

**PUBLIC SERVICE COMMISSION
OF MARYLAND**

**STATUS REPORT REGARDING
EVALUATION OF LOW-INCOME ASSISTANCE PROGRAMS
AND
RATEPAYER FUNDING OF THE
ELECTRIC UNIVERSAL SERVICE PROGRAM**

Submitted to the
Maryland General Assembly
Annapolis, Maryland

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I. Introduction

As part of the Joint Chairman's Report—Operating Budget, April 2013,¹ the budget committees requested the Public Service Commission of Maryland ("Commission") to submit a report on the status of its review of Maryland's energy assistance programs including in the report the steps that the Commission plans to take to limit over-collections of the Electric Universal Service Program ("EUSP") surcharge or any customer surcharge that results from an alternative energy assistance program the Commission may propose. This report is being submitted in response to the budget committees' request. Discussion of overall funding levels for energy assistance programs is limited to funding from ratepayers, which is the only source of funds over which the Commission has direction and control.

II. Evaluation of Low-income Energy Assistance Programs

The State of Maryland has three major energy assistance programs directed to low-income residential customers. The Universal Service Protection Program² offers protection from winter terminations and is administered by the utilities.³ The Maryland Energy Assistance Program ("MEAP") is federally funded to provide heating assistance to customers regardless of heating source.⁴ The EUSP is funded by Maryland ratepayers to provide assistance with electric bills.⁵ EUSP and MEAP are both administered by the Office of Home Energy Programs, Family Investment Administration, Department of Human Services ("OHEP"). Electric heating customers receive funds from both the MEAP and the EUSP. The Commission exercises

¹ See Committee Narrative C90G00.01

² See COMAR 20.31.05.

³ The USPP does not provide a monetary benefit to low-income customers.

⁴ OHEP has stated that it anticipates receiving \$70 Million for MEAP during the current fiscal year (FY 2014). See *FY 2013 Electric Universal Service Program Annual Report to the Maryland Public Service Commission*.

⁵ See §512.1, Pub. Utils., MD Code.

oversight of the EUSP, and, as part of that oversight, reviews OHEP's Annual Plan, issued prior to the start of each fiscal year, and its Annual Report, issued after the close of each fiscal year.

OHEP's EUSP Annual Report for FY 2011 ("Report") was considered at hearing on December 20, 2011. The Report indicated that funding for the coming fiscal year was uncertain and the bill assistance grant had diminished considerably. Based in part on these considerations, the Commission convened Public Conference ("PC") 27, *In the Matter of Low-Income Energy-Related Customer Arrearages and Bill Assistance Needs*, for the purpose of performing a comprehensive review of Maryland's energy assistance programs.⁶ In docketing this proceeding, the Commission expressed concern regarding whether Maryland's energy assistance programs were able to fulfill the purposes for which they were intended. The Commission noted the need for "a structural, longer term review of energy assistance programs in Maryland and to consider alternatives to the seemingly untenable *status quo*."⁷ The Commission scheduled a hearing to commence March 20, 2012 at which the following issues were to be addressed:

- the scope, causes, and trends over time of arrearages and customers' inability to pay their bills;
- the goals of the current programs, as originally intended, and recommendations on whether those goals have changed or should;
- the sources of available funding, in total and broken out by resource, both public and private, and the amount of funding necessary;
- the criteria that should be considered and used for eligibility;
- coordination with other government assistance programs;
- logistical, mechanical, and technological issues that would need to be addressed or overcome to improve the efficiency of distribution of resources;

⁶ See Letter Order dated January 11, 2012.

⁷ *Id.* at 2.

- the relative impact on customer bills between increasing bill assistance contributions and writing off greater portions of uncollectibles; and
- Best Practices of other States.

The Staff of the Public Service Commission of Maryland (“Staff”), the Maryland Office of People’s Counsel (“OPC”), Baltimore Gas and Electric Company (“BGE”), The Potomac Edison Company (“PE”), Potomac Electric Power Company (“Pepco”), and Delmarva Power and Light Company (“DPL”) met to discuss energy assistance programs in other states. On March 19, 2013, nine evaluation reports of various types of energy assistance programs in other states were filed by this group in the PC 27 docket.⁸ On March 13, 2012, the Baltimore City Department of Housing, Pepco and DPL, OPC, BGE, Staff, and the Office of Home Energy Programs, Family Investment Administration, Department of Human Services (“OHEP”) filed comments addressing the Commission’s issues listed above. On March 20, 2012, the Commission held a Public Conference at which the parties filing written comments and the Fuel Fund of Central Maryland, Inc. made presentations and responded to questions from the Commission.

After considering the Report and the Comments of the Parties as presented at the Public Conference, the Commission directed Staff to prepare recommendations for changes to Maryland’s energy assistance programs to be filed November 1, 2012.⁹ On November 1, 2012, Staff filed a document entitled the *Affordable Energy Plan* (“AEP”).¹⁰ The AEP represents the recommendation of Staff and OPC for changes to Maryland’s existing energy assistance programs. The AEP consists of the following five components which would be available to both gas and electric customers: 1) bill payment assistance based on a percentage of income; 2) pre-

⁸ See PC 27, Item 8.

⁹ See Letter Order, dated July 10, 2012.

¹⁰ See PC 27, Item 12 for full copy of the AEP.

AEP arrearage assistance based on the same percentage of income with the possibility of an additional “co-pay;” 3) coordination with existing weatherization and EmPOWER Maryland programs in order to increase energy efficiency; 4) targeted treatment for selected customers with very high usage or special circumstances; and 5) crisis assistance to be made available upon a mid-cycle change of circumstances. Stakeholders filed Comments regarding the AEP on November 30, 2012.¹¹ A legislative-style hearing was held on May 9, 2013, at which Staff and OPC made a joint presentation regarding the AEP, and Stakeholders were provided an opportunity to address the proposal and issues raised in Comments.

It is important to note that the AEP is a conceptual document designed to address bill payment from a new perspective. Rather than pay a portion of the low-income participant’s bill, leaving the responsibility for the remainder of the bill to the customer, the AEP would require the low-income customer to pay a bill equivalent to a percentage of the customer’s gross household income. Under the AEP, the remainder of the bill would be paid by energy assistance funds. This would be a major change from existing Maryland energy assistance programs.¹² Such an approach to bill assistance and the additional elements of the AEP would require new legislation, new and revised regulations, and resolution of myriad implementation details. The Commission has not yet taken final action regarding the AEP.¹³

¹¹ The following parties filed Comments: Maryland Energy Group; OPC; BGE; PE, Pepco and DPL, Columbia Gas of Maryland, Inc.; and Energy Advocates.

¹² In its November, 2012 report to the General Assembly regarding PC 27, the Department of Human Resources maintained that the AEP could cost approximately \$220 million, with a residential ratepayer impact of \$7-10 per month.

¹³ The Commission has, however, overseen other increases in energy assistance since the beginning of PC 27. On November 8, 2012, in its disposition of the Customer Investment Fund it ordered as a condition of the Exelon/Constellation merger, the Commission awarded the Fuel Fund of Maryland, Inc. \$14,871,204 to increase the number of BGE customers who receive bill assistance and to create an endowed energy assistance fund.

III. Ratepayer Funding of the Electric Universal Service Program

Section 7-512.1(e) of the Public Utilities Article, *Annotated Code of Maryland*, requires total annual ratepayer funding for the EUSP of \$37 million, of which \$27.4 million is to be collected from non-residential customers and \$9.6 million from residential customers. The statute prohibits collections directly tied to customer usage and does not provide for any true-up mechanism. These restrictions, acting in tandem, make collecting the exact statutory amount difficult. Upon noting that total ratepayer collections for the EUSP fund continued to exceed the statutorily authorized \$37 million, the Commission directed Staff to file a proposal for Commission approval that would adjust the current ratepayer surcharges to align the annual EUSP collection with the statutory levels for the residential and C&I classes.¹⁴

Since August 2006, all residential customers have been assessed a flat EUSP surcharge of \$0.37 per month. Non-residential or Commercial and Industrial (“C&I”) customers are assessed according to a revenue-based 24-tier system. Under this system, each C&I customer is assigned to one of 24 tiers according to the previous year’s billing information. Non-residential customers of utilities subject to retail competition (the investor-owned utilities and rate-regulated cooperatives) are classified according to their distribution system charges only while municipals and small cooperatives apply the tiers to total customer billings. Even though the classification approach varies for these different types of electric companies, the tiered tariff rates are identical for all electric companies.

Using monthly data provided by the Office of the Maryland Comptroller aggregated for both residential and non-residential fund collections, Staff determined that in FY 2013 approximately \$4 million more than the statutory requirement was collected. Because the tariff for residential customers is a single flat rate, the residential collection may be estimated with

¹⁴ See Order No. 85727, issued July 16, 2013 in Case No. 8903.

relative accuracy. The number of residential customers reported by electric utilities in the data request for the Commission's Ten Year Plan for 2013-2022 (not yet published) as of December 31, 2012 was multiplied by the \$0.37 monthly rate to produce an estimate of total residential surcharge collections. Maintaining the current rate of \$0.37 per month per residential customer would result in a collection of \$224,663 above the statutorily mandated \$9,600,000, while lowering the EUSP rate for residential customers to \$0.36 per month per residential customer would result in a collection of \$40,870 below the statutorily mandated \$9,600,000. Staff recommended and the Commission approved a lowering of the EUSP rate for residential customers to \$0.36 per month per residential customer.

The estimate of the residential collection enabled Staff to determine the estimated over-collection for non-residential customers to be \$3,905,410. This amount represents the lion's share of the over-collection and is approximately 14 percent¹⁵ higher than the statutorily required \$27.4 million. Staff recommended and the Commission approved a reduction of all 24 tiers of non-residential customer charges by this uniform percentage.¹⁶ The non-residential EUSP charges are stated on the chart on the following page.

¹⁵ The 14% is rounded down from 14.25% to reduce the possibility of under collection for FY 2014. The total over collection for all customers is 11%. Because very little of the over collection comes from residential customers, the percentage over collection for non-residential customers is higher than 11%.

¹⁶ Sufficient information was not available to allow a more nuanced adjustment to the C&I EUSP rates.

Proposed New C&I EUSP Surcharge Schedule

Tariff Tier	Monthly Universal Program Charge	Reduction by 14%	Staff's Proposed Monthly Universal Program Charge
1	\$0.42	\$0.06	\$0.36
2	\$3.09	\$0.43	\$2.66
3	\$10.29	\$1.44	\$8.85
4	\$20.59	\$2.88	\$17.71
5	\$41.18	\$5.77	\$35.41
6	\$61.77	\$8.65	\$53.12
7	\$82.36	\$11.53	\$70.83
8	\$154.42	\$21.62	\$132.80
9	\$205.89	\$28.82	\$177.07
10	\$308.83	\$43.24	\$265.59
11	\$463.25	\$64.86	\$398.40
12	\$617.67	\$86.47	\$531.20
13	\$926.50	\$129.71	\$796.79
14	\$1,235.33	\$172.95	\$1,062.38
15	\$1,647.11	\$230.60	\$1,416.51
16	\$2,058.89	\$288.24	\$1,770.65
17	\$2,470.67	\$345.89	\$2,124.78
18	\$2,882.45	\$403.54	\$2,478.91
19	\$3,294.22	\$461.19	\$2,833.03
20	\$3,603.06	\$504.43	\$3,098.63
21	\$3,911.89	\$547.66	\$3,364.23
22	\$4,117.78	\$576.49	\$3,541.29
23	\$4,323.67	\$605.31	\$3,718.36
24	\$4,632.50	\$648.55	\$3,983.95

The Commission considered this matter at the Administrative Meeting of December 4, 2013. By Letter Order of the same date, the Commission directed that each electric company file a revised EUSP tariff consistent with the appropriate Model Tariff for C&I customers and one

showing a new rate of \$0.36 per residential customer per month. All tariffs are to be effective February 1, 2014. The Commission believes that this action will begin alleviating the current problem of over-collections in early 2014, and the full result of this change will be seen at the close of FY 2015.