceed $10.

- Late fees are imposed on any account that is not paid within 30-days after a residential bill is issued. However, no active dunning treatment has been exercised in that time frame.

- Late fees are imposed on all delinquent accounts whether or not dunning treatments have been directed toward the account. Even accounts that do generate specific

dunning steps, however, are subject to specific fees to cover the costs of those discrete activities.

Late Fee as an Incentive to Pay

For late fees to serve an effective incentive function, TPU must recognize the differences which exist between habitual nonpayers. Nonpayers can be categorized into three primary groups.

- Customers who lack an ability to pay;
- Customers who have a mismatch in their billing date; and
- Customers who use nonpayment as a financial management activity.

Households who "do not" pay because they "can not" pay represent the first group. These households are typified by low-incomes and high bills as a percentage of their income. The inability to pay of low-income customers in Tacoma has been discussed at length elsewhere. These low-income households simply have insufficient funds to pay their bills. Customers require income close to 250% of the Federal Poverty Level to meet their Basic Family Needs budget in Pierce County. Customers with low-incomes have high energy burdens, high overall shelter costs, and high arrears. Reducing bills through rate discounts and usage reduction programs have been found to be effective strategies to promote an increased bill payment.

Households who experience an ongoing mismatch between their utility cycle billing date and their receipt of public assistance comprise a second group of habitual late payers. A household in this group might, for example, receive a utility bill due on the 15th of each month but not receive its Social Security check until the 20th. In such instances, while all monthly payments are likely made, they are routinely made after the due date. The potential for this class to be sizeable is great. Households who depend on public benefit programs such as SSI, TANF, Social Security and the like have no control over the date on which they receive their income. Moreover, they do not have sufficient funds on a month-to-month basis to be able to set aside some amount for a contingent future liability such as a utility bill in the next month. These households live check-to-check.

Households who use late payment as a money management technique comprise the third and final group of chronic late payers. In these cases, so long as the return on the funds not paid to the utility exceeds any resulting late payment charge, the customer will financially benefit from delaying payment as long as possible. These households are not likely to be low-income households. Households making this type of sophisticated financial calculation are not likely to include those households lacking in education.

Seeking to justify a utility late payment charges not as a means to gain compensation for expenses, but rather as a means to induce prompt payments on the part of customers should be based on a reasonable expectation that the level of the late payment charge would bear some relationship to an acceleration in payment date. Moreover, it is a legitimate inquiry as to whether a late payment charge designed to induce prompt payment is rational in those instances where

nonpayment occurs in households who are unable to pay either because of chronic poverty or because of a mismatch between their receipt of utility bills and public benefits checks.

A financial inducement to make prompt payments is effective when the customer's reason for nonpayment is to gain financial advantage from devoting the funds to other uses to gain the difference between the substitute return and the utility late charge. Low-income households do not, however, withhold payments toward their utility bills in order to gain a higher return by devoting their resources to alternative uses. Low-income households do not pay because they cannot afford to pay. Increasing their bill will thus provide no inducement to make prompter payments.

Summary and Recommendation

While imposing fees to compensate the utility for the costs associated with particular activities is a legitimate public utility activity, the objective of gaining such compensation may compete with, and serve as an impediment to, other equally legitimate objectives. Imposing late fees on low-income customers is one such instance. Seeking to create an incentive to make prompt payments by making unaffordable bills even higher is not only ineffective, but ultimately counterproductive. If nonpaying households do not pay because they cannot pay, it is no remedy to impose penalties which increase the bill even further. Moreover, given the tenuous relationship, at best, that the TPU late fee has to any cost basis, the extent to which the late fee impedes rather than accelerates prompt payment should lead to the conclusion that late fees should be waived for low-income customers.

Miscellaneous Customer Service Fees

Tacoma Public Utilities imposes a variety of miscellaneous customer service fees to compensate the utility for discrete activities. Tacoma should consider moderate revisions to a few of these fees. The recommended revisions involve:

- exempting low-income customers from collection fees and
- defining "normal business hours" to assist the working poor customer.

Exempting low-income customers from collection fees

TPU has established a schedule of fees that it imposes on customers for collection activities. These fees include:

- A $10 fee for a collection or disconnection for nonpayment;[4]
- A $12 fee for reconnecting service after a disconnection for nonpayment;[5] and
- A $10 fee for a field call to a delinquent customer.[6]

[4] Tacoma Municipal Code, §12.001.010(B) (2009).
[5] Tacoma Municipal Code, §12.010.010(C) (2009).

While imposing fees to compensate the utility for expenses that it incurs is a legitimate utility function, unbundling distribution rates for each collection activity may impede the accomplishment of other utility objectives. The primary objective of the utility in its collection activities, of course, is to have the customer pay his or her full bill for current service as promptly as possible. This articulation of objective runs throughout TPU's customer service and collections manuals.

Customers with low-incomes pose particular challenges to accomplishing this primary objective. It is for this reason that TPU offers programs such as its low-income rate discount, its free insulation program, its Family Assistance Grant program, and other services. A reduction in the low-income bill payment burden may well facilitate that customer's ability to pay in a full and timely fashion.

Even with internal procedures, TPU recognizes the special needs of low-income customers. The utility's "pledge desk," for example, is designed to help facilitate the receipt and prompt posting of external benefits payments to the low-income account.

For the same reasons that imposing late payment charges can impede rather than facilitate low-income payments, so, too, does the imposition of collection charges impede TPU's ability to achieve its primary bill payment objective. Not only do such fees divert limited household resources from payment of current bills, such fees divert scarce public resources away from the payment of current bills. If outside agencies had sufficient funding to meet the entire scope of bill payment needs presented to them, TPU might be justified in having less concern in this regard. According to those agencies however, their lack of resources yields several results:

- They often pay less than an individual account needs at a particular time, with the expectation (or hope) that some other agency can provide resources to fill the gap.

- They often stop taking applications for assistance, simply because the money runs out.

In both cases, to the extent that the external agency has been called upon to pay a bill consisting in part of collection fees, the TPU fee structure diverts resources away from the payment of current bills and serves as a barrier to accomplishing that primary utility objective.

Based on this data and analysis, the recommendation is that TPU waive the following fees for low-income customers:

- The collection fee imposed pursuant to Municipal Code Section 12.001.010(B).

- The reconnect fee imposed pursuant to Municipal Code Section 12.001.010(C); and

- The field collection fee imposed pursuant to Municipal Code Section 12.010.020.

[6] Tacoma Municipal Code, §12.010.020 (2009).

Defining "Normal Business Hours" for Purposes of Miscellaneous Customer Fees

Tacoma should moderately refine its definition of "normal business hours" in the Tacoma Municipal Code for purposes of imposing certain customer service fees. Pursuant to the Municipal Code, TPU may charge:

- $10 for collections or disconnection for nonpayment;
- $12 for service disconnection; and
- $12 for service reconnection after a disconnection for nonpayment.

There fees are imposed for work "during normal City business hours." Each fee is set at $60 "during all other hours." "Normal city business hours" are defined as 8:00 a.m. to 5:00 p.m., Monday through Friday, except for City-recognized holidays.

Imposing significantly higher fees for work done outside "normal City business hours" creates the potential to impose tremendous costs on working low-income customers. Working poor households tend to work hourly wage jobs. Research reports that these workers lack access both to paid leave time and to flexible work hours.

The Urban Institute quantified the types of occupations which characterize the working poor. The table below shows the difference in occupations between working poor families and non-poor families in 1996.[7] Three times as many working poor families (as compared to non-poor families) are in service occupations (11.5% vs. 4.1%) and laborer occupations (11.5% vs. 4.1%), while nearly twice as many working poor (compared to non-poor) families have workers who are in operator/transportation occupations (18.9% vs. 11.1%).

Percent of Non-Elderly Persons by Occupation of Primary Earner		
	All Families: Poor	All Families: Non-Poor
Professional/managerial/technical	15.1%	43.3%
Sales	8.6%	10.2%
Clerical/administrative support	9.9%	8.5%
Service	20.1%	7.4%
Craft/repair	15.8%	15.4%
Operators/transportation	18.9%	11.1%
Laborers	11.5%	4.1%

[7] Acs, Gregory, Katherin Ross Phillips and Daniel McKenzie (May 2000). ***Playing by the Rules but Losing the Game***, at 10 – 11, Urban Institute: Washington D.C.

Even aside from the level of wages, the presence of hourly wages and unpredictable hours mark occupations that are the province of the working poor. One researcher for the Institute for Women's Policy Research reports that "without flexibility in their work schedules or access to paid leave, workers have no choice but to take unpaid leave when family or medical emergencies occur."[8] The Institute found that: "Families in the bottom quartile of income are significantly less likely to have access to paid sick leave, paid vacation leave, or flexible work schedules than families with higher incomes. More than three fourths (76 percent) of workers in the bottom quartile of family income lack regular sick leave; more than half (58 percent) do not have consistent vacation leave."

The lessons from this research transfer to Tacoma as well. The Table below shows the number of persons in Pierce County with income below 150% of the Federal Poverty Level by family structure and labor force involvement. [9]

Persons with Income Below 150% Federal Poverty Level
by Selected Family Structure and Labor Force Involvement (Pierce County WA) (2007)

	Total	Married—Both Work	Male Only—In Labor Force	Female Only—In Labor Force	Not in Universe or Missing
1300	10,754	1,293	1,748	3,462	3,570
1400	9,758	197	125	1,422	2,424
1401	5,708	1,191	578	2,009	684
1402	6,150	583	370	1,813	1,932
1403	2,808	570	153	902	587
1404	30,178	3,834	2,974	9,608	9,197

As can be seen, well over half of persons in families below 150% of Federal Poverty Level in Pierce County live in families where the sole adult is in the labor force. Of the 30,178 adults below 150% of Poverty, nearly 21,000 were in families. Of those in families, nearly 80% (16,416) lived where the sole adult also worked.

The jobs held by low-income workers in Pierce County tend to reflect the types of occupations discussed above. Of 31,542 workers in Pierce County with income below 150% of the Federal Poverty Level, significant sources of employment include occupations as set forth in the Table below.

[8] The principal data sources for the IWPR research include primary and secondary data from the U.S. Department of Labor's National Longitudinal Survey of Youth (NLSY), the Survey of Midlife in the United States, the Urban Working Families Study, and the National Daily Diaries Study.

[9] By definition, this table excludes one-person households. A household is two or more persons related by blood or marriage.

Workers with Income Below 150% Poverty Level by Occupation (Pierce County WA) (2007)		
Occupation	Number	Percent
Construction	2,663	8.4%
Retail /a/	3,739	11.9%
Services /b/	3,573	11.3%
Education	1,472	4.7%
Medical services /c/	2,977	9.4%
Entertainment /d/	6,013	19.1%
Total	31,542	

NOTES:

/a/ Includes food clothing, drugs/pharmacy, household goods, among other things.
/b/ Includes services in professional offices as well as landscaping, janitorial services, among other things.
/c/ Includes nursing homes, residential care (without nursing), home health, aids in medical offices, among other things.
/d/ Includes restaurants, traveler accommodations, drinking establishments, among other things.

Defining "normal business hours" as the hours of 8:00 to 5:00 for these low wage employees places them in the position of choosing either to lose wages or to pay high customer service fees. TPU has recognized the conundrum of working customers by keeping its lobby open to accept in-person payments and deliver in-person services in the evening hours. The utility should provide the logical extension of that policy decision by defining, for purposes of demarcating customer service fees, normal business hours to extend to 8:00 at night.

Cash Security Deposits

Tacoma Public Utilities should consider modifications to its process of imposing cash security deposits to cushion the adverse impact of such deposits on low-income customers. TPU policy is to impose a cash security deposit only when certain "exemptions" do not apply. Customers exempt from the requirement for a cash security deposit include property or homeowners.[10] A tenant may also be exempted if his or her bill is guaranteed by the property owner.[11]

According to TPU staff, deposit decisions once made are not revisited based upon customer payment history. Only if a customer moves from one service address to another will the customer's payment history be reviewed to assess whether a new deposit should be imposed.[12] As described with respect to usage reduction programs for low-income impacts, however, low-income customers tend to be substantially more mobile in addition to being significantly more likely to be a tenant.

Accordingly, TPU deposit policies disproportionately adversely affect low-income customers in two ways: (1) as tenants, they are more likely to be made subject to a deposit demand when they initiate

[10] Tacoma Municipal Code, Section 12.010.020 (2009).
[11] A tenant is also exempt if he or she is renting or leasing to own. Other unrelated exemptions also apply.
[12] See, e.g., Tacoma Municipal Code, Section 12.010.050 (2009).

service; and (2) as more frequently mobile, they are more likely to be made subject to a deposit demand after they initiate service.

Public benefits are often available to help pay cash security deposits. While data is not provided disaggregated by the utility use of payments, programs such as the Federal Emergency Management Agency (FEMA) provide grants to help prevent the loss of service due to non-payment of a utility bill, including non-payment of a deposit. Through FEMA's Emergency Food and Shelter Program (EFSP), for example, administered by the United Way nationwide, the EFSP has provided roughly $60,000 a year to pay more than 500 bills annually. Information on the type of bill, however, is not available.

EFSP Utility Assistance (2002 – 2007) (Pierce County WA)		
	Amount Spent	Bills Paid
2002	$63,270	619
2003	$57,645	502
2004	$59,882	527
2005	$39,357	296
2006	$64,498	522
2007	$57,807	442

Other federal programs exist as well to provide short-term "crisis" grants for low-income customers in danger of losing service due to non-payment of a utility bill. One such program, for example, is the U.S. Department of Housing and Urban Development's Short-Term Rent, Mortgage and Utility Assistance Program (STRMU). The STRMU program makes crisis utility payments in an effort to avoid pushing people into homelessness due to the loss of shelter attributable to the loss of utility service.

TPU could somewhat revise its relationship with community agencies to extend the ability of the utility and those agencies to service low-income customers through these crisis programs. Rather than accepting cash payments from crisis payment providers as satisfaction of a demand for a cash security deposit, TPU should notify these agencies that it will accept written guarantees in lieu of cash payments. The local agencies should be encouraged to set aide some (though not all) of what they would have paid toward the cash security deposit as their own fund to back their written guarantees.

TPU can accept guarantees in lieu of a deposit under its existing authority under the Tacoma Municipal Code. The Municipal Code specifically provides that "the City Treasurer may accept satisfactory securities or surety bond in lieu of cash deposit."[13]

[13] Tacoma Municipal Code, §10.06.100(B) (2009).

By using their funds to securitize a guarantee fund in support of posting a guarantee or surety, rather than paying a cash security deposit dollar-for-dollar, agencies distributing crisis funds would generate either of two potential impacts, both of which benefit both the utility and its low-income customers:

- The agency could use the dollars not placed into the guarantee fund to retire the arrears of the customer; or

- The agency could use the dollars not used to pay the deposit to guarantee additional deposits in the future.

Either way, the agencies distributing crisis funds would be able to serve additional TPU customers with utility assistance.

In implementing this deposit policy, TPU should implement this new cash security deposit policy in two distinctly different ways:

- On the one hand, the utility should make clear to its community organizations that *future* deposit requirements may be met by agency guarantees or sureties in lieu of cash security deposits.

- On the other hand, in working with agencies to address the payment troubles of customers with existing deposits, TPU should make clear that it would be willing to accept an agency guarantee/surety as a *substitute* for an existing deposit so long as the cash currently held as the deposit is applied against existing arrears.

Particularly through the second approach, TPU could create a stream of cash to retire existing arrears without sacrificing its ability to protect against the future risk of nonpayment.

Unclaimed Cash Security Deposits

Aside from how TPU addresses how customers meet their cash security deposit responsibilities, TPU can begin to turn unclaimed deposits (or other bill credits) into additional low-income energy assistance. Under existing state law, unclaimed utility deposits (or other bill credits) escheat to the state as unclaimed property. These funds escheat when dollars are left with the utility and no-one steps forward with a legal claim to the property.

Rather than allowing that lack of a claim to arise, TPU should allow its customers to proactively assign the right to claim abandoned deposits and/or bill credits to a local charitable organization providing energy assistance. Through such an assignment, unclaimed deposits and bill credits would never be abandoned and thus subject to escheat. The energy assistance agency would hold the right to claim those dollars in the event that the customer otherwise could not be located. The escheat statute would never come into play.

Tacoma Public Utilities could not provide the dollar figure for the amount of cash security deposits which it currently holds for its customers. Even if the abandoned dollars that TPU would normally allow to escheat to the state were only $10,000 to $20,000, however,[14] those resources would:

- Effectively be the same as increasing the utility portion of the EFSP program by between 20% and 30%; or

- Effectively be the same as gaining resources to retire the arrears of between 40 and 60 additional customers currently in collections (with an average arrears of roughly $300 each).

Through capturing unclaimed deposits that might otherwise escheat to the state, TPU would not "solve" low-income payment difficulties. Nonetheless, such funds would be a not insubstantial resource to help pay low-income bills.

Summary and Conclusion

While the imposition of utility customer service fees can generally be justified as a mechanism through which to collect the costs of discrete utility customer activities from those customers causing the need for the activity, the imposition of fees can also stand as an obstacle to other equally legitimate utility objectives. The primary billing and collections objective of the utility, of course, is to ensure that bills for current usage are paid in a full and timely basis.

Imposing the late payment charges of Tacoma Public Utilities on low-income customers cannot be justified either as a way to capture debundled cost-based expenses or as a mechanism to increase and/or accelerate the payment of current bills. The late fees are demonstrably non-cost-based. Particularly given this lack of cost basis, the fees are further unsupported as a means of promoting prompt bill payment. With TPU's low-income customers, the late fees imposed by the utility impede rather than facilitate bill payment.

Exempting low-income customers from late payment charges does not require new authority to be granted to the utility. Even though the existing Tacoma Municipal Code authorizes the utility to exempt low-income customers from paying late fees, that authority has never been exercised. This policy decision should be reversed. Low-income customers should be exempted from late payment charges. Based on the same analysis, that such fees impede rather than facilitate the collection of bills, specified customer service fees should also not be applied against low-income accounts.

In addition, modest revisions should be made to miscellaneous customer service fees established in the Municipal Code. Given the disproportionate adverse impact on low-income working poor customers in particular, it is unreasonable to define "normal business hours" for purposes of avoiding substantially increased customer service fees as running only from 8:00 in the morning to 5:00 in the afternoon. TPU has recognized the need for extended business hours in other aspects of its customer service operations. It should extend that recognition to allowing the fees for "normal business hours" extend to 8:00 at night as well.

[14] These numbers are solely for the purpose of illustration. They are not intended to represent real figures.

Cash security deposits represent one type of "fee" imposed on TPU residential customers. The imposition of cash security demands, for a variety of reasons, falls disproportionately on low-income customers. While this analysis does not recommend exempting low-income customers from cash security deposits, it does recommend that TPU use its existing authority under the Tacoma Municipal Code to seek alternatives to cash security deposits. The increased use of securities and guarantees for low-income accounts would benefit both TPU and TPU's low-income customers.

FSC WHY-HOW MATRIX
FOR PLANNING PROGRAM INTERVENTIONS

One critical element of planning a social service program is deciding what the program operator wants to accomplish. Too often, program planners jump to the question of "why do we want to do" before answering the question "what do we want to accomplish." In developing an appropriate program, not only do both questions need to be asked, but the program planner needs to develop the *connection* between the two answers. Assessing that connection is one critical aspect of a program process evaluation.

FSC's How-Why Matrix of Activity Planning. The How-Why Matrix recognizes that every activity generates an output. In turn, every output contributes to an outcome. The matrix allows decisionmakers to impose a structure on tracing the results of their recommended activities.

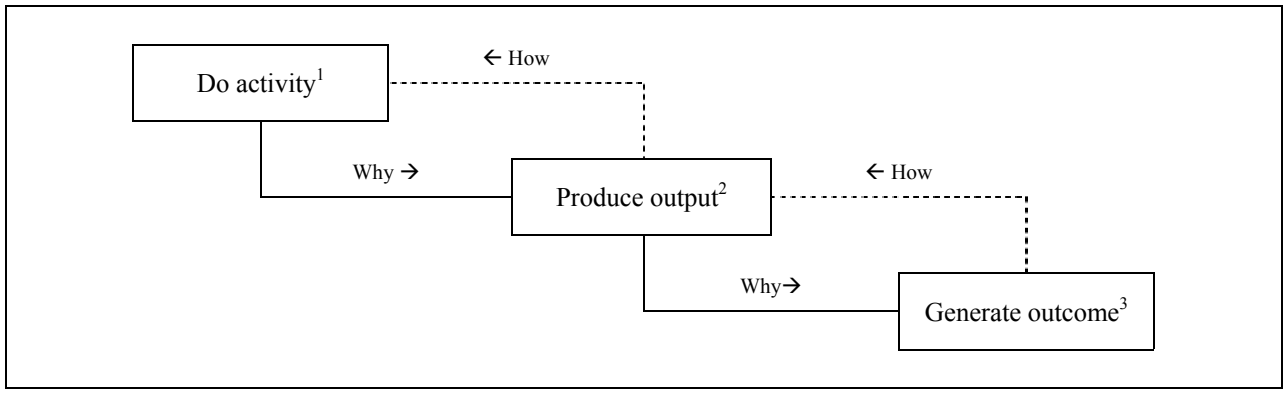
The rationale that underlies any particular recommended activity can be identified going either "up" or "down" the matrix. The question going "up" the matrix is "how" (how do we do this?) The reasoning is as follows:

- How do we generate the outcome? By producing the output.
- How do we produce the output? By doing the activity.

In contrast, the question going "down" the matrix is "why" (why do we do this?) The reasoning is as follows:

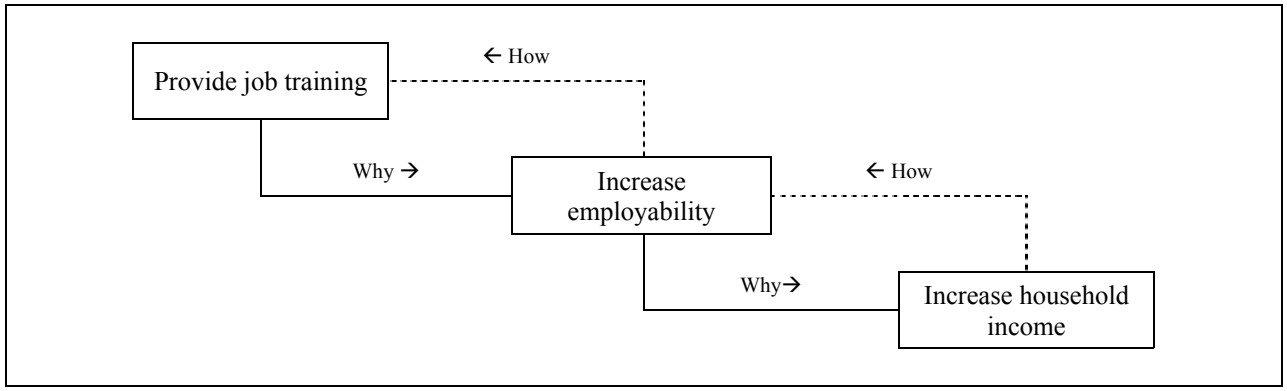
- Why do we do the activity? To produce the output.
- Why do we produce the output? To generate the outcome.

There may, of course, be multiple program outputs before an outcome is realized. An ongoing challenge in program planning is to distinguish between outcomes and outputs. A related challenge, however, is to identify an outcome comprehensively without becoming uselessly generalized.



To illustrate, assume that a social service agency offers employment training to its client base. The activity undertaken by the agency is to "provide training." Why does the agency provide training: to improve employability. Why does the agency seek to improve employability: to increase household income. Why does the agency seek to increase household income: to improve the quality of life for the household. Improvement in the quality of life should be set forth in objective, measurable terms.

The reasoning, however, can be flipped. The agency can say "we seek to improve the quality of life for our client base." How does the agency propose to do that: by increasing income. How does the agency propose to increase income: by improving employability. How does the agency propose to improve employability: by providing job training.



FSC program process evaluations apply its How-Why matrix both "going up" and "going down."

[1] An activity is defined as the work performed that directly produces products and/or services.
[2] The output of an activity is the direct result of program activities.
[3] The outcome of a program is the accomplishment of program objectives attributable to program outputs.

THE RELATIONSHIP BETWEEN GOALS, OBJECTIVES, STRATEGIES AND TACTICS IN PROGRAM PLANNING

BASIC PROGRAM PLANNING MODEL

1. Articulate the program goal

   The program goal is the ultimate end-in-view resulting from the program.

   Illustration: To maintain better contacts within one's family.

2. Establish one or more program objective(s)

   Program objectives are to be both attainable and measurable. It is against program objectives that program performance is subsequently measured.

   Illustration: To be home for holidays.

3. Identify the strategy through which to accomplish the objective(s)

   The "strategy" of a program is the overall direction in which the program intends to move.

   Illustration: To acquire frequent flyer miles to fund airplane tickets for holiday trips home.

4. Identify one or more tactics through which to implement the strategy

   Program "tactics" are the specific action steps through which a strategy is implemented.

   Illustration: To limit all business trips solely to a single airline to increase the accumulation of frequent flyer miles.

BASIC PROGRAM PLANNING MODEL

5. Measure program performance

Measuring the performance involves measuring outcomes, a process that is different from measuring outputs or activities. Neither output measures nor activity measures contribute to a determination of whether a program objective is being met. Accomplishment of an objective can only be measured through an analysis of program outcomes.

Illustration (outcome measure): Was I home for New Years Day, Labor Day, Fathers Day?

Illustration (activity measure): Did I fly all my business trips on one airline?

Illustration (output measure): Did I accumulate sufficient frequent flyer miles to fund a trip home for the holidays?

6. Evaluate program performance in light of the program objectives

Program performance should be measured relative to the program objective. This involves creating a feedback loop. The feedback loop provides the planner with the ability to determine if the objective was met, and if not, what changes need to be made to improve performance.

Illustration (flawed strategy): I flew enough business trips on one airline to accumulate sufficient miles for an airline ticket, but my home town does not have an airport

Illustration (flawed tactic design): I flew 100% of my business trips on a single airline, but I took only three business trips.

Illustration (flawed tactic implementation): I flew enough business trips on one airline to accumulate sufficient miles for an airline ticket, but the airline on which I took all my business trips does not fly to my home town.