

Leveraging Nonfederal Resources For LIHEAP

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BACKGROUND

Leveraging, or attaining nonfederal supplemental funding and other resources to supplement federal LIHEAP and weatherization funds, is a topic of great interest to state and tribal LIHEAP programs, especially with the continuing decline in federal funds and the near-depletion of oil overcharge monies. It took on special importance with the leveraging incentive provision of the 1990 LIHEAP reauthorization bill.

Under this provision, effective in FY 1992, the Department of Health and Human Services (HHS) may allocate supplementary LIHEAP funds to grantees that have acquired nonfederal leveraged resources for their LIHEAP programs. Grantees wishing to compete for leveraging incentive funds must submit a report to HHS each year that quantifies the amount of leveraging accomplished by the grantee during the previous year, less any costs incurred by the grantee and any costs imposed upon LIHEAP clients.

On January 16, 1992, HHS published an interim final rule implementing the incentive provision and providing criteria on what counts as leveraging. This interim final rule was in effect until the final rule was published May 1, 1995.

The part of the final rule that applies to the leveraging incentive program became effective October 1, 1995, and the new requirements were used to evaluate grantees' FY 1996 leveraging activities. The final rule's provision relating to the grant allocation formula was used in FY 1996 to reward grantees' FY 1995 leveraging activities.

Since FY 1991, LIHEAP grantees have competed for the leveraging incentive funds available each year as part of the Congressional appropriation to LIHEAP. FY 1991 was the first "base period" of the program; participants were rewarded for their activities with FY 1992 funds (the "award period"). For each subsequent year of leveraging, states were given awards for the previous year's leveraging activities.

Approximately \$25 million yearly was available for the first three years of the leveraging incentive program; for FY 1994 activities the leveraging incentive fund increased to \$30 million. The amount Congress appropriated for FY 1995 leveraging activities was \$22.5 million; however, the appropriation also required that up to 25 percent of the leveraging amount be set aside for the new Residential Energy Assistance Challenge Program (REACH), leaving \$16.875 million for leveraging. Each year thereafter, an amount has been deduced

from the leveraging appropriation for REACH. This table shows grantee leveraging and awards totals since FY 1991.

Additionally, the 1990 reauthorization of the Department of Energy (DOE) Weatherization Assistance Program authorized a one-time allocation of \$3 million for states which "obtained a significant portion of income from non-federal sources for their weatherization programs or increased significantly the portion of low-income weatherization assistance that the state obtained from non-federal sources." This money was allocated to the state WAP grantees in 1993-94.

Also of importance to WAP grantees, the Weatherization Program Regulations at Sec. 440.14 (b)(9)(xiv) allow grantees to use a portion of their grant for leveraging activities, and they must include in their plan: "The amount of Federal funds to be used, and an explanation of how they will be used, to increase the amount of weatherization assistance that the State obtains from non-Federal sources, including private sources, and the expected leveraging effect to be accomplished." According to the National Community Action Foundation, there is no limit on the amount of funds a grantee may use for leveraging so long as the leveraging activity is one that promotes expansion of energy conservation funding for eligible households.

This memorandum will provide a brief overview of the LIHEAP final rule and discuss some examples of leveraging used by states and tribes. It is not an attempt to summarize all the leveraging regulations or to recommend any particular form of leveraging.

Each grantee should seek guidance from HHS as to whether a leveraged resource is countable and meets all statutory criteria. Grantees may contact the Clearinghouse for additional information on what other grantees have claimed and had approved by HHS as leveraged resources. HHS sent each grantee a copy of the rule as part of Information Memorandum 95-20 dated June 9, 1995. Grantees should first consult the final rule, whose preamble provides extensive discussion of all the regulations and can offer a great deal of guidance. The LIHEAP Clearinghouse annually compiles a narrative summary and table of state and tribal grantee leveraging activities, and more detailed information from grantee leveraging plans is available by contacting the Clearinghouse.

It should be noted that some grantees may engage in activities that, while supplementing energy resources available for energy assistance for low-income households, do not qualify as leveraging because they do not meet the statutory criteria. Or some activities, though countable and benefiting many low-income families, may take too much of a grantee's administrative time to adequately document and quantify.

HHS has emphasized that such activities are important and that grantees should continue them. And, because federal LIHEAP funding fluctuates from year to year, it is important to remember this comment from the National Community Action Foundation, a group that lobbies for programs administered by community action agencies: "A program that leverages LIHEAP or WAP resources is worthwhile in its own right, regardless of whether it qualifies for the incentive funds."

WHAT COUNTS AS LEVERAGING

Essentially, a resource or activity cannot be counted as a leveraged resource under LIHEAP unless it results in home energy benefits to LIHEAP-or federally-eligible households that can be measured or quantified. The final rule identifies three categories of leveraged resources and benefits that can be countable provided they meet all other applicable provisions: (1) cash, (2) home energy discounts and waivers, and (3) third-party in-kind contributions.

(1) CASH RESOURCES

An example of the first is cash from a non-federal source such as state, tribal, or oil overcharge funds, or private sources such as utility-sponsored fuel funds. Certain oil overcharge funds distributed to the states by DOE after October 1, 1990, may also be countable. The cash could be used to supplement a LIHEAP grantee's heating, cooling, crisis or weatherization programs, to purchase fuels, or to install weatherization materials.

State Supplements to LIHEAP

Historically, states have supplemented LIHEAP with their own funds. For example, in FY 2002, at least 26 states reported supplements totaling over \$434 million in state and local funds. Examples of this in FY 2002 include \$6.1 million from Colorado's Property Tax, Rent, and Heat Rebate that allows tax rebates of up to \$192 for home heating payments to income-eligible residents at least 65 years old, surviving spouses at least 58 years old, and those totally disabled regardless of age. Another example is the \$72 million that New York's state and local governments paid for energy costs of certain public assistance households.

Other State Supplements: Since the advent of utility restructuring, a number of state legislatures or regulatory commissions have authorized public benefits funds, also known as universal service, system benefits, or societal benefits funds, as part of their utility restructuring processes. As a result, utility customers in about 20 states pay a non-bypassable charge on their electric and/or natural gas bills that reverts to the public benefits fund for certain public purposes such as low-income bill assistance and energy efficiency, energy efficiency programs for all customer classes, and renewables and research and development programs.

The portion of public benefit funds that is spent on meeting the energy needs of a state's low-income population can be counted as a leveraged resource if it meets all other criteria. For more information about public benefits funds being used for low-income energy needs, see the [utility restructuring section](#) of the LIHEAP Clearinghouse's website for a "State-By-State Overview Of Low-Income Restructuring Legislation And Implementation."

Note that state-allocated funds cannot be counted as leveraged resources if the money is used for administrative purposes.

Oil Overcharge Funds

Beginning in the 1980's, the DOE has distributed to the states monies acquired through cost judgements against oil companies that violated petroleum pricing legislation and regulations. These funds are known as Petroleum Violation Escrow or oil overcharge funds. In accordance with federal statute, court orders, and/or agreements, states may allocate a portion of their

share to one or more of five federally-funded energy programs, including LIHEAP and the DOE Weatherization Assistance Program, and certain other purposes or uses for some of the oil overcharge funds.

However, the major sources of oil overcharge funds, Exxon and Stripper Well, are nearly depleted and cannot be relied upon as significant leveraged resources. These contributions to LIHEAP totaled \$25.6 million in FY 1994, (compared with \$872 million in 1988), and had dwindled to about \$2 million in FY 1996.

Grantees must consider oil overcharge funds carefully when quantifying their leveraged resources. The final rule limits countable oil overcharge funds to those funds that were distributed to a state or territory by the DOE after October 1, 1990, as well as interest earned in accordance with DOE policies on oil overcharge funds that were distributed to a state or territory. This means the date the funds were distributed to the states by DOE, not the date they were designated for LIHEAP by the state or territory, which may have been later. This rules out Exxon funds, which were distributed prior to October 1990, but may leave some Stripper Well and Texaco funds.

The funds must have been used to assist low-income households to meet the cost of home energy through (that is, within and as a part of) a state or territory's LIHEAP program, another federal program, or a non-federal program. They must not have been previously required to be allocated to low-income households.

Tribal grantees that receive oil overcharge funds from the state in which they are located (and/or interest the state earned on oil overcharge funds) and use these funds or the interest they earned for home energy assistance, can count these funds under the leveraging incentive program, as long as these funds meet all the applicable statutory and regulatory requirements. The same funds may not also be counted by the state.

Fuel Funds

Usually established by utilities in partnerships with nonprofit groups, fuel funds solicit employee, customer or corporate contributions, which are earmarked for low-income customers in crisis who have exhausted all public sources of help, whose need is extraordinary, or who do not quite meet their state's requirements for assistance.

There are now nearly 300 fuel funds nationwide in at least 47 states and in many metropolitan areas. Their combined fuel assistance totals nearly \$125 million a year, according to 2003 testimony by the National Fuel Funds Network (NFFN) which represents over 200 organizations and individuals involved with fuel funds or energy assistance issues. While these funds vary widely as to their integration and coordination with LIHEAP, under the leveraging regulations coordination with LIHEAP is crucial. (To qualify, funds must meet all criteria of sections 96.87(d)(1) and at least one criterion in section 96.87(d)(2))

Some fuel funds are operated by utilities and non-profits without integration with LIHEAP, in which case they cannot be counted as leveraged resources under section 96.87(d)(2)(iii), even if their clients were LIHEAP-eligible. Other fuel funds were designed by states specifically to supplement LIHEAP. However, states and fuel fund coordinators must ensure that resources

counted went to serve households that were "federally eligible," meaning they meet the standards for LIHEAP income eligibility and/or LIHEAP categorical eligibility as defined in the LIHEAP statute. If a fund serves those beyond federal eligibility requirements, those people cannot be counted in the total of leveraged resources.

The requirement (section 96.87(d)(iii)) that leveraged resources be coordinated and integrated with LIHEAP is crucial for grantees wanting to claim benefits from fuel funds under the criterion.

Because the interim rule was somewhat vague on the meaning of coordination and integration of a resource with LIHEAP, and many grantees were confused, the final rule added eight conditions describing specific circumstances that demonstrate that a resource is integrated with the grantee's LIHEAP program, and that the resource and LIHEAP function cooperatively and in coordination with each other to provide an interrelated larger unit or whole. A leveraged resource must meet one of the eight conditions. Many of these conditions will be of interest to states that wish to claim fuel funds. (See Attachment 1)

The above-stated reasons why fuel funds cannot be counted explain, at least in part, why reported leveraging totals for fuel funds, about \$66 million in FY 2002, are considerably less than the amount cited by the NFFN.

For more information, see the LIHEAP Clearinghouse website.

(2) HOME ENERGY DISCOUNTS AND WAIVERS

Home energy discounts or credits may include discounts or reductions in utility or bulk fuel prices or partial or full waivers of certain utility and other home energy fees. Utilities and delivered fuel vendors, individually or in coordination with LIHEAP or other governmental programs, have historically provided benefits from this category to LIHEAP recipients and other low-income households. Many of these discounts, waivers, and services may be countable under the leveraging incentive rules.

In documenting a discount, only the actual discount is countable, and it must be subtracted from the "fair market value," or the price other customers are charged for the fuel. For example, if a grantee obtained oil for LIHEAP clients at \$1.10 per gallon, and the fair market value was \$1.30, only the \$.20 per gallon discount could be counted.

According to Clearinghouse records, at least 35 states receive discounts, special rates or fee waivers for low-income persons from one or more of their utilities. (In some restructured states, discounts or special rates have been incorporated under public benefits funds, as discussed above under the State Supplements section.) In California, all regulated utilities are required to offer a 20-percent discount to LIHEAP recipients, and many non-regulated utilities do so as well. Massachusetts, Montana, Arizona, Washington and the District of Columbia are among the other states where discounts are required or offered by some utilities. Such activities must meet the criteria of sections 96.87(d)(1) and one of the criteria in section 96.87(d)(2) to be countable.

A number of states and several tribes have negotiated contractual arrangements with

participating delivered fuel vendors to provide LIHEAP recipients with discounts for bulk fuel purchases. Such programs in Connecticut, Maryland and Massachusetts have resulted in a price break for oil purchases (as well as propane and wood in Maryland) for LIHEAP recipients.

For more information, the Clearinghouse has a memorandum available titled "LIHEAP Negotiations with Non-Regulated Fuel Vendors."

(3) THIRD PARTY IN-KIND CONTRIBUTIONS

These could include fuels donated to LIHEAP, as well as donated materials, supplies and labor, as long as the labor or materials are for activities mentioned in the final rule and are not for administration or outreach purposes. For example, in an emergency crisis program with donated oil, the oil could count, but not the time to administer the emergency deliveries. Materials, supplies and labor donated for weatherization of low-income homes could also count.

GRANTEE INVOLVEMENT IN LEVERAGING

While only one of them is required, any of the three criteria listed under section 96.87(d)(2) may be a deciding factor in whether a leveraged resource is countable.

The first criterion pertains to involvement by the grantee's LIHEAP program in the development and acquisition of a resource or benefit; the second involves whether the leveraged resources were provided to low-income households as a part of the grantee's LIHEAP program; and the third concerns whether they were appropriated or mandated by the state for distribution under the grantee's LIHEAP plan and were integrated and coordinated with the grantee's LIHEAP program.

According to the section 96.87(d)(2)(i), if a grantee wishes to claim that a resource resulted from its involvement, "the grantee's LIHEAP program [must have] had an active, substantive role in developing and/or acquiring the resource/benefits from home energy vendor(s) through negotiation, regulation, and/or competitive bid."

For example, states or tribes should be able to document their LIHEAP program's involvement in negotiations, competitive bids, written agreements, legislation, regulations or mandates through which leveraged resources are developed or acquired.

To show integration and coordination a resource must be identified and described in the grantee's plan before September 30; and the description must include how the resource is integrated and coordinated. The new rule adds eight objective conditions for coordination and integration and a resource must meet at least one of them in order to be considered integrated and coordinated with a grantee's LIHEAP program.

If resources in the above three categories were obtained by a county or subgrantee agency, they could count if the county or subgrantee were acting in its role as a subgrantee or contractor of the state LIHEAP grantee.

WHAT CANNOT BE COUNTED

Section 96.87(f) lists the resources and benefits that cannot be counted in the leveraging reports. Included are budget counseling and energy conservation activities, which many grantees consider essential components of their programs. Another major "uncountable" is funds used as matching or cost sharing for any federal program.

The final rule deleted as separate countable resources all services involving delivery and transportation, that is, delivery of fuel, weatherization materials, and other items, along with purchase, rental, donation and loan of supplies and equipment used to deliver these things and used to install weatherization materials.

IDENTIFYING, DEVELOPING AND DEMONSTRATING LEVERAGING PROGRAMS

The rule allows grantees to spend a certain portion of their LIHEAP funds to identify, develop, and demonstrate leveraging programs. States may spend up to the greater of \$35,000 or 0.08 percent of their federal LIHEAP allotments to do so; tribes, tribal organizations and territories may spend up to the greater of two percent or \$100 of their federal LIHEAP allotments.

These funds are not subject to the limitation on funds that may be used for costs of planning and administration, and they may be spent for either administrative or non-administrative activities. When preparing the leveraging report, they must be deducted as offsetting costs from the total amount of resources leveraged, whether or not there are any resulting leveraged benefits.

QUANTIFYING AND DOCUMENTING LEVERAGED RESOURCES

With each leveraged resource, grantees must be able to document that the resource has been used to benefit only federally-eligible, low-income households. They must also document the gross valuation of the benefit and its net value, that is, less the associated costs or charges to the recipient households and the costs to the grantee to leverage the resource. Two-part leveraging report forms distributed to the grantees provide a method of distilling the essential information that grantees will need to quantify the resources.

ALLOCATION OF THE LEVERAGING INCENTIVE FUND

After experimenting with several different formulas for determining grantee shares in the leveraging fund, HHS arrived at a two-part formula that it believes carries out the intent of the leveraging incentive fund: to reward grantees that are most successful in leveraging their LIHEAP dollars, taking into account the size of their regular LIHEAP allotment. In this way, if two grantees leverage the same amount, but one has a larger allotment, the one with the smaller allotment would receive a larger proportionate award.

Under the formula, one half of the amount appropriated for leveraging incentive awards is distributed to an applicant based on the funds it leveraged relative to its net LIHEAP allotment during the base period, as a proportion of the total amount of funds leveraged by all grantees

in relation to their allotments.

The remaining half is distributed based on the amount of leveraged resources that a grantee leveraged during the year as a proportion of the total amount leveraged by all grantees. No grantee can receive an award greater than its regular LIHEAP allotment; if the formula results in such an excess, the funds will be reallocated to the other grantees.

Effective with FY 1995 activities, no grantee can receive more than 12 percent of the total amount available for leveraging. This was based upon comments HHS received that the bulk of the leveraging incentive funds should not go to just a few large grantees, leaving little for others. During the first three years of leveraging, two large states each received more than 12 percent of the available funds, and the four grantees with the largest amount of leveraged resources received a total of between 47 and 49.7 percent of the total leveraging incentive funds awarded during those years.

Also effective for FY 1995 activities, a grantee cannot receive a leveraging incentive award that is more than the smaller of its regular LIHEAP net allotment during the base period or twice the net value of its countable leveraged resources for the base period. This was to prevent what was seen under the interim formula as providing disproportionate and unfair award amounts to some tribes because it was not uncommon for tribes to receive awards as much as 11 times larger than their amounts leveraged.

Grantees must use their leveraging incentive award funds to increase or maintain heating, cooling, energy crisis, and/or weatherization benefits, through (that is, within and as a part of) the grantee's LIHEAP program.

Leveraging incentive fund are available for obligation during both the award period and the fiscal year following the award period.

SUMMARY

This memorandum is an overview of leveraging and the requirements of the leveraging incentive implementation rule. Specific guidance on whether an activity qualifies as leveraging can only be provided by HHS. The Clearinghouse can provide examples of leveraging resources from states and tribes that were accepted by HHS.

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FY	Total Leveraging	Total Awards	# of Participants	Idaho Leveraging	Idaho Award	Idaho % of Award to Leveraging
2002	\$1,319,718,763	\$18,906,602	41	\$0	\$0	0.0000
2001	\$1,140,092,380	\$19,003,357	39	\$832,386	\$51,154	0.0615
2000	\$683,979,362	\$19,166,115	37	\$466,093	\$33,266	0.0714
1999	\$619,689,057	\$18,930,270	37	\$0	\$0	0.0000
1998	\$534,619,538	\$19,606,616	33	\$773,171	\$49,365	0.0638
1997	\$587,497,146	\$17,671,364	39	\$703,913	\$52,427	0.0745
1996	\$574,618,350	\$17,636,917	39	\$758,973	\$46,258	0.0609

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EXAMPLES OF LIHEAP ENERGY VENDOR LEVERAGING PROGRAMS

Prepared by

**National Energy Assistance Directors' Association
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This project was directed by Mark Wolfe, Executive Director of NEADA. Chuck Guinn, John Smith and Jeff Genzer provided consultation on the section on systems benefit charges and Ann Mattheis provided final editing of the report. Comments about the report or requests for technical assistance should be directed to Mark Wolfe, NEADA, (202-237-5199).

This publication was prepared by NEADA under contract to the NCAT under contract #105-94-8200 funded by the Division of Energy Assistance, Office of Community Services, Administration for Children and Families, U.S. Department of Health and Human Services. It was prepared to assist states developing strategies for increasing leveraging of non-Federal, energy assistance resources. The examples discussed in this publication won't necessarily work everywhere and OCS doesn't necessarily agree with or recommend them for other grantees. Each grantee should decide whether similar

leveraging projects are appropriate in their jurisdiction.

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I. INTRODUCTION

The Federal Low-Income Home Energy Assistance Program (LIHEAP) assists low-income households with meeting the cost of their home energy bills. During FY 1997, \$1.2 billion was provided in regular and emergency LIHEAP assistance.

LIHEAP funds are provided to the states in the form of formula-based block grants which are used to provide heating and cooling assistance to about 5.0 million low-income households. These grants are distributed primarily on the basis of relative weather conditions and poverty population. In many states, the LIHEAP office is the largest single public or private purchaser of energy in the state. As a result, some states have been able to negotiate volume discounts from vendors in order to maximize the purchasing power of federal LIHEAP funds.

The purpose of the project described in this publication was to look at strategies that could be considered by three states to increase the purchasing power of their LIHEAP program funds. Leveraging opportunities were examined in the following three energy markets: natural gas, electricity and heating oil.

As part of this project, three issue briefs were prepared on developments in energy industry restructuring and their impact on energy assistance programs. The first was released in February 1997, the second in June 1997, and the third in September 1997. In addition, a previous report, *A Manual for Leveraging Funds in Energy Markets with the Low-Income Home Energy Assistance Program*, was prepared last March as part of this project. Please call NEADA (202-237-5199) or the Clearinghouse at 1-888-294-8662 if you would like to receive copies of these documents.

This publication includes information that was provided to the three states (Connecticut, New Hampshire, and Maryland) to assist them in developing new approaches to increase program leveraging. Also included is a description of the meetings that were held with the three states and the planning process that is underway.

The publication of this report concludes the HHS funded portion of the project. The projects are expected to be continued, and will be funded by other sources. This is because development of new state programs to maximize program purchasing power cannot be done quickly. These programs often require agreements among suppliers, local administrative agencies and state agencies, as well as possible changes to state legislation. As a result, even though it might appear at first glance that states can easily and quickly improve the purchasing power of their block grant funds, the reality of the negotiation process suggests that these activities can take a considerably longer period of time.

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II. DISCUSSION OF STATE APPROACHES

A number of the state LIHEAP agencies have negotiated significant discounts with energy vendors in order to maximize the purchasing power of the federal program funds. These discounts reflect two factors:

- the purchasing power of LIHEAP grants allows states to negotiate volume discounts with vendors; and
- vendors have recognized that by providing discounts, home energy can be made more affordable to LIHEAP recipients.

The approaches described in this paper are still in the planning phase, however, and are not meant to appear as final decisions. In addition, because the planning discussions involve sensitive negotiations with vendors, the specific details of the programs are not discussed.

The complex nature of the negotiation process is described on page 14 in the section that discusses the recently completed pilot project negotiations between New York State and Natural Fuel Gas. Even though at first glance it might appear that the aggregation project agreement was relatively straight forward and could have been negotiated in a few weeks, in practice it took more than a year of negotiations, data analysis, and planning in order to develop the program.

Volume Discounts for Heating Oil Purchases

Unlike natural gas and electricity, the retail market for heating oil is not regulated. The product is produced and refined in many areas of the world and delivered by pipeline, truck and ship. The wholesale price is determined by the laws of supply and demand. The retail price is based on the market price plus a mark-up for sales and delivery.

The final price is also a function of competition and volume purchased. Generally, large commercial and industrial consumers pay less than small residential consumers. In several states, residential consumers participating in low-income energy assistance programs have been pooled as part of an aggregation strategy to negotiate lower retail prices from fuel vendors.

Connecticut and Massachusetts are two states that have successfully implemented aggregation programs. The aggregation strategy followed by these states is simple and straightforward; participating dealers are paid a fixed 25 cents per gallon over the wholesale price, adjusted weekly (known as "margin-over-rack"). That amount is on average about 15 cents per gallon less than the price charged by dealers to residential customers. In return, oil dealers receive a guaranteed payment from the state LIHEAP program.

The purpose of the project effort in New Hampshire was to help the state develop a plan for maximizing its purchases of heating oil. Five plan elements are being explored:

- Compare the differential between the wholesale and retail price of heating oil in New Hampshire and the range of prices paid with the prices paid by the LIHEAP program in Connecticut and Massachusetts.
- Determine whether the price differential, if any, is due to other factors, such as transportation or the proportion of the population living in hard to reach rural areas, as compared to urban areas.

- If a price differential exists, determine whether additional savings could be achieved through margin-over-rack or other discount pricing plan.
- Determine whether further price savings could be achieved through use of a summer fuel purchasing program, when prices for heating oil are generally considerably lower.
- If appropriate, develop model agreement forms with vendors.

Project staff visited New Hampshire in October 1997 and met with state and local program staff to discuss options. A preliminary analysis of prices paid through the state LIHEAP program was completed and several possible pricing strategies were discussed. The next step in the process will be for the project team to complete a weighted average of prices paid and develop several alternative plans for the state's purchasing power. This task will be done after the HHS project is completed.

A discussion of the information that was developed for the New Hampshire LIHEAP staff is provided in Section III. These materials include an overview of the heating oil market and a summary of the Massachusetts program. They also include a discussion of the potential advantages associated with combining a margin-over rack program with an options program to limit price volatility.

Utility Restructuring

The restructuring of the electric and natural gas markets will provide a new opportunity to increase resources for low-income households by providing opportunities to aggregate low-income clients to achieve market discounts and by obtaining new subsidies by applying either a flat or volume charge against the natural gas and electric transportation and distribution systems. These "systems benefit charges" have been approved in California, Maine, Montana, New Hampshire, and Rhode Island, while low-income market aggregation pools have been developed in New York State and Ohio.

The project staff has been working with the states of Maryland and Connecticut to develop proposals similar to those underway in the above mentioned states. Project meetings and visits have been informational and designed to assist state planners in crafting long term solutions to meeting the energy needs of LIHEAP eligible population. Agencies in both states are interested in developing plans to support the implementation of wires charges and distribution charges that could be used to fund low-income programs. The purpose of the plan in each state is to develop the necessary information that could be used by policy makers to evaluate the costs and benefits of these programs, and then develop the necessary legislative language to support their implementation. The following summarizes the steps that would be needed to support the development of this approach.

Task 1: Develop Preliminary Data Base

- Gather natural gas and electricity consumption data on target populations.
- Obtain the most recent rate case filings and load profile data from the state public utilities commission and review this information.
- Gather data on current subsidies
- Review legal options for aggregation strategies under existing and proposed law.

Task 2: Preliminary Legislative Investigation

- Identify and meet with interested state legislators to discuss legal options.
- Draft legal options and legislative language that can be pursued as part of state restructuring and/or aggregation legislation to support transportation and distribution charges.

Task 3: Support Aggregation

- Determine level of subsidy needed to make aggregation attractive to private sector to cover additional costs associated with serving low-income households.
- Work with utilities, local distribution companies and others to discuss options for either receiving lower prices for aggregated pool customers or placing the pool out for bids.
- If bidding process is necessary, explore strategies for funding Request for Qualifications (RFQ) and Request for Proposals (RFP) from energy providers.

Sections IV and V summarize the information developed by the project staff to assist the states of Connecticut and Maryland, as well as other states interested in options for increasing the purchasing power of LIHEAP funds in the new emerging world of "consumer choice" in electricity and natural gas markets. For natural gas, it includes a discussion of how the aggregation of low-income households as part of a single buying group can be used to obtain price discounts. For electricity, it includes a discussion on how a systems benefit or wires charge on the distribution of all electricity can be used to support additional energy assistance for low-income households. Of course, aggregation can also work for electricity, and a systems benefit charge can work for natural gas.

III. HEATING OIL MARKETS: A PRIMER

Unlike electricity and natural gas, wholesale and retail prices for home heating oil are not set by state public utility commissions. Rather, prices for #2 oil (home heating oil) are set in the marketplace according to the laws of supply and demand. Daily wholesale "spot" prices are set in the major oil trading markets, located in New York and Rotterdam, Netherlands. Spot prices are a one-time, open-market transaction, which represents current market rates. The retail price is the final price charged by a local retail dealer to the final consumer. It includes the dealer's price at the terminal delivery point plus the cost of local transportation, insurance, and marketing.

The options discussed in this section have been tried by other states in the Northeast and have, in some cases, resulted in substantial savings in price and resulting increases in purchasing power.

Several of the options, including bulk purchase and fixed price purchasing, involve additional risks or costs and might not represent viable options for state programs. The primary option being considered by New Hampshire is the margin-over-rack program, which is discussed in detail. A summary of other price reduction and control strategies is included as well.

Heating Oil Pricing

Two factors influence the price of home heating oil:

- the wholesale or "rack price"; and
- the margin charged by retail dealers over the rack price.

Wholesale prices vary considerably and can spike quickly during periods when seasonal temperatures increase rapidly. Obviously, a change in price directly influences how much fuel can be purchased. In some years, the degree of fluctuations can be considerable. For example, during the 1996-97 winter heating season, home heating oil prices jumped from about \$.94 per gallon in September 1996 to \$1.12 per gallon in January 1997. Prices can also increase rapidly during periods of war, environmental disasters, and international political developments. During the last few years, the Iraqi invasion of Kuwait and the Exxon Valdez disaster both led to significant and unanticipated temporary increases in the price of home heating oil.

Price risk, due to a sudden unexpected price spike, can dramatically affect a LIHEAP manager's ability to provide fuel assistance. For example, if program projections anticipate a purchase of one million gallons of fuel at \$.60 per gallon, an unexpected price increase of a nickel per gallon would result in a loss of purchasing power of almost 77,000 gallons. An additional \$50,000 would be needed to purchase the projected one million gallons of fuel.

Another factor influencing home energy purchases is the spread between the wholesale and retail prices charged. The difference between these two types of prices for heating oil varies considerably by state. The regional wholesale price average for the Northeast states in April 1997 was 60 cents; the residential price was \$1.03. The margin over the wholesale or "rack" price therefore averaged 40.3 cents. During the same time period, the average wholesale price in New Hampshire was 62.7 cents per gallon while the average retail price was 95.2 cents per gallon. The margin-over-rack price averaged 32.5 cents per gallon. The price varies by state because of differences in transportation from the terminal point.

What is the Savings Potential?

Unless a state is considering going into the refining business, the maximum savings potential is the difference between the wholesale price of refined product from the closest delivery point and the retail price to residential consumers. The potential is reduced by the minimum amount needed to deliver the fuel, pay the insurance costs, and cover other transportation-related expenses. These expenses will vary by dealer size, the amount of fuel purchased, and the distance of the customer base from the fuel delivery point.

Recent data published by the Energy Information Agency (EIA) provide an indication of the margin required by dealers to provide heating oil to end-use consumers. According to the EIA, the margin for residential consumers was 30 cents per gallon, for commercial consumers about 6 cents per gallon, and for industrial consumers about 11 cents per gallon.

Bulk Purchase

Some experts argue that a major money-savings option for states is a direct purchase of fuel from the wholesale terminal. This method is more commonly referred to as a "bulk purchase." This program would require the state to take the same steps as a retail dealer in delivering oil. The state would purchase the fuel oil directly from the terminal, find and store the purchased oil at a terminal site, and contract with companies to have the oil delivered directly to the LIHEAP client. In addition, the state would have to assign personnel to monitor the delivery companies to assure the oil is delivered on time and to the correct customer.

None of the states operate a bulk purchase program. Several oil industry analysts have suggested that bulk fuel programs would not have produced significant savings beyond the 15 cents per gallon savings found in margin-over-rack programs and would create major management problems for traditionally thinly staffed LIHEAP offices. Prices charged by non-profit heating oil cooperatives in Massachusetts, which run similar operations, are about the same as the margin-over-rack price paid by the state programs.

Bid Programs

Unless the state is considering going into the heating oil delivery business, the maximum savings potential can only be determined through the free market. States have the option of putting the program out to bid or negotiating a discount rate with the current dealer network. The bid approach is normally used by large commercial and industrial customers in order to obtain the most attractive price.

The bid approach is simple -- a customer issues a notice to the heating oil dealers in his area, stating the terms and conditions of the purchase requirement. Bids are submitted and the most attractive offer is accepted. While the savings over the regular retail price can be considerable, they are generally premised on assumption that the product is being delivered to only one location and to only one customer for billing purposes.

With the exception of a small pilot project tried in Massachusetts, none of the states use bid programs for LIHEAP because they could require residential customers to use a dealer other than the one they are currently using. Since most energy assistance grants are less than the total fuel consumption required by the household, states have been reluctant to interfere with established dealer networks and servicing programs.

Margin-Over-Rack Programs

Several states have generally followed a second path of negotiating a discount program with retail dealers to reflect the program's purchasing power. In many cases, the state program is one of the largest total purchasers of heating oil in the state. At the same time, the state is not necessarily the largest purchaser from each vendor since not all vendors will have a large percentage of energy assistance clients.

Connecticut and Massachusetts developed a formula to pay dealers for delivering heating oil purchased through the state program. While dealers may continue to charge their regular retail price for delivered heating oil that is not paid for with energy assistance dollars, all fuel paid for with energy assistance dollars will be reimbursed according to the state formula.

The rack price refers to the wholesale price of oil charged to the retail dealer. The rack price will generally reflect the cost of refining the oil plus its delivery and storage costs at the terminal where the product is sold to retail dealers. The margin-over-rack price is the final cost to the consumer of the rack price, plus the dealer's operating costs, plus profit.

States have tried several strategies to reduce the margin-over-rack price charged by dealers to low-income households. The most effective approach has been implemented in Connecticut and Massachusetts. In those states, dealers can only provide oil through the LIHEAP program if they agree to sell the oil at a fixed price of 25 cents over the rack price. Since retail prices average about 40 cents over the rack price in both states, the program effectively requires a discount of about 15 cents per gallon.

A margin-over-rack program, as used in Connecticut and Massachusetts, would work as follows:

- It provides participating dealers with a margin of 25 cents per gallon over a weekly average rack (or wholesale) price of home heating oil, or their current retail price, whichever is less.
- The margin-over-rack price would be based on the weekly average of the daily wholesale price for fuel oil, delivered at the major terminal areas. Dealers would be assigned a terminal price according to the terminal site used by a majority of dealers in each dealer's service area. The margin-over-rack price only applies to heating oil purchased with LIHEAP funds. Oil delivered in excess of a client's LIHEAP allotment would not be subject to the margin-over-rack price.
- Dealers are not required to participate in the program; however, LIHEAP participation can only be extended to dealers who have agreed to participate in the program and accept its pricing agreement. Fuel assistance clients must select a participating dealer to receive their fuel benefits. The state provides each LIHEAP client with a list of approved participating dealers at the beginning of the heating season. Since most dealers would not want to risk losing a customer, it is likely that most, if not all, dealers would participate in the program.

Under some limited circumstances, a state might be required to pay the full retail price. These include:

- The client does not have the option to choose a participating oil vendor (e.g., the client utilizes the only vendor in an area, and that vendor is not participating);
- The client shares a fuel tank with other parties who are not eligible for LIHEAP;
- The client's usage is determined by a metering device; or
- The client received delivery from a nonparticipating vendor prior to eligibility determination.

Some oil dealers, however, have charged that margin-over-rack programs do not provide a sufficient margin to support small, established fuel dealers and instead, the programs support large discount dealers who do not provide the same level of services. While dealers have protested the establishment of discount oil programs, few have dropped out of the programs in Connecticut and Massachusetts. Replacement dealers have been found for those who have dropped out of the program.

The savings achieved in margin-over-rack programs are more significant for states that have not established any other dealer discount program. The 1997 margin-over-rack savings report prepared by Massachusetts is indicative of potential savings that could be achieved by using this approach to purchase heating oil. During the 1996/97 winter heating season, the state purchased 10.9 million gallons of heating oil for \$10.4 million dollars. This represented a discount of 14.6 cents from the regular retail price of about \$1.09 per gallon, for a total savings of \$1.5 million.

New Hampshire has negotiated a program with its local dealers to receive a discount equal to the price charged to customers that pay cash on delivery. The average savings works out to about 10 cents per gallon. Assuming that retail prices in New Hampshire are similar to those charged in Massachusetts, as indicated by recent data provided by the Energy Information Agency, margin-over rack pricing could provide an increased savings of almost 50 percent.

Vendor Agreement

States that participate in margin-over-rack or other similar discount programs need to develop contractual agreements with participating heating oil dealers to assure that there are no misunderstandings. The agreement should contain information regarding billing, delivery, payment procedures, and termination provisions.

The following provisions are contained in the Massachusetts agreement require that participating vendors agree to the following requirements:

- Submit a bill to the Agency at the posted price per gallon charge to non-eligible similarly situated customers;
- Apply payments received against current deliveries only, and not bills incurred prior to November 1;
- Until the customers' benefits under the program are exhausted or until March 31, whichever occurs earlier, bill the customer directly only for total accounts receivable covering bills incurred prior to November 1 and /or other non-heating oil expenses not eligible for payment under the Program. The customer will not be billed in any amount for gallons of oil delivered under the Program and paid for by the Agency pursuant to this Agreement.
- Not discriminate against the customer in price or services, including offering deferred payment, level payment, credit, discount, budget, advance payment, or other credit plans.
- Make current deliveries to customers regardless of debt arrearage status, or will hold harmless the Agency for arranging oil delivery by another oil vendor.
- If requested by Agency, the Vendor will provide, at no cost to the Agency or the Certified Customer, an annual oil cost and consumption record for each Customer, as specified by the Agency.
- The Vendor will make deliveries in accordance with normal business practice, and accordingly secure the customer's signature on the metered delivery ticket. When this is not possible, the Vendor agrees that the truck driver or other Vendor will leave a copy of the metered delivery ticket with the Customer. Minimum delivery authorized shall be 100 gallons, unless otherwise agreed on by the Vendor and Agency and subject to the customer's maximum benefit level.
- The Vendor will submit a metered delivery slip showing a customer's name and address, date of delivery, number of gallons delivered, vendor's posted price, and total delivery cost. Within 30 days of the date the invoice is received by the Agency, the Agency will make payment to the vendor.
- For each and every gallon of oil delivered to a customer under the program, the agency will pay to the vendor the amount which equals the lessor of the Vendor's posted price on the date of delivery or the price calculated by adding a margin of 25 cents to a weekly average rack price based on the "Oil Price Information Service Rack Fax" (OPISRF) in order to determine this rack price. The OPIS average price will be averaged weekly by the Agency on a five-day basis.
- The Agency and the Vendor agree that in periods of unusual oil market volatility resulting in significant changes in the wholesale pricing of #2 home heating oil, the Agency may, at its discretion, suspend temporarily or otherwise the pricing method set forth in order to provide emergency relief to its vendors.

Protection Against Price Volatility

An enhancement to the margin-over-rack program would be to include a price volatility option to limit the impact of price fluctuations. Most state LIHEAP programs currently manage their operations by reducing purchases during periods of price increases, and conversely increasing their purchases during periods of price decreases. This approach makes it extremely difficult for the state to plan with any certainty how much oil it will be able to buy at the beginning of the heating season. For example, if the state has sufficient funds at the beginning of the winter heating season to buy one million gallons of home heating oil for its LIHEAP clients at \$1.00 per gallon, a five-cent increase in the price would effectively reduce its buying power by \$50,000, and its purchases by almost 50,000 gallons. Similarly, a five-cent reduction in price would allow the state to purchase an additional 50,000 gallons of heating oil.

Combined with a margin-over-rack program, a bidding process -- which not only requests a bid for the purchase price of fuel oil, but also requests a bid for a price ceiling -- would provide state LIHEAP programs with a price risk management tool which does not require that they directly enter the market. By managing price risk, state LIHEAP managers can leverage LIHEAP dollars and maximize the purchasing power of available resources.

By requiring the dealers to provide a ceiling on price fluctuations, State LIHEAP programs do not need to enter the futures market directly to gain the advantages of options. Instead, a state can require that participating dealers offer a ceiling on the price they would charge for oil during the winter heating season. Under this proposal, dealers would agree to limit changes in heating oil prices to no more than a set amount per gallon during the course of the winter heating season. Many dealers currently purchase their oil supplies from terminal operators that will guarantee that the price will remain constant throughout the winter heating season. These operators are probably using future market-to-purchase contracts to hedge against price increases.

The futures market allows fuel oil buyers and sellers to manage risks resulting from price volatility. Futures markets provide two important economic functions: price transparency (price discovery) and hedging or risk-shifting (risk management). Price transparency is the constant reporting of price information on actual trades made at the futures exchanges. Price information on hundreds of thousands of contracts traded daily is available instantaneously and continuously, thus providing a world reference price. Futures and options contracts for crude oil, gasoline, natural gas, propane and heating oil are publicly traded on the New York Mercantile Exchange. Trades can also be made privately through brokers and other parties.

An options contract eliminates the uncertainty associated with the cash market. Average monthly prices can vary considerably throughout the year, making it difficult to predict the amount of oil that a state can purchase with its LIHEAP allotment. By managing price risk, fuel oil purchasers can accurately plan their purchases without worrying whether a price change will reduce their buying power. Additionally, an option allows the holder to take advantage of price declines that increase purchasing power.

To the extent that purchasing options contracts with LIHEAP funds has the potential to increase the cost of fuel to LIHEAP recipients (i.e., the actual price is below the option price, but the cost of the option must be recovered), this approach may be inconsistent with Section 2605(b)(7) of the LIHEAP statute (Assurance 7). Assurance 7 requires grantees to ensure that vendors do not charge LIHEAP recipients more for services or goods paid for with LIHEAP funds than non-LIHEAP recipients. At least one grantee, Massachusetts, has purchased futures contracts with non-LIHEAP funds.

IV. NATURAL GAS DEREGULATION: A PRIMER

There are three main participants in the natural gas distribution business:

- *Gas producers* who drill and sell natural gas;
- *Interstate natural gas pipeline companies* that purchase gas from producers, transport the gas through their own pipeline system, and sell the product to large customers and local distribution companies; and
- *Local distribution companies* that purchase gas from the pipeline companies and then deliver and sell the gas to retail customers.

Prior to the mid-1980's, local distribution companies (LDCs) were the exclusive vendors of natural gas to residential, commercial and business customers. The LDCs provided the full range of gas delivery and storage services to retail customers upon demand, and they guaranteed that adequate natural gas supplies would be available during peak winter demand periods. In effect, natural gas was delivered as a "bundled service;" that is, customers received one bill and dealt with one company to receive all their services, which included the transportation of natural gas from the wellhead source to the final burner tip. It was up to the LDC to arrange for the transportation of the natural gas to its local area or storage facility.

This system was very reliable and provided very stable prices. Generally, LDCs would enter into long-term contracts for the purchase of natural gas from the pipeline companies, thereby assuring steady supplies. Because the number of pipeline companies is limited, the FERC set interstate pipeline rates. State public utility commissions set the prices charged by LDCs to deliver the natural gas from the citygate to end users. The downside of the system was obvious; few suppliers and high prices.

The result was a heavily regulated industry with prices regulated by state and federal agencies. There were few surprises. Pipeline companies and LDCs were allowed to charge prices that recovered all reasonable costs of delivering gas to their customers. Customers had no choice but to pay the price if they wanted to purchase natural gas. In addition, regulators required LDCs to purchase sufficient pipeline capacity to meet their maximum seasonal requirements. As a result, LDCs would often enter into long term contracts to assure stable supplies and prices.

The benefit to the consumer was clear; reliable service at a predictable price. Unlike the price of electricity which incorporates all the costs of producing and converting fuels to energy, natural gas prices are relatively easy to ascertain because they reflect, primarily, the cost of transporting the product and the price of the gas. The downside of this system is that customers had few opportunities to negotiate better, more efficient, or less expensive arrangements, such as discount rates made possible by the rerouting of gas, alternative contract vehicles, or moving gas from one system to another.

Beginning in the mid-1980's, the Federal Energy Regulatory Commission (FERC) began to transform the way the natural gas industry operates by deregulating the wholesale segment of the market, the process used by transmission companies to set rates. FERC abolished the bundled service system in favor of a system which allows wholesale customers the option of purchasing natural gas directly from the source, or purchasing transportation and storage services that best met their needs. The pipeline companies and LDCs are required to transmit the natural gas to the commercial customers through their pipeline facilities for a fee.

Natural Gas Market Restructures

States have also begun the process of unbundling natural gas services down to the end-use customer.

New York State is one of the first states to begin offering unbundling services down to the local customer level. Elements of the New York system include:

- LDCs are required to provide customers with access to pipeline capacity, storage and receipt points;
- Third party marketers may aggregate small customer loads to meet minimum volume requirements for receiving unbundled loads;
- LDCs must offer backup services at market based rates;
- LDCs can recover stranded costs associated with ending long-term contracts;
- Customers may be charged different rates depending on market conditions and the value attached to gas services by individual customer classes; and
- Marketers are allowed to combine small residential and commercial customers to meet the LDCs' minimum purchase requirement, with the LDCs retaining responsibility for billing, meter reading, and other customer services.

New York's deregulation provisions do not specifically deal with the distribution of services to payment troubled customers. Under the current system, the state provides energy assistance to low-income customers, including federal LIHEAP funds, supplemented by utility-sponsored discount programs. In addition, LDCs are prohibited under the current system from disconnecting energy services for non-payment during the winter heating season.

In a deregulated environment, customers will have an opportunity to seek out suppliers who provide attractive rates and terms that meet their specific needs, rather than continuing to subscribe to the limited number of rate options available from the traditional LDCs. Without market aggregators, most residential customers will not be able to take advantage of the lower natural gas prices available through the marketplace because they do not have sufficient market power to purchase unbundled services through a direct contract arrangement for services.

In addition to the upsides of unbundling, there are also many downsides. For example, customers are exposed to the risk of high prices which often result from periodic price spikes. For low-income customers, companies may be less willing to provide discounted services and forgive non-payments unless required to by the state PUC.

Each state will set rules for aggregation as part of the process of allowing retail choice. These rules could include:

- What is the minimum level of gas that must be purchased that will allow the benefits of unbundled services to pass on to residential consumers?
- What unbundled services may be offered to residential consumers at competitive prices and should they include traditional LDC services such as meter reading, repairs, and billing?
- What is the obligation of an LDC to be a supplier of last resort for customers who have purchased gas through a third party? What is the obligation of an LDC to serve customers who have poor payment records or who cannot afford high winter bills?

New York State/National Fuel Gas Pilot Project

New York is one of the first states in the country to experiment with the application of retail choice benefits to residential gas customers. Under the New York plan, third party marketers will be able to aggregate residential customers and provide them with natural gas services at competitive prices.

The opportunity to achieve market discounts was not lost on the New York Social Service Agency. Public assistance and LIHEAP programs together purchase the largest volume of residential energy in the state. These programs provide energy subsidies to more than 600,000 households. Welfare households in New York receive full payment for their energy costs. Eligible households with higher incomes receive a partial payment.

New York State and National Fuel Gas have created a partnership to test ways of making the low-income market attractive to aggregators. Both parties were concerned that if their partnership was not successful, then low-income customers would not have the same level of service that they currently receive and would, instead, have to go to a provider of last resort.

As a first step, New York and National Fuel Gas (NFG) examined the marketing characteristics of the low-income market in Erie County to develop a model for assuring the delivery of services. The market was examined in three segments:

- Low-income households on public assistance that receive an allowance to pay their fuel bill;
- Low-income households on public assistance that have missed payments and, to prevent the discontinuance of service, the state makes the payment directly to the utility; the appropriate energy allowance is then deducted from the recipients' monthly public assistance grant (known as "vendor restricted households"); and
- Low-income households that are not on public assistance, but that receive energy assistance covering part of their bill .

The focus of the pilot is to provide services to the public assistance population, which generally has the lowest incomes and the fewest resources. The first year of the pilot is to explore the level of discount that could be achieved by aggregating the vendor restricted households. By guaranteeing payment for a large number of households, the state believes that it could achieve a significant discount and assure that this population would continue to receive services.

Pilot Participation Profile: During the 1996-97 HEAP program, a total of 9,782 recipients received a regular HEAP payment benefit through the public assistance (PA) automatic payment component. Of this total, 3,026 cases were classified as vendor restricted. These households reported the following characteristics: over 60 years old, 4 cases; disabled, 63 cases; child under 6 in residence, 2,959 cases.

Natural Gas Usage Pattern: NFG prepared a customer analysis of PA recipient accounts and those of the average residential consumer. The average annual gas consumption of PA voucher accounts is 33 percent higher than the average residential consumer usage. The reasons for this disparity include:

- energy inefficient housing stock;
- lack of basic energy conservation knowledge;

- lack of incentive to conserve since Erie County is paying the bill; and
- instances where PA clients are billed for services beyond their own residential use (i.e., multiple dwellings/shared meter situations).

Pilot Project Structure: Under the current system, National Fuel Gas buys the natural gas and then bills Erie County for the gas used by public assistance clients at its current rate for fuel supply and transportation costs. The county pays the rate for natural gas as all residential customers in the area. Under the proposed system, Erie County will buy gas in the open market for the public assistance households and then pay a distribution fee to National Fuel Gas.

Can Savings be Achieved? For the last few years, Erie County has been buying gas directly in the open market at rates that are up to 20 percent lower than the rates charged by National Fuel Gas. Transportation charges are similar to those charged to other purchasers. National Fuel Gas has agreed to charge the lowest transportation rate and storage charges to pilot project participants. While the state public utilities commission must first review and approve the rate, it is expected that the transportation charge will be about 5 percent below the current rate charged for this service.

Transportation: The New York public utilities commission has the responsibility for setting fees for the transportation of natural gas from the citygate to the residential end-user. As part of its negotiations with National Fuel Gas to develop the most effective strategy for serving low-income customers, the company has proposed a discounted transportation rate for consumers who are part of the aggregated group. The rate is being proposed to the public utility commission. The rationale for the discount is that restructuring will work more effectively if the low-income market is served and that the savings from the discounted rate will help to make energy more affordable to these households.

Fuel Cost: The other major cost is the price of natural gas, which combines the well-head price and the cost of transporting the gas from the well-head to the citygate. Three options are generally available at this time:

- A price based on last year's price;
- Index to the current wholesale market with or without option pricing; and
- Percentage of the price charged by the local distribution company current tariff.

Under the first two scenarios, it might be possible to beat the market or do worse than the market price. Under the third scenario, the state will also come out ahead of the current price. In this case, New York has chosen to use option 3, which provides for a discounted percentage from the current market price. Under the previous contract, Erie County negotiated a 20 percent discount off the regular retail price.

Assuming that the current discount can be continued and the state achieves a 5 percent discount off the transportation charges, then New York public assistance clients could achieve a savings of up to 22 percent off the regular price currently paid for natural gas (transportation plus natural gas savings). For the average customer in Erie County, the savings would be equal to about \$65 per household. The savings will accrue to the recipients. Lower utility bills should result lead to less need for emergency assistance and help to limit resulting shut-offs.

Lessons Learned: While the project is still in its preliminary stages, it is clear that there are several important lessons to be learned:

· It is in the interest of the utility industry, state agency, and local community to develop a aggregation scenario early in the process of deregulation to achieve the maximum benefits for low-income households. Deregulation will not work if a significant number of households cannot benefit from lower prices, but are instead, locked out of the benefits.

· The least complicated approach is likely to win the most support, even if it is not necessarily the most financially advantageous in all cases. In New York's case, it might be possible to achieve better pricing through the use of futures contracts or fixed price agreements. While significant savings could be achieved, the possibility looms that higher prices or no savings over the current system could result. In contrast, a simpler model that provides a straight discount is easier to understand and to "sell" to agency officials, utility providers and low-income advocates.

· It is suggested that a market analysis be prepared of the low-income market that will be required to participate in the program. The analysis should include the following: fuel consumption data and the cost of service; options for reducing prices and guaranteeing services; options that must be reviewed by the PUC; the level of subsidy that is currently being provided; an assessment of the portion of the population that has a troubled payment history (this group will be the most difficult to serve); and options for a provider of last resort and how losses will be paid.

Next Steps: The pilot proposal will be reviewed by the state public utilities commission for approval of its transportation provisions. The final price for natural gas will be negotiated by Erie County.

V. ELECTRICITY DEREGULATION: A PRIMER

The regulation of electricity prices is changing as the industry is being restructured. Once considered among the nation's most heavily regulated industries, the electric industry is in the process of becoming less regulated and more open to competition. The restructuring of the system is being driven by technological advances that have reduced the cost of power generation, a belief by legislators and consumers that competition will bring lower prices, and federal actions deregulating certain interstate elements of the industry.

While the federal government has taken responsibility for opening up the wholesale market for electricity as a result of the passage of the Energy Policy Act of 1992, state governments are taking the lead in opening up the retail market for electricity for all classes of consumers. As a result, the vertically integrated system of today, where each utility is responsible for providing all aspects of utility generation, transmission, and distribution of electricity as a set of regulated "bundled" services in its service territory is gradually being ended.

Many observers believe that the system that is emerging is one where the generation and distribution functions will likely be "unbundled" and offered on a competitive basis to consumers, in the same manner that long distance telephone service is currently marketed by MCI and ATT. The retail market is expected to be unregulated with respect to price, which in turn will be the product of negotiation between sellers and buyers. In this scenario, the market power of buyers and their electricity use profile will be major factors in the price of their electricity. Aggregation of buyers will become a means to improve the market power of customers. The remaining monopoly functions of transmission and distribution (i.e. the wires companies) will likely be regulated by price caps to encourage cost efficient operation and service.

The foreseeable potentially negative consequences of electricity restructuring include "stranded utility

costs" and "stranded benefits." "Stranded utility costs" refers to utility assets, such as uneconomic generation units (i.e. many nuclear units) in a totally competitive generation market and power purchase contracts that are above market clearing prices. "Stranded public benefits" refers to various public policy programs that society chooses to have the regulated utility provide and/or fund. These programs include low-income assistance, such as the weatherization of homes, various energy efficiency programs, renewable energy procurement, and research and development focused on efficiency and diversity of resources.

Restructuring activities are now underway in most states, though many are proceeding slowly and waiting to determine if the benefits will be sufficient to justify opening their markets to competition.

States are opening their markets at varying speeds. States with higher than average prices, primarily in the Northeast and California, have moved first. These states are the ones that are also the most burdened by stranded assets. States with lower cost power, primarily in the south and southwest,

are moving slower, concerned that open competition might not necessarily lead to lower prices, or might even lead to higher prices, if their in-state generators sell power into higher priced markets in other states.

Under retail competition, generation companies may not be able to recover the cost of their stranded costs if they are required to charge a low enough price to compete with other generation not burdened with such costs. Also, stranded benefits may fall by the wayside unless all entities providing service are required to offer them. The recovery of "stranded costs" and the preservation of "stranded benefits" are decisions that states are making as they implement their specific restructuring laws.

The financial mechanisms for the "recovery" and the "preservation" are very similar; charges placed on the state-regulated distribution system (i.e. "wires" charges). Since "stranded costs" and "stranded benefits" are being addressed in a common forum (usually the state legislature), they tend to be linked through the search for a consensus position.

One way to fund the preservation of the public benefits programs is a systems benefit charge on the distribution of all electricity collected by the regulated distribution company and included in the distribution bills to all customers. More than likely, the charge would be based on a per kilowatt hour of consumption. The fees would be collected by the distribution company and transferred to the appropriate funds of an administrative agency or agencies. The specific fee level and use categories for the collected funds are likely to be determined when the legislative process results in the final law. The actual charge in many states will be determined by the state PUC at an amount needed to continue existing programs.

Systems benefit charges are generally expressed in terms of mils per kilowatt hour. One mil is equal to 1/10 (\$0.001) of one cent. In other words, for every one million kilowatt hours generated, a one mil charge would raise \$1,000 (1,000,000 kilowatt hours times \$0.001). Nationally, as shown in Table 1 (page 22), a one mil charge would raise about \$3 billion if applied across all consumer end-uses of electricity -- residential, commercial, and industrial.

Systems benefit charges are already in place in California, Maine, Montana, New Hampshire, and Rhode Island. They are also under active consideration in other states including Massachusetts and Vermont.

California, for example, has the most extensive systems benefit charges and the highest level of charge. The systems benefit charges for stranded benefits (energy conservation and affordability programs), enacted or proposed, range from about one mil per kilowatt hour (\$.001) to over five mils per kilowatt

hour (\$.005). The systems benefit charge in New Hampshire, on the other hand, is limited to only energy affordability, and provides a charge of up to five mills (\$.005) per kilowatt hour, with an annual cumulative cap of \$13.2 million.

A summary of state restructuring provisions for systems benefit charges is included as an appendix to this publication.

Making the Case for Systems Benefit Charges

The New Hampshire legislation illustrates the steps and background information that is necessary to "make the case" that a systems benefit charge is necessary to provide a long-term solution to the energy needs of low-income households. The final plan approved a systems benefit charge to fund energy assistance; it relied heavily on information presented during public hearings that described the need for energy assistance for low-income households on the basis of the energy burden, size of the eligible population, and the importance of providing affordable electricity services.

Excerpts from a report prepared by the state's Public Utilities Commission, Restructuring New Hampshire's Electric Utility Industry (DR 96-150, February 28, 1997), testify to the effectiveness of providing an analytical base for decision making:

Rationale for providing low-income subsidy: Restructuring of the electric utility industry should be implemented in a manner that benefits all consumers equally, that is one customer class does not benefit to the detriment of another. Costs should not be shifted unfairly among customers. A non-bypassable and competitively neutral systems benefit charge applied to the distribution system may be used to fund public benefits related to the provision of electricity.

Population to be served: The Community Action Program (CAP) testified that there are 50,000 households in New Hampshire at or below 150 percent of the federal poverty level, a widely recognized standard for determining low-income eligibility. CAP quantified the magnitude of the problem in New Hampshire, "The average non-heating customer pays approximately 2.5 percent of income towards the electric bill and the average heating customer pays approximately five percent of income towards the electric bill."

For low-income customers, the percentages are drastically different, however. CAP broke down the percentage of income going towards electricity into three categories:

- Customers whose incomes are between 0 and 49 percent of the federal poverty level;
- Customers whose incomes are between 50 and 100 percent of the federal poverty level; and
- Customers whose incomes were between 100 and 150 percent of the federal poverty level.

Non-heating, low-income customers paid 23.4 percent, 7.8 percent and 4.7 of their incomes for electricity, respectively. Heating low-income customers paid 47.4 percent, 15.8 percent, and 9.5 percent of their incomes for electricity respectively. CAP argued that, through the use of a fixed credit model percentage payment plan, payment levels for low-income customers should be reduced to a level ranging from 2.5 percent to five percent of income.

Other Program Benefits: In addition to the direct benefits provided to low-income customers, there are many societal benefits which accrue from the establishment of a low-income energy assistance program.

It reduces the utilities' uncollectible accounts, which is a cost of service item recovered from all customers. Additionally, it is possible that there will be a beneficial impact on poverty taxes as low-income bills are made affordable and fewer municipal funds are needed for crisis assistance.

Funding Approach: Funding for the low-income assistance program will be collected through a systems benefit charge. As commercial and industrial customers receive as much benefit from the positive tax impacts of a low income assistance program as other rate classes, we find it in the public good to require funding of the program across all franchises and all rate classes. The systems benefit charge shall be established, after notice and hearing, as a flat amount per kilowatt hour used and applied equally to all customers.

State	Millions of Kilowatt Hours	Millions of Dollars Raised Per Mil Charge *		
		One Mil	Two Mils	Three Mils
Alabama	70,394	\$70.4	\$140.8	\$211.2
Alaska	4,621	4.6	9.2	13.9
Arizona	48,295	48.3	96.6	144.9
Arkansas	33,974	34.0	67.9	101.9
California	213,693	213.7	427.4	641.1
Colorado	34,869	34.9	69.7	104.6
Connecticut	27,850	27.9	55.7	83.6
Delaware	9,518	9.5	19.0	28.6
District of Columbia	10,316	10.3	20.6	30.9
Florida	166,820	166.8	333.6	500.5
Georgia	95,227	95.2	190.5	285.7
Hawaii	9,160	9.2	18.3	27.5
Idaho	19,389	19.4	38.8	58.2
Illinois	126,387	126.4	252.8	379.2
Indiana	87,928	87.9	175.9	263.8
Iowa	37,970	38.0	75.9	113.9
Kansas	30,356	30.4	60.7	91.1
Kentucky	67,501	67.5	135.0	202.5
Louisiana	72,385	72.4	144.8	217.2
Maine	11,386	11.4	22.8	34.2
Maryland	56,539	56.5	113.1	169.6
Massachusetts	46,750	46.8	93.5	140.3
Michigan	94,863	94.9	189.7	284.6
Minnesota	53,980	54.0	108.0	161.9
Mississippi	37,925	37.9	75.9	113.8
Missouri	61,901	61.9	123.8	185.7
Montana	13,567	13.6	27.1	40.7
Nebraska	20,894	20.9	41.8	62.7
Nevada	20,582	20.6	41.2	61.7
New Hampshire	8,914	8.9	17.8	26.7
New Jersey	66,693	66.7	133.4	200.1

New Mexico	16,230	16.2	32.5	48.7
New York	129,995	130.0	260.0	390.0
North Carolina	105,191	105.2	315.6	210.4
North Dakota	7,908	7.9	15.8	23.7
Ohio	157,807	157.8	315.6	473.4
Oklahoma	41,288	41.3	82.6	123.9
Oregon	45,526	45.5	91.1	136.6
Pennsylvania	125,605	125.6	251.2	376.8
Rhode Island	6,547	6.5	13.1	19.6
South Carolina	64,291	64.3	128.6	192.9
South Dakota	7,425	7.4	14.9	22.3
Tennessee	85,315	85.3	170.6	255.9
Texas	262,272	262.3	524.5	786.8
Vermont	5,109	5.1	10.2	15.3
Virginia	84,953	85.0	169.9	254.9
Washington	89,322	89.3	178.6	268.0
West Virginia	25,985	26.0	52.0	78.0
Wisconsin	57,621	57.6	115.2	172.9
Wyoming	11,196	11.2	22.4	33.6
U.S. Total	3,008,591	\$3,008.6	\$6,017.2	\$9,025.8

Cooperatives: An Old Idea Reborn

Energy cooperatives are not new to the energy industry by any means. Since the emergence of energy utilities in the early 1900's, cooperatives have supplied energy to rural areas and sparsely populated communities that utilities could not serve economically. Because the costs to utilities of building and operating lines and pipes to isolated areas would exceed returns, consumers formed coops to aggregate their purchasing power. By pooling resources and buying fuel in large quantities that bring lower prices, coops supplied their customers with competitively priced fuel that reflected the combined economic benefits of lower fuel costs and low operating or overhead costs.

Another benefit of coops is that they are owned and run by their members. Through a cooperative arrangement, consumers have the ability to own and control how they purchase, control, and use energy supplies. At a time when energy consumers are looking for new and different ways to purchase energy outside the traditional utility structure, coops offer an attractive option to many areas.

Vermont's Consumerco Lowers Bills, Not Just Rates

Vermont's Consumerco provides an excellent example of a cooperative. An idea and emerging program of the Vermont Energy Investment Corporation (VEIC), Consumerco's goal is to **lower consumers' energy bills, not just rates**. Residential, low-income, and small business energy consumers who join the program not only benefit from the discounted prices of fuel they purchase, but they also learn about and take steps to use energy more efficiently.

Consumerco Director Beth Sachs emphasizes the energy efficiency principles of the program as the key to its hoped-for success, "When customers join Consumerco, we want them to assess their homes and/or businesses for energy savings opportunities from the beginning. Those changes could involve the

lighting or heating and cooling system in the building or major appliances. The program will cover the cost of equipment purchases or other changes needed to improve energy efficiency in that home or small business, including fuel switches." Sachs adds, "Those initial costs will be recovered in the customers' regular bills."

Sachs believes that Consumerco's goal -- reducing energy bills -- is not only consistent with customers' wish to pay the lowest bill possible, but the goal also encourages an important and positive public policy, that is to encourage **efficient** energy use. Sachs explains, "If you are purchasing energy at a **reduced rate** with no other incentive to reduce the amount of energy you use, your bills will either not change or may increase because you are still using a lot of energy. On the other hand, if your energy rates stay the same, but you are encouraged to reduce the amount of energy you use, your bills will go down."

Lowering energy bills also fits well with LIHEAP goals. For that reason, Consumerco will be targeting low-income households to join the coop. The more households that participate, the more effective the coop will be in negotiating the best possible fuel deals for its members. Sachs explains, "The coop aggregates the market power of consumers. It's a type of "retailco" [retail fuel company] in that Consumerco purchases power and fuel in bulk on behalf of its members." Consumerco plans to negotiate purchases of most forms of energy, including oil, propane gas, natural gas, electricity, and renewables (i.e., solar energy).

The future of Consumerco looks bright, but at the moment, the plans for the coop are still forming because Consumerco does not yet have the state's approval to operate. The coop's enabling language is part of a larger Vermont energy utility restructuring bill (S.B. 62) that was considered, but suspended until next year's session of the legislature. Beth Sachs is determined that Consumerco will be ready to go the day the bill is signed. "Unless the coop is ready for business when consumers are ready to make their choices, the program won't succeed."

To get things started, Sachs is arranging to team Consumerco with the Washington Electric Cooperative (WEC) and other members of the Vermont Fuel Buyers Group to negotiate discount prices for fuel. "Although we can't operate until the state gives us the go-ahead, we can begin aggregating our fuel purchases so that we can offer consumers services as soon as we open for business," she explained.

Vermont's Fuel Buyers Group: A Model For Other States

The relationship between Consumerco and the Fuel Buyers Group is best described as mutually beneficial. Consumerco benefits from the lower fuel prices that the Group negotiates for its members, and the Fuel Buyers Group benefits from the additional market power of Consumerco's members, which will enhance its negotiating strength for reduced fuel prices.

The idea for the Group sprang from an idea of WEC Manager Avran Patt who believed that the purchasing power of low-income households could be harnessed to negotiate better fuel prices. When Patt was Director of the Vermont Office of Economic Opportunity, he recognized the benefits of such an arrangement, but faced difficulties getting it started. "You need a critical mass of people to really make a fuel coop work and that's hard to accomplish in a rural state like Vermont," said Patt. "When oil prices are low, people don't join. Even then, coop programs don't work well everywhere, especially in states with large cities and communities that are served by electric utilities."

Nevertheless, Patt believed in the idea and continued to work with Vermont groups to make it a reality. Others credited with helping to organize and operate the Fuel Buyers Group are the Vermont Energy

Investment Corporation, the Vermont Departments of Public Service and Social Welfare, the Washington Electric Cooperative, and the Vermont Public Interest Research Group. Thanks to the hard work and persistence of these groups, the Fuel Buyers Group is beginning to take root in rural Vermont.

The Fuel Buyers Group operates like a traditional coop. The Group negotiates discounted prices for fuel oil and propane gas which hold for a period of time, usually the duration of the winter heating season. "We don't buy the fuel nor do we own and operate large tanker trucks that carry fuel and propane to our clients' houses," said Patt. "Rather, we negotiate better fuel prices because we represent large, aggregated groups of customers." In effect, the coop is taking advantage of economy-of-scale pricing on fuel purchases.

Patt is quick to point out that membership in the Fuel Buyers Group is not limited to low-income households. "If coop membership was limited only to low-income families, we would not have the numbers we need to strengthen our negotiating position," he said. "The involvement of the Social Welfare and Public Service Departments ensures their clients benefit from the service."

Patt hopes that an evolving Consumerco will launch the coop across the northeastern states. He envisions branch Consumercos in New Hampshire, Massachusetts, and New York City. Once in place, Consumerco could then operate as a federation and negotiate lower prices and bulk purchases of fuel for members across the region. "At that level, our dealings would occur through commodities exchanges."

Patt is a strong proponent of coops as a way for small energy users to pool their resources with others to obtain better, lower prices for their energy. "I believe coops offer low-income customers an opportunity to take control of their energy options," said Patt. "Here in Vermont, we're offering residential and small business owners, including low-income families, the chance to purchase their fuel at discounted prices AND make more efficient use of those fuels. This is a great model for other states."

VI. GLOSSARY OF SELECTED TERMS

The following provides a list of selected terms that are used throughout this paper. The definitions are based on those provided in various Energy Information Administration publications including Electric Power Annual 1995, Monthly Energy Review, January 1997, and Residential Energy Consumption Survey, 1995.

Aggregator: A term used to describe any of a number of entities or organizations who will buy or broker electricity for a group of retail customers in a restructured electric industry. Usually refers to a situation of retail competition, where a cooperative, private firm or other such organization would aggregate the demand of dispersed individual customers and buy or broker supplies on their behalf. By analogy, one could call AT&T, MCI or Sprint long-distance telephone service "aggregators".

City Gate: A point or measuring station at which a distribution gas utility receives gas from a natural gas pipeline company or transmission system.

End-Use: The ultimate benefit that utility service provides, or the use to which the utility service is put. For example, in the residential sector, end-uses include space heat, lights, cooking, refrigeration, motor power (e.g. fans), air conditioning, localized heating such as waterbed warming or electric blankets, hot-air blowers, entertainment/communications (TV, radio, etc.) and water heating.

Energy Efficiency: Reducing energy or demand requirements without reducing the end-use benefits.

Federal Energy Regulatory Commission (FERC): A quasi-independent regulatory agency within the U.S. Department of Energy having jurisdiction over interstate electric sales, wholesale electric rates, hydroelectric licensing, natural gas pricing, oil pipeline rates, and gas pipeline certification.

Franchise: A license or similar legal authority to provide service at retail in a given geographic area. An exclusive franchise is a monopoly to provide service in that area.

Incentive Rate: Usually refers to a discount given to a commercial or industrial customer to give them an incentive for staying in an area, staying open, or expanding their business activities in the area.

Load: The amount of power that is drawn from a utility system at a given point in time. The peak load is the highest amount of power drawn down at anyone time, or the utilities maximum capacity or demand.

Market Aggregation: A form of retail competition in which individual suppliers arrange to sell power (or gas) to retail customers, directly, or through aggregators buying on behalf of groups of customers.

Non-Utility Generator: A power plant (or its owners) not owned by the utility to whose retail customers the output is sold (also called Independent Power Producer).

Number 2 Fuel Oil: Number 2 fuel oil is the most common form of heating oil.

Pool: As used in the retail competition debate, refers to a system in which all suppliers of electricity sell to a central buying entity, the pool, which in turn is the single agent for selling power to retail customers and their aggregators.

Retail competition: A market structure in which individual customers could buy from more than one supplier. The supplies could be sold first to a pool, with individual customers or aggregators of customers buying their supplies from the pool, or they could be bought through contracts with the suppliers directly.

Retail Wheeling: The process of delivering electricity to a retail customer. Usually refers to the delivery of such electricity over the transmission and distribution lines of a utility, which is not itself producing the electricity, but rather is delivering it on behalf of a different producer.

Stranded Benefits: Benefits of the current system of regulation of the utility industry that would not be realized in a purely competitive market structure. For example, the costs of support for energy conservation activities that utilities would not be able to undertake on their own in a competitive market.

Stranded Costs: The costs a utility has incurred under the current system of vertically integrated regulated monopoly, that it would not be able to recover under a pure competitive market structure. For example, the costs sunk into a nuclear power plant that could not be recovered if rates were lowered to meet competition from less expensive plants.

Wellhead Price: The value of crude oil or natural gas at the mouth of the well.

APPENDIX

**SUMMARY OF STATE RESTRUCTURING PROVISION
FOR SYSTEM BENEFIT CHARGES**

State	Restructuring Law/ PUC Decision	Eligible System Benefit Charge Expenditures	Level of Funding	Administrator	Other
California	Assembly Bill 890 (Enacted 9/96)	Cost-effective energy efficiency and conservation activities. In-state operation and development of existing and new and emerging renewable resource technologies Programs provided to low-income electricity consumers, including but not limited to, targeted energy efficiency services and the California Rates for Energy Program Energy	Energy efficiency: Not less than \$228 million per year, 1998-2000; Research & Development.: Not less than \$62.5 million per year, 1998-2001 Renewable resources: Not less than \$219 million per year: 1998-2000, \$263 million per year, 2001 Low income assistance: Not less than the 1996 authorized levels based on an assessment of customer need Additional funding not to exceed \$75 million per year, in order to provide a total level of system benefit charge funding of \$540 million per year	The PUC shall order the electric corporations to collect and spend funds. PUC to determine how to utilize funds for energy efficiency and r and d for transmission and distribution, as well as allocate funds to meet low income objectives. California Energy Resources Conservation and Development Commission (CERCDC) to administer renewable resource program and r and d program, except transmission and distribution research.	CERCDC shall review and report to Legislature by 3/31/97 with recommendations regarding market-based mechanisms to allocate available funds for renewable resources

<p>Maine</p>	<p>H. P. 1274--L. D. 1804 (Enacted 5/97)</p>	<p>Requires transmission and distribution utilities to implement energy conservation programs by selection of energy service providers through competitive bidding. Continue existing levels of financial assistance for low-income households and to meet further increases in need caused by economic exigencies</p>	<p>Commission shall establish a reasonable level of funding for energy conservation programs comparable to the amount expended for similar programs in the year 1999 and regularly review the amount of funding needed. Set initial funding for low-income assistance programs based on an assessment of aggregate customer need in periodic rate cases</p>	<p>Commission shall commence a rule-making proceeding on energy conservation programs by 7/1/98</p>	<p>Requires a 30% portfolio requirement for renewable resources for all distribution utilities</p>
<p>Montana</p>	<p>SB 390 (Enacted 97)</p>	<p>Authorizes a universal systems benefit program established with a wires charge to ensure continued funding of energy conservation, renewable resources and low-income energy assistance</p>	<p>Establishes a funding level of 2.4 percent of each utility's retail sales revenue, 7/99-7/2003. A minimum funding for low income energy and weatherization assistance is established at 17 percent of each utility's annual universal system benefit funding</p>		
<p>New</p>	<p>HB 1392</p>	<p>Authorizes</p>	<p>Not to exceed</p>	<p>Working group</p>	

<p>Hampshire</p>	<p>(Enacted 5/96); and PUC DR 96-150 (2/97)</p>	<p>Commission to establish a nonbypassable and competitively neutral system benefits charge to fund public benefits related to the provision of electricity Such benefits may include programs for low-income customers, energy efficiency programs, support for research and development and investments in commercialization strategies for new and beneficial technologies</p>	<p>five mills per kilowatt hour. PUC Decision: No more than \$13.2 million for low income energy assistance Caps the levels of DSM spending for each utility at their latest approved levels and directs utilities to phase out ratepayer funded energy efficiency within two years of the implementation of retail choice PUC Decision: Authorizes a low income assistance program to be funded through a systems benefit charge.</p>	<p>to recommend a process to select an organization experienced in the provision of low income energy assistance and then to work with that organization in developing a program consistent with goals identified</p>	
<p>Pennsylvania</p>	<p>P. L. 802 (Enacted 12/96)</p>	<p>Ensures that universal service and energy conservation policies, activities and services are appropriately funded. Shall be funded in each distribution territory by a nonbypassable, competitively neutral cost-recovery</p>	<p>No specific mention</p>		

		mechanism that fully recovers the costs. Appears to include programs for low-income energy assistance			
Rhode Island	96-H 8124 (Enacted 2/96)	Demand-side management, renewable energy resources and low income energy assistance	2.3 mills per kWh system benefit charge	Division of Public Utilities	
Massachusetts	Gov. Weld restructuring legislation (proposal 97): Joint Legislative Committee (JLC) legislation (proposal 97)	Weld would authorize the DPU to promulgate rules to establish a non-by passable general access charge to provide discounted rates to low-income customers, to promote programs such as renewable energy resources and energy efficiency program. JLC bill would authorize. Would also authorize the DPU to require a mandatory charge to support the promotion of renewable energy al rates for low income customers in effect at date of act with costs included in	JLC bill would fund the renewable program with a charge of 1 mill per kWh	JLC bill would establish a fund on the books of the Massachusetts Technology Park Corporation	JLC bill would authorize the directors of the MTPC to make grants, loans, equity investments or take any other actions to encourage the continued survival, development and growth of the Commonwealth's renewable provider industry or to support basic research, applied research, technology transfer and demonstration projects.

		distribution rates charged to all customers.			
Vermont	S. 62 (97 proposal)	<p>The Public Service Board shall certify via a competitive applications process a corporation as an efficiency utility for the purpose of implementing Board approved energy efficiency programs, including the use of competitive bids</p> <p>The PSB shall prescribe by rule and order a statewide electric energy affordability program of low-income energy assistance to be funded with the systems benefit charge</p>	<p>From 1/98-6/2000, the renewable energy technology charge and the energy efficiency charge shall be combined and together be three-tenths of a cent per kilowatt-hour</p> <p>From 1/98-12/98, the electric energy affordability charge shall be one and one-half tenths of cent per kilowatt hour .</p>	<p>Refer to discussion of eligible expenditures. (Note: Board shall appoint an Electric System Benefits Administrator to administer the systems benefit charge funds)</p>	

