

REPORT OF THE JOINT SUBCOMMITTEE STUDYING

THE FEASIBILITY OF LIFELINE UTILITY RATES

TO

THE GOVERNOR

AND

THE GENERAL ASSEMBLY OF VIRGINIA



HOUSE DOCUMENT NO. 17

**COMMONWEALTH OF VIRGINIA
RICHMOND
1981**

MEMBERS OF THE SUBCOMMITTEE

Robert C. Scott, Chairman
Edward M. Holland, Vice-Chairman
Gerald L. Baliles
Lewis W. Parker, Jr.
Glenn B. McClanan
W. Ward Teel
Virgil H. Goode, Jr.
Madison E. Marye
John H. Chichester

STAFF

Legal and Research - Division of Legislative Services

C. William Cramme', III - Staff Attorney
Hugh P. Fisher, III - Research Associate
Anne M. Parks, Secretary

Administrative and Clerical

Office of Clerk, House of Delegates
Barbara H. Hanback

**Report of the Joint Subcommittee Studying
The Feasibility of Lifeline Utility Rates**

To: Honorable John N. Dalton, Governor of Virginia
and
The General Assembly of Virginia

December, 1980

INTRODUCTION

The Joint Subcommittee Studying the Feasibility of Lifeline Utility Rates was established pursuant to House Joint Resolution No. 277 of the 1979 General Assembly.

HOUSE JOINT RESOLUTION NO. 277

Requesting the House Committees on Corporations, Insurance and Banking and on Health, Welfare and Institutions, and the Senate Committees on Commerce and Labor and on Rehabilitation and Social Services to appoint a joint subcommittee to study the feasibility of establishing in the Commonwealth lifeline utility rates or some other type of inverted rate schedules for residential users of telephone service, electricity and gas.

WHEREAS, utility rates for residential users of telephone service, electricity and gas have increased significantly in the Commonwealth during the past few years; and

WHEREAS, it appears such rates will continue to increase significantly during the immediate future; and

WHEREAS, some parties believe the rate structures established by the telephone service, electric and gas utilities operating in the Commonwealth are not in the public interest in that such rate structures encourage residential users of telephone service, electricity and gas to consume large quantities of those energy forms; and

WHEREAS, some parties feel the rate structures established by such utilities should be formulated in a way that would encourage residential users to conserve electricity, gas and telephone service; and

WHEREAS, lifeline utility rates allow consumers to purchase a basic minimum allowance of household energy at discounted rates, with nonlifeline rates coming into effect once consumers exceed an allowable consumption limit of energy; and

WHEREAS, there are presently lifeline utility rate programs in existence in this country; and

WHEREAS, the subject of lifeline utility rates, as well as other types of inverted rate schedules, should be studied; and

WHEREAS, the question concerning the use of mandatory tariffs for local service of any telephone company based on number of calls, length of call, distance or time of day has also come into issue in the Commonwealth; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the House Committees on Corporations, Insurance and Banking and on Health, Welfare and Institutions, and the Senate Committees on Commerce and Labor and on Rehabilitation and Social Services are requested to appoint a joint subcommittee to study the feasibility of establishing lifeline utility rates or some other type of inverted rate schedules for residential users of telephone service, electricity and gas in the Commonwealth, and shall further study the feasibility of establishing any provision whereby a tariff for local service of any telephone company should be based on the number of calls, length of call, distance or time of day.

The joint subcommittee shall consist of four members of the House Committee on Corporations, Insurance and Banking, one member of the House Committee on Health, Welfare and Institutions, two members of the Senate Committee on Commerce and Labor, and one member of the Senate Committee on Rehabilitation and Social Services. Appointment of members to the joint subcommittee shall be made by the Chairmen of the respective Committees.

The joint subcommittee is requested to complete its study and present its recommendations and suggested legislation, if any, to the Governor and the General Assembly not later than November one, nineteen hundred seventy-nine. All agencies of the Commonwealth shall assist the joint subcommittee in its study.

House Joint Resolution No. 184 of the 1980 General Assembly continued the subcommittee's study.

HOUSE JOINT RESOLUTION NO. 184

Requesting that the Joint Subcommittee of the House of Delegates Committees on Corporations, Insurance and Banking and Health, Welfare and Institutions, and the Senate Committees on Commerce and Labor and Rehabilitation and Social Services studying the feasibility of establishing in the Commonwealth lifeline utility rates or some other type of inverted rate schedules for residential users of telephone service, electricity and gas, be continued.

WHEREAS, utility rates for residential users of telephone service, electricity and gas have increased significantly in the Commonwealth during the past few years; and

WHEREAS, such rates may continue to increase significantly during the immediate future; and

WHEREAS, some parties believe that certain rate structures established by the telephone service, electric and gas utilities operating in the Commonwealth are not in the public interest in that such rate structures encourage residential users of telephone service, electricity and gas to consume large quantities of those energy forms; and

WHEREAS, some parties believe the rate structures established by such utilities should be formulated in a way that would encourage residential users to conserve electricity, gas and telephone service; and

WHEREAS, a lifeline utility rate schedule is one in which the rate per applicable unit of telephone service, electricity or gas increases as consumption of telephone service, electricity or gas increases; and

WHEREAS, there are presently lifeline utility rate programs in existence in this country; and

WHEREAS, House Joint Resolution No. 277 of the nineteen hundred seventy-nine General Assembly requested that the House of Delegates Committees on Corporations, Insurance and Banking and Health, Welfare and Institutions, and the Senate Committees on Commerce and Labor and Rehabilitation and Social Services appoint a joint subcommittee to study the feasibility of establishing in the Commonwealth lifeline utility rates or some other type of inverted rate schedules for residential users of telephone service, electricity and gas; and

WHEREAS, although the joint subcommittee has made significant progress, additional work remains to be done; and

WHEREAS, the State Corporation Commission presently is conducting a study concerning the feasibility of certain alternative rate structures, including lifeline rates; and

WHEREAS, the Commission's study is scheduled to be completed by September thirty, nineteen hundred eighty; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the joint subcommittee of the House Committees on Corporations, Insurance and Banking and Health, Welfare and Insitutions,

and the Senate Committees on Commerce and Labor and Rehabilitation and Social Services studying the feasibility of establishing in the Commonwealth lifeline utility rates or some other type of inverted rate schedules for residential users of telephone service, electricity, and gas is hereby continued. The joint subcommittee is requested to continue studying the feasibility of establishing in the Commonwealth lifeline utility rates or some other type of inverted rate schedules for residential users of telephone service, electricity and gas. Additionally, the joint subcommittee is requested to consider the findings and results of the study presently being conducted by the State Corporation Commission, which relates to the feasibility of certain alternative rate structures, including lifeline rates.

It is requested that the present eight members continue to serve on the joint subcommittee. In addition, the Chairman of the Senate Committee on Rehabilitation and Social Services is requested to appoint one member of that committee to the joint subcommittee. If a vacancy occurs for any reason, a successor shall be appointed by the appropriate person pursuant to the method of appointment specified in House Joint Resolution No. 277 of the nineteen hundred seventy-nine General Assembly.

The joint subcommittee is requested to complete its study not later than December one, nineteen hundred eighty, and to introduce any legislation it deems appropriate.

All agencies of the Commonwealth shall assist in this study.

Delegate Robert C. Scott of Newport News was elected Chairman of the subcommittee. Other members of the House of Delegates appointed to serve were Gerald L. Baliles of Richmond; Glenn B. McClanan of Virginia Beach; Lewis W. Parker, Jr., of South Hill; and W. Ward Teel of Christiansburg.

Senator Edward M. Holland of Arlington was elected Vice-Chairman of the subcommittee. Other Senate members appointed to serve were Virgil H. Goode, Jr., of Rocky Mount; Madison E. Marye of Shawsville; and John H. Chichester of Fredericksburg.

C. William Cramme', III, and Hugh P. Fisher, III, of the Division of Legislative Services served as legal and research staff for the subcommittee. Barbara H. Hanback of the House Clerk's Office provided administrative and clerical staff assistance for the study group.

WORK OF THE SUBCOMMITTEE

In an effort to hear as much testimony as possible regarding the feasibility of lifeline utility rates, the subcommittee held four meetings during 1979. Meetings were held on June 21, August 6, October 26 and December 3.

The subcommittee heard a large amount of oral testimony during 1979 and also received position papers and other written materials from a number of organizations. The following organizations presented oral testimony and/or written materials to the subcommittee: the Virginia Electric and Power Co., the Virginia Advisory Board on Aging, Washington Gas and Light Co., the Virginia Association of Community Action Agencies, the Charlottesville-Albemarle Legal Aid Society, the Consumer Congress of Virginia, the Chesapeake and Potomac Telephone Co., the State Corporation Commission, the Appalachian Power Co., the city of Richmond, the Virginia Committee for Fair Utility Rates, the State Attorney General's Office, the Virginia Manufacturers Association, the American Association of Retired Persons and the National Retired Teachers Association, the Virginia Petroleum Industries, the Continental Telephone Co., and the Central Telephone Co.

Representative of those organizations discussed at length the advantages and disadvantages of lifeline rates vis-a-vis declining block rates. The subcommittee decided early in its deliberations that the rate schedules of electric utilities operating in the Commonwealth deserved more attention than did the rate schedules employed by telephone and gas utilities. Therefore, the subcommittee decided to devote most of its attention to the feasibility of modifying electric utility rate schedules.

The subcommittee learned that presently the electric utilities operating in the Commonwealth employ, to varying degrees, what is referred to as a declining block rate schedule. Under the

declining block system, the total charge per kilowatt-hour decreases as electricity consumption increases.

On the other hand, a lifeline electric rate schedule is one in which the total charge per kilowatt-hour increases as electricity consumption increases. One writer has offered this succinct definition of the lifeline concept: "The lifeline concept is that a minimum basic allowance of household energy should be supplied at discounted rates and that consumption of electricity and gas in quantities exceeding allowable limits should be billed at higher (nonlifeline) rates, continuing from the quantity reached by the lifeline limit...These innovative rate designs shift the burden for contributing revenue for energy utility service from one group of rate-payers to other groups." (Source: Albin J. Dahl, "California's Lifeline Policy," Public Utilities Fortnightly , August 31, 1978, p. 14).

The subcommittee learned that a lifeline electric rate program can be structured in a number of ways, depending on which group or groups of residential users such a program would be designed to affect. A lifeline program can be established whereby only certain low income ratepayers, or certain elderly ratepayers, or both groups, would receive such rates. On the other hand, a lifeline program can be structured in which all residential customers would be billed at lifeline rates up to a specified quantity of kilowatt-hours consumed.

Another important consideration in the designing of any lifeline program, the subcommittee determined, is a decision regarding the group or groups of utility customers for which rates would have to be increased because of the offering of lifeline rates to certain residential ratepayers. The decrease in revenue resulting from a lifeline program benefitting certain residential ratepayers can be compensated for by increasing the total charge per kilowatt-hour hour for other residential ratepayers, industrial users, commercial customers or any combination of those three groups.

Proponents of lifeline electric rates testified before the subcommittee that a lifeline program for all residential customers would encourage such customers to conserve electricity. They stated that many residential customers will restrict their consumption of electricity if the total charge per kilowatt-hour rises with each successive block of electricity consumed. Proponents of lifeline rates argue that the conservation which would result from the implementation of such rates, especially the constriction of demand during seasonal peak demand hours, will make feasible the postponement of new transmission and generating capacity.

Proponents hold that declining block schedules are outdated and inappropriate in an era of relatively scarce energy resources, due to the fact that such schedules seem to encourage consumption, rather than conservation, of energy. It is said that while declining block rates may be justifiable in an era of plentiful and low-cost energy, lifeline rates are more feasible in an environmentally-conscious era.

Moreover, proponents of lifeline rates contend that such rates can be cost justified and can be based on the cost of serving a utility's customers if marginal rather than embedded costs are allocated in setting up a lifeline rate schedule. They contend that it is principally the high users of electricity, such as heavy residential users, as well as industrial and commercial users, that are mainly responsible for the construction of new transmission capacity and generating plants. It is pointed out that the construction of such capacity and plants is a major factor behind rate increases. It is unfair, proponents say, for low residential users to pay the high initial rates of a declining block schedule, given that low residential users are not the parties primarily responsible for such construction.

Proponents testified before the subcommittee that a lifeline schedule based on marginal costs is more equitable than a declining block schedule based on embedded costs, because the former would shift much of the burden for contributing revenues from low residential users to high residential users and/or industrial and commercial users.

Proponents also noted that both Mr. Richard D. Rogers, Jr., the General Counsel of the State Corporation Commission, and Mr. James R. Wittine, Director of the Commission's Division of Energy Regulation, advised the subcommittee that a significant amount of discretion is used in allocating costs for the design of electric utility rate schedules. It was noted that Mr. Rogers advised the study group that the Commission's decision to use average per kilowatt-hour costs, rather than marginal costs, in designing such rate schedules, was a decision based to a significant degree on philosophy

rather than on arithmetic fact.

Proponents noted that both Mr. Rogers and Mr. Wittine also stated that instead of using, for example, average fuel costs, a utility's lowest fuel costs, such as nuclear, could be allocated to the lowest kilowatt-hour blocks of the rate schedule and the highest fuel costs, such as oil, could be allocated to the highest kilowatt-hour blocks of the rate schedule. In short, proponents stated that a practice of allocating a utility's less expensive demand and energy costs to the lowest blocks and its most expensive demand and energy costs to the highest blocks, would be as consistent with the Corporation Commission's philosophy of cost of service pricing as the present practice of allocating average costs. These changes in allocation practices would tend to create an inclining block or lifeline rate schedule rather than a declining block schedule.

Attached as Appendix I of this report is a copy of a statement delivered to the subcommittee on December 15, 1980, by the subcommittee chairman, Delegate Scott. In his statement Delegate Scott outlines the reasons why many persons favor the implementation of lifeline electric rates.

Opponents of lifeline electric rates advised the subcommittee that the lifeline concept should be opposed for several reasons. They argued that electricity consumption might be stimulated, rather than conserved, under such a rate schedule. They held that by applying the lowest per kilowatt-hour rates to the first blocks of the rate schedule, some residential users might be encouraged to use more electricity than they would under a declining block system.

Also, opponents argued before the subcommittee that embedded costs of service should be used when calculating any rate schedule. They pointed out that since a declining block schedule is based on embedded costs, and a lifeline schedule is based on marginal costs, declining block electric rate schedules should be employed.

Additionally, opponents stated that a lifeline schedule will have undesirable consequences on those who either are not eligible for, or cannot receive, the benefits of such a schedule. They pointed out that if lifeline rates for all residential users of electricity in the Commonwealth are implemented, low residential users will have reduced electric bills, but many more customers will have increased bills.

Such opponents pointed out that under a comprehensive residential lifeline program, many wealthy individuals who use little electricity would receive an unneeded income transfer. They noted that because many individuals of substantial or even moderate wealth dine out frequently, travel a great deal, and occupy small though luxurious apartments, it is easy for such persons to restrict their electricity consumption and hence receive the benefits of a lifeline program.

On the other hand, opponents said, some low-income households use substantial amounts of electricity. They pointed out that many low-income households cannot dine out often, do not travel extensively, and do not have many recreational activities away from home. Also, such households often occupy homes having inadequate insulation, inefficient heating systems and air conditioners which are undersized. Therefore, opponents told the subcommittee, a lifeline rate schedule would actually work to the disadvantage of some of those customers least able to pay their electric bills.

Opponents of lifeline rates also told the subcommittee that if industrial and/or commercial users are charged higher rates because of a lifeline program, many businesses would be reluctant to locate in Virginia. As a corollary to this argument, they held that if rates are raised for industrial and/or commercial users of electricity, such users will pass on the increased costs to consumers in the form of higher prices for their goods and services.

Opponents also argued that direct assistance, such as the Virginia Energy Assistance Program, is the preferred method of helping low-income customers. They held that such programs provide for direct assistance, without the unfavorable consequences which would result from the implementation of a comprehensive lifeline program.

In a letter dated August 31, 1979, the Chairman of the subcommittee, Delegate Scott, asked the Attorney General of the Commonwealth, Mr. J. Marshall Coleman, for an opinion regarding the following two aspects of lifeline rates:

- (1) The extent to which federal law, particularly the Public Utilities Regulatory Policies Act of

1978, and any regulations promulgated pursuant thereto, would preempt any decision by the General Assembly regarding lifeline rates.

(2) The constitutionality of offering different rates within the same class of customers in view of the constitutional requirement that no person within a state's jurisdiction be denied equal protection of the laws.

In his opinion to Delegate Scott, the Attorney General stated that there is no indication of implied or express preemption by Congress. Also, Mr. Coleman stated that lifeline rates do not necessarily deny equal protection of the laws, and may be constitutional if such rates are designed properly. In the words of the Attorney General: "Therefore, lifeline utility rates do not deny equal protection of the laws if the initial 'lifeline' block of consumption is set at a level which provides utility service for household necessities at a fair and reasonable price."

Additionally, during 1979 the subcommittee was advised by the General Counsel of the State Corporation Commission, Mr. Richard D. Rogers, Jr., that the SCC is required by the Public Utilities Regulatory Policies Act of 1978 (PURPA) to hold hearings in the near future regarding the feasibility of lifeline rates. Mr. Rogers stated that after the Commission holds those hearings, it will issue a decision regarding lifeline rates. He added that the Commission was to receive a grant of \$700,000 to conduct three studies, one of which would concern alternative methods of assisting low-income electric utility customers. Mr. Rogers advised the study group that included in that study would be an analysis of lifeline rates.

Mr. Rogers told the subcommittee that the Commission's study dealing with assistance to low-income electric utility customers had been started, and he pointed out that the study was being conducted partly by consultants and partly by the Commission's staff. He informed the subcommittee that the study was scheduled to be completed in the fall of 1980.

At the end of 1979 the subcommittee considered the feasibility of offering recommendations to the Governor and the General Assembly. The study group concluded that because of the complexity of the lifeline issue, and because the Corporation Commission was engaged in a study of lifeline rates, the subcommittee's work should be continued for another year. Therefore, the subcommittee endorsed House Joint Resolution No. 184 of the 1980 General Assembly, which continued its study.

During 1980 the subcommittee held meetings on May 1, October 30 and December 15. During the May 1 meeting the study group heard presentations from SCC representatives regarding the Commission's study on alternative methods of assisting low-income electric utility customers. The subcommittee learned that the total cost of the study would be \$94,000, \$83,000 of which would be provided by the U. S. Department of Energy. Also, the subcommittee was advised that the consulting firm of Temple, Barker and Sloane of Lexington, Massachusetts had been hired to work with the Commission's staff on the study. SCC representatives testified that the study would be completed in late October.

During the October 30 meeting the subcommittee received the consulting firm's complete three volume report. Representatives of Temple, Barker and Sloane testified before the study group regarding their recommendations and conclusions; and the subcommittee received from the Corporation Commission a summary of findings concerning the study. Attached as Appendix II of this report is a copy of that summary of findings.

The subcommittee decided that prior to formulating any recommendations regarding lifeline rates, the members should review the consulting firm's report and the additional materials they had received since the study began. It was agreed that the subcommittee would hold one more meeting and formulate its recommendations, if any, at that time.

It was agreed that the final meeting would be held on December 15, 1980.

RECOMMENDATION

The subcommittee urges the adoption of a resolution which contains the following language:

"RESOLVED by the House of Delegates, the Senate concurring, That it is the sense of the

General Assembly that adoption of an inclining block or lifeline rate schedule for all residential customers of electricity in the Commonwealth merits favorable consideration; and the State Corporation Commission is urged to consider the establishment and implementation of non-declining block rate schedules for residential customers of electricity in the Commonwealth, to the extent that such schedules are cost justified, feasible and supported by evidence submitted in hearings required by the Federal Public Utilities Regulatory Policies Act of 1978 (PURPA).”

Appendix III of this report consists of a draft of such a resolution.

CONCLUSION

The subcommittee expresses its appreciation to all parties who participated in its study.

The study group would note that its recommendation has been offered only after thoroughly reviewing the evidence presented during two years of meetings. The subcommittee believes its recommendation is in the best interest of the Commonwealth, and it encourages the General Assembly to adopt that recommendation.

Respectfully submitted,

Robert C. Scott, Chairman
Edward M. Holland, Vice-Chairman
Gerald L. Baliles
Lewis W. Parker, Jr.
Glenn B. McClanan
W. Ward Teel
Virgil H. Goode, Jr.
Madison E. Marye
John H. Chichester

Appendix I



COMMONWEALTH OF VIRGINIA
HOUSE OF DELEGATES
RICHMOND

ROBERT C. SCOTT
1356 25TH STREET
NEWPORT NEWS, VIRGINIA 23607

FORTY-NINTH DISTRICT
NEWPORT NEWS

COMMITTEE ASSIGNMENTS:
ROADS AND INTERNAL NAVIGATION
HEALTH, WELFARE AND INSTITUTIONS
CLAIMS
CHESAPEAKE AND ITS TRIBUTARIES

Remarks of Delegate Robert C. Scott
Chairman
Joint Subcommittee Studying the Feasibility of Lifeline Utility Rates

December 15, 1980

Ladies and Gentlemen:

This subcommittee is the Joint Subcommittee Studying the Feasibility of Lifeline Utility Rates.

The present electric rate structure in Virginia is what is called a "declining block" rate where the cost per kilowatt-hour declines as usage increases. This rate was developed when energy was cheap, resources were plentiful and when it was cheaper to produce additional units of electricity than it was to produce the "base load". Utility companies therefore encouraged the use of electricity, both through advertising as well as the promotional rate structure.

Unfortunately, times change. Energy is no longer cheap, resources are scarce and the "base load" is cheaper to produce than additional units of electricity. In fact, it is not news to anyone that we are experiencing an energy crisis. This situation is most burdensome on elderly and low-income Virginians who are generally low usage customers and therefore experience a triple crisis: they use a high percentage of their income towards energy related expenses; they use significantly less than average amounts of electricity; yet, because of declining block pricing, they pay more per kilowatt hour for the electricity they use.

One adjustment, which therefore must be made during the energy crisis is the elimination of the promotional rate which encourages the use of electricity, while at the same time charges elderly and low-income Virginians higher than average costs per kilowatt-hour.

The ideal solution would be the implementation of a "lifeline" rate structure. With a lifeline rate, every residential customer would receive a small amount of electricity, but enough to live on, at a small cost. Electricity used in excess of the lifeline allocation would be priced at a higher unit value.

An exact definition of "enough to live on" has been elusive to this committee. The State Corporation Commission study, however, concluded that an exact definition is not necessary, because various models of lifeline rates tended to help the same groups (elderly and low-income) regardless of the size of the lifeline allocation.

The beneficial effect that an "inclining block" would have on conservation needs little discussion or proof. One only needs to look at the reaction of some Tidewater cities when the water shortage became a crisis: they created a steep inclining rate structure to discourage water usage and usage in fact decreased. A lifeline rate would therefore serve two goals: encourage conservation of our precious energy resources and benefit elderly and low-income Virginians.

It appears, however, that many persons favor "cost based" pricing, wherein the rate structure is designed to reflect "cost of service" rather than "social policy". We have had testimony before this committee, however, that even within cost of service pricing, there is a great deal of latitude and discretion in allocating costs. It would be consistent with "cost of service", for example, to eliminate the "customer charge" of \$5.00 and to incorporate that cost in the kilowatt-hour charge. Another example is the cost allocation of the fuel cost: presently the fuel cost is averaged and allocated equally to all kilowatt-hour usage in the residential rate. Fuel is actually significantly cheaper in periods of low demand, and more expensive as demand increases and less efficient plants are placed on line; it would therefore be consistent with "cost of service" to allocate cheaper fuel costs to the lower blocks (e.g. first 600 kwh) and more expensive fuel costs to additional usage (e.g. all over 1500 kwh). These changes, both consistent with "cost of service" pricing, would tend to create an inclining, rather than declining block rate.

The State Corporation Commission now has the sole authority to determine utility rates. Because of the desparate energy crisis we are now experiencing, it is my hope that this committee will recommend that the General Assembly at least encourage the SCC to abolish the declining block rate for residential customers, to the extent legal and feasible under cost of service pricing. This compromise action would not create a true lifeline rate; yet it would eliminate some of the present inequities in our electric rate structure.

There is one last caveat I would like to mention. I do not view utility rate adjustment as a replacement for any of the direct assistance plans which are already in effect or which may be proposed. There will be a few elderly and low-income persons whose bills will actually increase under lifeline type rates. There will be others who will not even be able to afford the lower bills they receive under a new rate structure. We need to pursue other avenues to give appropriate assistance to these Virginians. A lifeline rate, however, is a major step towards solving the two goals of conservation of our energy resources and assisting elderly and low-income Virginians.

Appendix II

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

"Assistance to Low Income Electric Customers"
Summary of Findings

Division of Economic Research and Development

"Assistance to Low Income Electric Customers"

Objectives

- I. Gather information on the characteristics of Virginia residential electric customers through a telephone survey.
- II. Evaluate the effectiveness of several methods of assisting low income electric customers utilizing the information obtained in the survey.

A SURVEY OF HOUSEHOLDS IN
THE APCO AND VEPCO UTILITY REGIONS OF
THE STATE OF VIRGINIA

Summary of Findings

o Electricity consumption is not a strong predictor of household income.

o Characteristics of low income households

-predominantly composed of elderly individuals

-few members, without young children

-small quarters

-75% have no household member employed full time

o Variables linked to electricity consumption

Critical Variables

-electric heat

-electric hot water

-household size

Other Significant Variables

-central air conditioning

-freezers

-electric dryers

o Differences in VEPCO and APCO service territories

VEPCO Area

-higher incidence of natural gas appliances

-higher incidence of air conditioning

-larger residences

-greater residential mobility

APCO Area

-higher incidence of woodstoves

-higher incidence of electric heat and electric hot water heaters

DISTRIBUTION OF BENEFITS

The analysis of a variety of specific lifeline rate schedules for APCO and VEPCO indicates that:

- o 80-95% of the low-income and elderly customers would receive lower bills
- o 40-60% of high-income and non-elderly customers would also receive lower bills
- o The average benefit under lifeline rates is less than \$10 per month for APCO and \$15 per month for VEPCO.
- o A partial subsidy of lifeline rates by non-residential classes extends benefits to more people, but does not significantly increase the average benefit.
- o Distribution of benefits varies little with the length of the lifeline block or the level of the lifeline rate.

DISTRIBUTION OF COSTS

The analysis of a variety of specific lifeline rate schedules for APCO and VEPCO indicates that:

- o Significantly higher bills for 20-40% of residential customers of whom 2-10% are themselves poor or elderly.
- o Electric heating customers' bills increase \$20-\$50/ month unless a separate lifeline rate is instituted for electric heating.
- o A 50% subsidy of lifeline rates by industrial and commercial customers increases their cost of electricity by as much as 9% for APCO and 16 % for VEPCO.
- o Higher electric costs to industrial and commercial customers may result in higher product costs to consumers and reductions in employment.

AN EVALUATION OF LIFELINE ELECTRIC RATES

The comparison of blanket lifeline rates to alternative assistance programs shows that direct assistance, e.g., the Virginia Energy Assistance Program, is the preferred method of helping low-income customers for several reasons. With a direct assistance program:

- o Benefits can be directed specifically toward persons in need of assistance.
- o Greater amounts of individual assistance can be provided
- o A smaller dollar transfer is needed to yield an equal level of benefits. Conversely, greater per capita benefits could be realized for the same gross level of transfers.
- o The taxes necessary to support a direct assistance program are more progressive or directly related to income.
- o Cost-based electricity prices give the proper signals to customers concerning the costs to society of additional electricity consumption, and thus increase economic efficiency.

Appendix III

3 HOUSE JOINT RESOLUTION NO.....

4 Expressing the sense of the General Assembly regarding
5 lifeline electric rates.

6

7 WHEREAS, rates for residential customers of electricity
8 have increased significantly in the Commonwealth during the
9 past few years; and

10 WHEREAS, it appears such rates may continue to increase
11 during the immediate future; and

12 WHEREAS, the declining block rate schedules employed by
13 the electric utilities operating in the Commonwealth result
14 in low-usage customers paying a higher charge per
15 kilowatt-hour than high-usage customers; and

16 WHEREAS, this declining block rate structure is
17 contrary to the goals of the Commonwealth of energy
18 conservation and basic human welfare; and

19 WHEREAS, there is generally a positive correlation
20 between income level and consumption of electricity among
21 electric utility customers in the Commonwealth; and

22 WHEREAS, an inclining block or lifeline rate structure,
23 in which charges per kilowatt-hour increase as electricity
24 consumption increases, would promote conservation and
25 provide for improved human welfare; and

26 WHEREAS, there is a significant amount of discretion
27 used in allocating costs for ratemaking purposes; now,

