

# A Low-Income Energy

# Affordability Collaborative for Manitoba Hydro

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## Direct Testimony presented in the following parts:

- Manitoba Hydro's current response to inability to pay.
- Impact of rate affordability programs on payment patterns and practices.
- Impact of rate affordability on province as "owner" of Manitoba Hydro.
- Reasonable bill affordability models.

# Manitoba Hydro's current response to inability to pay

- Lack of basic proactive planning.
- Lack of performance standards (within company, between companies).
- Acknowledging deteriorating payment outcomes.
- Lack of adaption to changing circumstances.
- Lack of a coordinated response.

# Impact of rate affordability programs

- Cost-effectiveness analysis and how it differs from cost-benefit analysis.
- Increased "bill payment coverage."
- Increased "net back."
- Increased "efficiency" and "effectiveness" of collection efforts.
- Increased long-term success.
- Maximizing payments yielding \$0 balances.
- Improved price signals.

# Impact #1: Payment coverage

Distribution of Effective Coverage Rate by Net Energy Burden (gas or electric: 3%)				
Burden	Bill Payment Coverage Rate			
	< 50%	50% - <90%	90% - <100%	100% or more
<2%	0.0%	2.7%	5.3%	92.0%
2% - 3%	0.0%	6.0%	11.5%	82.5%
3% - 4%	0.0%	10.0%	13.2%	76.9%
4% - 6%	0.0%	11.6%	16.6%	71.6%
6% - 8%	0.4%	16.6%	17.4%	65.6%
More than 8%	1.0%	25.6%	16.1%	57.4%

## Impact #2: Collections Efficiency

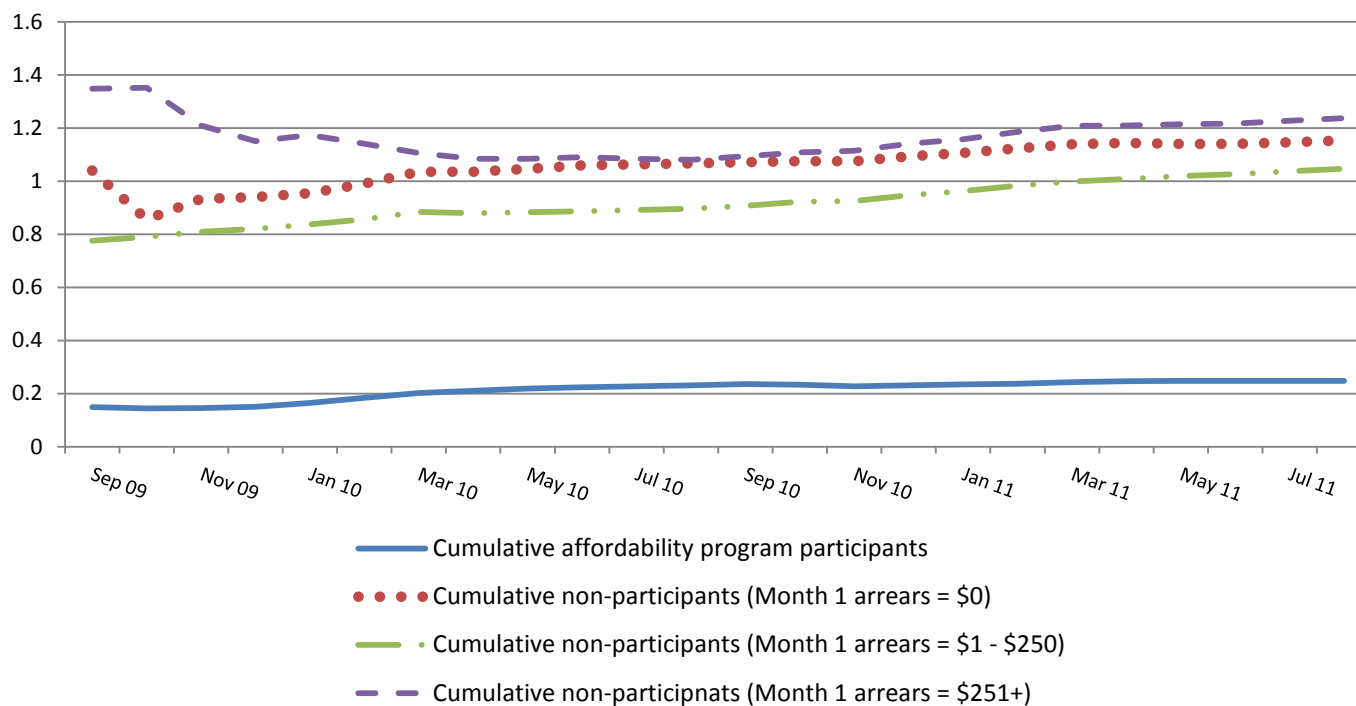


Figure 2: Cumulative Disconnect Notices per 1,000 Customer Payments for Affordability Participants Compared with Non-Participants by Level of Month 1 Non-Participant Arrears.

# Impact #3: Long-term success

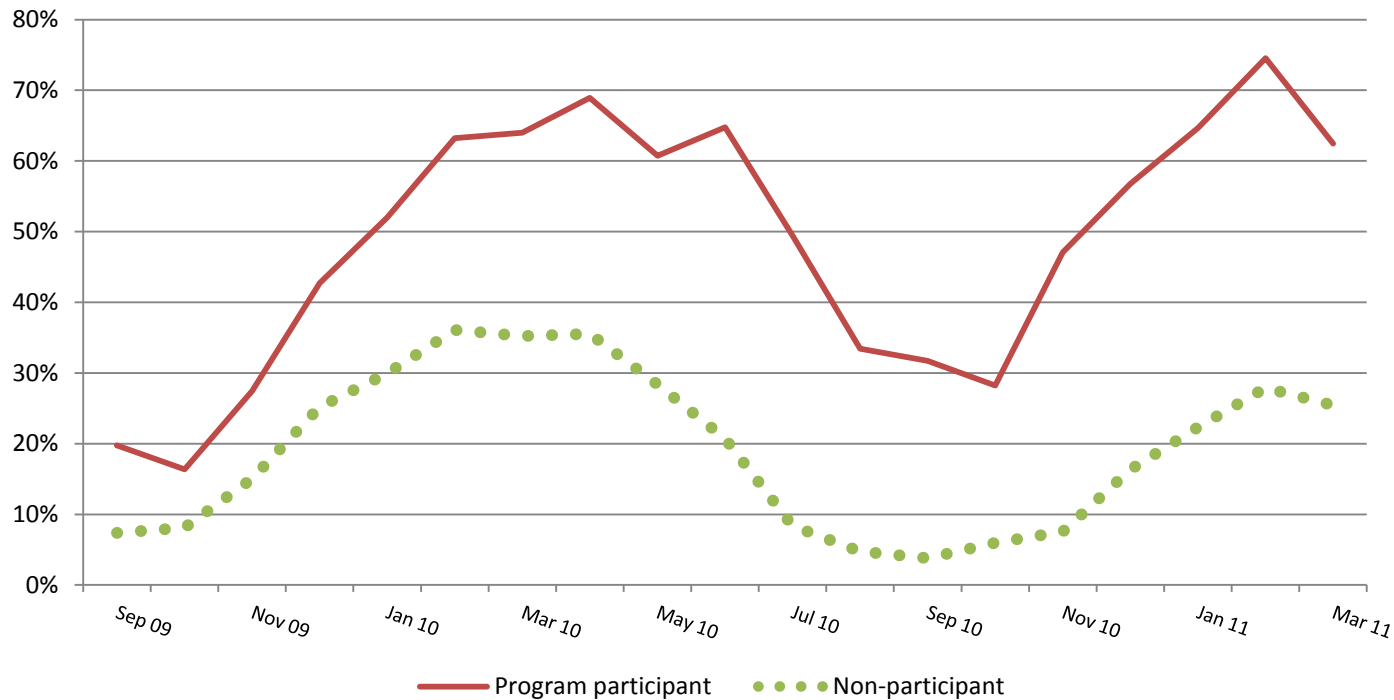


Figure 4: Percent of Customers Receiving DNP Notices with Customer Payment Coverage Ratio > 1.0 in 4-Months After DNP Notice

## Impact #4: Improved price signals

Program Year: 2013	Bill at Standard Rate	Bill under Affordability Program	Difference Between Actual Bill and Bill at which Price Signal Received
Duquesne Light	\$1,267	\$924	\$343
Met Ed	\$1,452	\$684	\$768
PECO Energy	\$1,393	\$828	\$565
Pennelec	\$1,205	\$552	\$653
Penn Power	\$1,123	\$468	\$655
PPL Utilities	\$1,982	\$948	\$1,034
West Penn Power	\$1,356	\$1,020	\$336

Colton Direct: Manitoba Hydro



# Summary of bill affordability impacts

- An appropriately designed and well implemented bill affordability program, as an integrated part of Manitoba Hydro's rate structure, is in the public interest.
- A bill affordability program can be designed to be a more cost-effective approach for dealing with issues of customer inability-to-pay.
- Positive social outcomes associated with low-income affordability programs represent benefits above the utility-related benefits.

# Summary of bill affordability impacts

- A low-income bill affordability program can be expected to generate at least the following utility-related business benefits:
  - An increase in the bill payment coverage ratio by participating low-income consumers.
  - An increase in the “net back” experienced by the utility offering affordable low-income bills.
  - Increased productivity of utility collection efforts directed toward low-income customers.
  - Payments without resort to collection activity used to prompt those payments.
  - Increased long-term success of collection efforts.
  - Improved “price signals” delivered to inability-to-pay customers through utility bills.

Colton Direct: Manitoba Hydro

# Impact of rate affordability on province as “owner” of Manitoba Hydro

- The impacts on education costs and outcomes.
- The impacts on homelessness and housing abandonment.
- The impacts on public safety.
- The impacts on employment for the poor.
- The impacts on business location decisions.

# The Broad Structure of a Collaborative Process.

- Each party submits specific hypotheses of potential measures to be explored.
- Identify the gaps in information and data and task participants with responsibility to present the data to fill those gaps, including the responsibility to develop that data where it currently does not exist
- After a period of time in which relevant information is collected and discussed, each party should submit a “term sheet” outlining the affordability structure they would recommend.
- Subject each contested issue one at a time to group discussion under the direction of PUB staff. Discussions should be time-limited.
- At the end of a prescribed time-certain period, a Final Collaborative Report as described below would be prepared documenting the areas of agreement and identifying the areas of disagreement.
- Parties present to the PUB data and argument in support of their respective positions as limited by the areas of disagreement identified in the Final Collaborative Report. PUB sits as final decision-maker on areas of disagreement.
- As with litigation, the collaborative process should be open to all stakeholders joining as named parties. Once begun, however, again as with litigation, the process would be limited to those named parties.

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Examples: PECO, Ontario Energy Board

# Reasonable bill affordability models

- Straight percentage of income model.
- “Fixed credit” percentage of income model.
- Income-based tiered rate discount.
- Income-based fixed credit benefit payment.
- Uniform rate discount.
- Multi-tier inclining block rate.

# Model #1: Straight percentage of income plan

- **Illustrative jurisdiction:** Ohio, Illinois, Maine, several Pennsylvania utilities.
- **Summary of program structure:** Bill based on percentage of household income. Shortfall charged to program. Bill is set.
- **Strengths:** Most specifically targeted. Explicit affordability. Most positive payment outcomes.
- **Challenges:** Need household income. Individual calculation of household bills based on burdens. Program cost tied to bill exigencies.

# Model #2: Fixed Credit Percentage of Income Plan

- **Illustrative jurisdiction:** Colorado, PECO, Maine
- **Summary of program structure:** Bill based on percentage of income. Shortfall converted to annual bill credit (divided by 12). Credit is set, not bill.
- **Strengths:** Percentage of income based. Mirrors efficiency at targeting assistance based on need. Somewhat easier to administer than straight percentage of income plan. Direct conservation incentive.
- **Challenges:** Places risk on customer for weather, price, change in circumstances.

# Model #3: Income-Based Tiered Rate Discount

- **Illustrative jurisdiction:** New Hampshire
- **Summary of program structure:** Discount calculated so average bill at average income is affordable. Multiple tiers (number of tiers a question of policy).
- **Strengths:** Has income basis, targeted assistance without need for specific income information. Can be specifically tariffed as a discount.
- **Challenges:** Some inherent inefficiency for those who do not consume at average or whose income is at upper or lower end of tiers.



# Model #4: Income-Based Fixed Credit Benefit Payment

- **Illustrative jurisdiction:** Ontario
- **Summary of program structure:** Fixed monthly bill credits varied by income and usage. Bill credit tied loosely to affordability.
- **Strengths:** Ease in administration. Some sensitivity to “need.”
- **Challenges:** Some inherent inefficiencies: underpays to some and overpays to others (those not at the average or typical).

# Model #5: Uniform Rate Discount

- **Illustrative jurisdiction:** Massachusetts, California
- **Summary of program structure:** Across-the-board discount for income-eligible.
- **Strengths:** Administratively easy to deliver. No need for specific income information.
- **Challenges:** Does not address affordability. Inherently over-spends for some and under-spends for others. Poverty program, not a collection strategy.

# Model #6: Multi-Tiered Inclining Block Rate

- **Illustrative jurisdiction:** Many
- **Summary of program structure:** Rate design provides for basic usage at lower rate, with increasing costs associated with increased usage.
- **Strengths:** Reaches all low-income without need for application or income verification.
- **Challenges:** Does not address affordability, particularly for high use. Needs special attention for space heating.

# Important miscellaneous observations

- The role of arrearage management.
  - The insufficiency of emergency assistance as a stand-alone response.
- The role of energy usage reduction
  - The insufficiency of energy efficiency as a stand-alone response.
- The role of traditional collection techniques.
  - The insufficiency of traditional collection techniques as a stand-alone response.
- The interrelationships between inability-to-pay interventions.

# Recommendations #1

- **The PUB find** Manitoba Hydro exhibits substantial and deteriorating payment problems, the most intractable of which are associated with low-income inability-to-pay customers.
- **The PUB find** that existing Manitoba Hydro credit and collection planning and activities do not reasonably and prudently address the inability-to-pay problems reflected in the payment patterns facing the utility.
- **The PUB find** that inability-to-pay assistance limited to providing emergency crisis assistance does not meet the needs of low-income inability-to-pay customers.
- **The PUB find** that the implementation of a well-designed and appropriately implemented ongoing targeted bill affordability program can have positive impacts on the payment patterns and practices of low-income inability-to-pay customers.
- **The PUB find** that sufficient experience and learning exists in Canada, the United States, Great Britain and Australia from which a multi-stakeholder collaborative process can draw to develop a made-in-Manitoba bill affordability program.

# Recommendations #2

- **The PUB find** that an inherent design element of any bill affordability program involves determining and incorporating the interaction of bill assistance with existing practices, ranging from credit and collection procedures to the delivery of energy efficiency measures.
- **The PUB order** that the issue of how to implement an ongoing bill affordability program for Manitoba Hydro be subject to a multi-stakeholder collaborative process under the mediation direction of PUB Staff.
- **The PUB order** that the collaborative process be completed no later than one year after the final order in this proceeding unless an extension is agreed to by the parties or ordered by the Board.
- **The PUB order** that upon completion of the collaborative process, a Final Collaboration Report shall be submitted to the Board, stating therein the areas of agreement between parties on how to implement a bill affordability program, along with an identification of the areas of disagreement.
- **The PUB order** that upon receipt of the Final Collaboration Report, the Board will initiate further proceedings, the precise structure of which will be determined at the time based on the nature and extent of disagreements, to resolve the disagreements.