

Can't We Just Do It Because It's the Right Thing to Do? Justifying Utility Low-Income Programs

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Two Indiana Programs Designs

Universal Service Program 2005 – 2007

Partnership - Citizens Gas & Vectren Energy

Focus - Affordability of monthly bills

Winter Warmth 2005 - 2007

Northern Indiana Public Service Company

Focus – Arrearage forgiveness and deposit assistance



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Why Implement a Low Income Program?

- 1) Federal Energy Assistance, LIHEAP, does not cover the need
 - In Indiana, this shortfall translates to \$660 per household for those at 185% of the poverty level.
 - Indiana provides LIHEAP benefits only to households at are below 150% of poverty and these funds cover only 23.3% of the affordability gap.



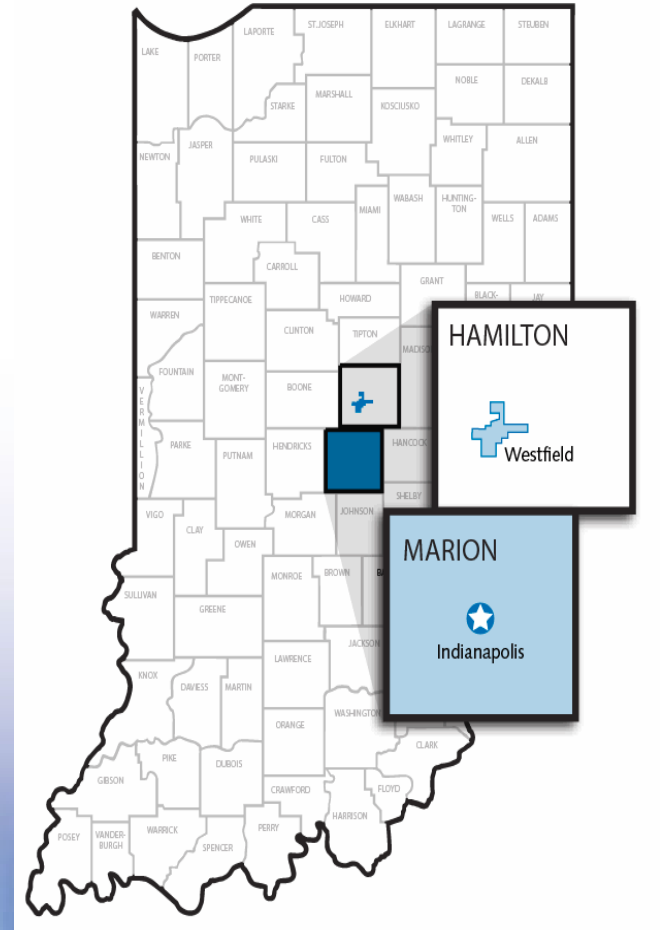
Why Implement a Low Income Program?

- Utility write-offs continue to increase due to a “new normal” of natural gas prices nationally
- “Break the Cycle” for those states with a moratorium on winter disconnects.
 - Indiana has a moratorium on disconnecting LIHEAP customers from December 1st – March 15th
- Regulatory commissions want utilities to proactively assist low-income customers with bill management and weatherization



Citizens Gas Overview

- Citizens Gas is a Public Charitable Trust
- Serving 266,000 natural gas customers in Indianapolis, Indiana
- Providing assistance to over 24k low income customers



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Past Practices

Post Moratorium Cycle

Post Moratorium

Focus on Disconnections
Tighten credit policies

Summer

Offer repayment plan
Offer additional assistance
Zero balance to r/c

Fall

Door to door
Offer assistance
Exploit other assistance
options



Breaking the Cycle

Keep the Heat On (KTHO) – 2002/2003

- Reversed Cycle
 - Changed our communication with customers who were behind
- Address the affordability issue
 - Add flexibility to arrangement practices
 - Provided more assistance before they were disconnected



Breaking the Cycle

Keep the Heat On (KTHO) – 2002/2003

- Targeted assistance in cooperation with Community Action
- Lobbied State to increase assistance levels for those with the greatest need



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KTHO - Results

- 77% response rate on outbound communication efforts
 - Phone calls increased by 14%
 - Telephone payments increased by 114%
- Increased number of arrangements and decrease in overall the overall default rate
 - 93% payment rate compared to 73% for the overall population



KTHO Results Continued

- Reduced EAP post moratorium disconnections by two-thirds
 - 52% fewer disconnections
- Improved outstanding Accounts Receivable
- Lobbied for and distributed in partnership with local LIHEAP agency over \$1.6 million in additional assistance



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Universal Service Program Pilot

- Approved by the IURC for years 2005, 2006 and partial year 2007
- Provides 9%, 18% or 24% discount to LIHEAP clients on monthly gas bill (in addition to LIHEAP funds), based on level of poverty
- Citizens Gas and Vectren Energy customers automatically enrolled through LIHEAP process
- Funding mechanisms varied by company and year



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USP Affordability Example

	Average Annual Bill	Less EAP Benefit	Less USP % Discount	Total Benefit	USP Average Annual Bill
Tier #1	\$937	\$171 (18%)	\$ 84 (9%)	\$255	\$682 (27%)
Tier #2	\$937	\$210 (22%)	\$ 169 (18%)	\$379	\$558 (40%)
Tier #3	\$937	\$245 (26%)	\$ 225 (24%)	\$470	\$467 (50%)

- ⇒ Other assistance is applied in addition to EAP and USP benefits
- ⇒ Percentages based on an average Residential bill. Lower and higher bills are adjusted by the same percentages.



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2006 EAP Bad Debt Related Cost Savings

	<u>2005</u>	<u>2006</u>
EAP Bad Debt Savings	\$608k	\$430k
Working Capital Savings	\$75k	\$52k
Increased Revenue	\$170k	\$165k
Fuel Fund Reduction	<u>\$250k</u>	<u>\$250k</u>
	\$1.103m	\$897k

- Total savings over two year pilot program \$2 million



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Next Steps

- Build a comprehensive business case model to measure the financial return of three Indiana utilities
 - Northern Indiana Public Service Company (NIPSCO), Citizens Gas & Coke Utility, and Vectren Energy Delivery
 - Program data element comparison
- All programs scheduled to end May 31st



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Program Evaluation

Define Objectives that pertain to both programs

- Interrupt the arrears-to-disconnect cycle
- Sustain bill payments on a seasonal basis
- Sustain bill payments on an annual basis
- Target collections to “can-pay-but-won’t customers



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Program Evaluation

- Define Objectives that pertain to both programs
- Rehabilitate customers who fall into payment trouble
 - Synergies between utility and public assistance
 - Minimize impact of income on all aspects of payment patterns
 - Improve capacity of existing bill payment processes to be effective for all customers



Program Evaluation

Does the program change individual customer behavior?

- Data on 500 who had USP in 2006 and 2007
- Data on 500 who had USP in 2007 only
- Data on 500 who received benefits late in 2007 program year
- Data on 500 who did not receive any benefits

