

**ELECTRIC UNIVERSAL SERVICE PROGRAM**

**Sec. 7-512.1(c) Report**

**DECEMBER 2003**

**PUBLIC SERVICE COMMISSION  
OF MARYLAND**

**ELECTRIC UNIVERSAL SERVICE PROGRAM**  
**§ 7-512.1(c) Report**  
**December 2003**

**I. OVERVIEW**

The Electric Universal Service Program (or “EUSP”) is part of the Electric Customer Choice Act of 1999 (“the Act”), and was created by the Maryland General Assembly to assist low-income electric customers with arrearage retirement, bill assistance and weatherization during the restructuring of Maryland’s electric and electricity supply market. Section 7-512.1 of the Act authorized the Public Service Commission (“the Commission”) to establish the program, make it available to low-income electric customers Statewide and provide administrative oversight to Office of Home Energy Programs (“OHEP”), the agency within the Department of Human Resources (or “DHR”), responsible for program delivery.

**II. LEGISLATIVE REQUIREMENTS**

Under the Act, the Commission is required to oversee the program as it is administered by the Department of Human Resources. Section 7-512.1(c) was amended during the 2003 Legislative Session.<sup>1</sup> As amended, the Act requires the Commission to [report annually] to the General Assembly on the universal service program, including:

- (i) subject to subsection (d) [providing that the total amount of funds to be collected for the universal service program each year shall be \$34,000,000], a recommendation on the total amount of funds for the program for the following fiscal year based on:
  - 1. the level of participation in and the amounts expended from the universal service program during the preceding fiscal year;

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<sup>1</sup> Section 3, ch. 95, Acts 2003.

2. how payments to customers were calculated during the preceding fiscal year;
  3. the projected needs of the universal service program for the next fiscal year; and
  4. the amount of any surplus carried over in the universal service program fund under subsection (f)(5)(i) of this section;
- (ii) for bill assistance:
1. the total amount of need, as determined by the Commission, for electric customers with annual incomes at or below 150% of the federal poverty level and the basis for this determination;
  2. the percentage of need, as determined by the Commission, but at a minimum of 50%, that should be funded through the universal service program and the basis for this determination;
- (iii) for low-income weatherization, the amount of funds needed, as determined by the Commission, for measures that reduce consumption of energy by electric customers with annual incomes at or below 150% of the federal poverty level and the basis for this determination;
- (iv) the amount of funds needed, as determined by the Commission, to retire arrearages for electric customers who have not previously received assistance in retiring arrearages under the universal service program and the basis for this determination;
- (v) the amount of funds needed, as determined by the Commission, for bill assistance, low-income weatherization, and arrearage retirement, respectively, for customers for whom income limitations may be waived under subsection (a)(6) of this section, and the basis for each determination;
- (vi) the impact on customer's rates, including the allocation among customer classes, from collecting the total amount recommended by the Commission under item (i) of this paragraph; and
- (vii) the impact of using other federal poverty level benchmarks on costs and the effectiveness of the universal service program.

### III. SUMMARY OF THE COMMISSION'S 7-512.1(c) FINDINGS

Based on the data available to date, and the comments and recommendations of the parties and participants in the Commission's proceedings in this matter, the Commission continues to support funding in the amount of \$34 million annually, as previously authorized by the Act for the Electric Universal Service Program. According to information provided by OHEP in its FY 2003 Annual Report, the level of participation in EUSP is increasing. Between FY 2002 and 2003 the number of participants increased from 58,263 to 69,781 or approximately 20 percent.

The Commission accepts and supports the findings and recommendations made by OHEP in its FY 2003 Annual Report.<sup>2</sup> In its report to the Commission, OHEP described that individual benefit (payments) to customers were calculated from a benefits matrix. According to OHEP, benefits were based on a customer's income and electrical usage. The matrix was designed so that the average benefit would cover approximately 50 percent of the average annual electric bill. DHR/OHEP states that the level of participation in EUSP is moving in an upward direction. From FY 2002 to FY 2003 a growth of 20 percent was realized.<sup>3</sup>

In its comments filed with the Commission on October 31, 2003, the Commission's Staff ("Staff") interprets PUC Article § 7-512.1 (2003) as setting the total amount for future years, including Year 5, at \$34 million. It is Staff's position that \$34 million continues to be an appropriate level of funding for the EUSP based upon its review of the EUSP fund expenditures for FY 2003 (Year 3) and the current FY 2004

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<sup>2</sup> Appendix A, DHR/OHEP FY 2003 Annual Report for the Electric Universal Service Program (EUSP).

<sup>3</sup> *Id.* at 11.

(Year 4) EUSP budget. In FY 2003, DHR/OHEP spent \$31,955,605 of the \$34 million budgeted excluding any amounts committed to weatherization--that is, \$31,955,605 was spent on bill payment assistance, arrearage assistance, and administration. In FY 2003, the EUSP bill payment matrix was based on a participant population of 70,000 although it was expected that the budgeted amount could provide benefits to 72,000 households. The FY 2003 bill payment benefit matrix produced an average bill payment assistance benefit of \$377. In FY 2004, the bill payment matrix was based on a participant population of 72,000 households. For FY 2004, DHR/OHEP similarly proposed a benefit matrix resulting in an average bill payment assistance benefit of \$378 based on a total budget of \$34 million. It is not known at this time how much can be spent by the weatherization component of the EUSP. However, the \$34 million appears to have been an adequate level of funding for prior years and should therefore be maintained.

Other parties, Potomac Electric Power Company (“Pepco”), Delmarva Power and Light Company (“Delmarva”), The Potomac Edison Company (“PE”) d/b/a Allegheny Power, and the Maryland Office of People’s Counsel (“OPC”) also filed comments with regard to the DHR/OHEP Annual Report and the § 7-512.1(c) provisions. In varying terms, each of these parties also continued to support \$34 million as the appropriate annual funding level for EUSP. Baltimore Gas and Electric Company (“BGE”) has not objected to any aspect of DHR/OHEP’s Annual Report, including the recommended funding continuation in the amount of \$34 million.

- **Bill Assistance.**

DHR/OHEP first defined “need” as the eligible EUSP population based on 1990 Census information that 225,000 Maryland families are at or below 150% of the federal

poverty level. One-half of that number was determined to be the “target population”. The target population was thus set at 112,500 Maryland families and then adjusted downward to 90,000 for purposes of developing a benefit payment matrix.<sup>4</sup> Enrollment was significantly below 90,000 in Year 1 and Year 2 with EUSP participant levels at 57,585 and 58,107 respectively. A number of parties including Staff suggested that a lower projected population of EUSP participants closer to levels of historical participation would result in a bill assistance benefit matrix that pays out larger benefits to participants and helps DHR/OHEP avoid ending a program year with large levels of unexpended funds. In Year 3 of the EUSP, DHR/OHEP lowered its target population to 70,000 and certified 69,781 households for EUSP, an increase of more than 10,000 from Year 2. For Year 4, DHR/OHEP utilized a target population of 72,000 participants to develop its benefit payment matrix. Thus, using the above statistics, if the eligible population is used to define need, then less than 50% of the estimated eligible population of 112,500 are receiving EUSP benefits.

As Staff describes, another way to define need could be to determine the average annual cost of usage. The goal could then be set to meet, on average, at least half of that cost. The use of DHR/OHEP’s benefit matrix should approach or achieve, an average bill payment assistance benefit for non-subsidized housing customers approximately equal to about one-half of the cost of the average low-income customer’s actual usage. DHR/OHEP’s bill payment matrix attached to its Year 4 Proposed Operations Plan

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<sup>4</sup> DHR/OHEP indicated in its “EUSP Proposed Operations Plan for FY2004” that Census 2000 income and poverty data reveals that an estimated 278,000 Maryland households live below 150% of the federal poverty guidelines. This is an increase of 58,000 households over the 225,000 indicated in the 1990 Census.

indicates that proposed bill assistance benefit payments do succeed in meeting 50% of the annual usage cost for a household using as much as 8,000 kWh per year.

OPC submitted that the bill assistance component should continue to be funded at or close to the level of funding in the first four years of the program.<sup>5</sup> Other parties, including PE, Pepco and Delmarva and BGE do not object to continuing funding for bill assistance at the FY 2004 level.

- **Payments to Electric Choice Suppliers.**

According to Staff, low-income customers do not have equal access to Electric Choice. None of the EUSP bill payment assistance is being directed to competitive electricity suppliers. All bill payment assistance benefits are paid only to the utilities. Consequently, there is actually a disincentive for an EUSP customer to participate in Electric Choice. It is Staff's position that the utilities can and should develop a method for dividing the EUSP benefit between the utility and the retail electric supplier's generation bill for EUSP customers who choose a competitive supplier. Staff, therefore, recommends that the Commission direct the utilities to develop a methodology that apportions some of the bill payment assistance benefit to generation service provided by a retail electric supplier so that low-income customers may also share in the potential cost saving benefits of Electric Choice. This could be implemented on a utility-specific schedule such that implementation is complete when the new CN 8908 Residential Standard Offer Service begins for each investor-owned utility.<sup>6</sup>

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<sup>5</sup> OPC Comments, October 31, 2003 at 8-9. Nonetheless, OPC commented that the data shows significant and disproportionate increases in low-income population(s) in a number of Maryland counties, particularly in the households at or below 50 percent of the federal poverty level.

<sup>6</sup> Other parties have not as of this time commented on this potential aspect of EUSP.

- **For low-income weatherization, the amount of funds needed, as determined by the Commission, for measures that reduce consumption of energy by electric customers with annual incomes at or below 150% of the federal poverty level and the basis for this determination.**

Staff recommends that no more than the \$3.5 million approved for low-income weatherization in prior years be approved for Year 5. Less is known about the weatherization component than the bill payment assistance and arrearage retirement components of the EUSP. It is generally accepted that the weatherization component of the EUSP continues to lag behind expectations. The obstacles encountered by DHR/OHEP with the State procurement process in 2002 resulted in a weatherization contract that did not begin until nearly halfway through Program Year 3. Confusion about the definition of weatherization resulted in thousands of dollars spent on energy-saving measures that, after clarification and direction by the Commission, were removed by DHR/OHEP from the contract for EUSP low-income weatherization. In addition, the EUSP Work Group heard concern from DHR/OHEP's weatherization contractor that without the more expensive energy-saving measures such as heat pump and furnace replacements, the amount currently allocated to weatherization would be difficult to spend. Because the contract did not commence until December 2002 (the middle of FY 2003) and because the weatherization measures performed under the weatherization contract changed significantly halfway through the contract year, it is difficult for Staff either to estimate the amount that can and will be spent in this first contract year for weatherization or to know how many households will be weatherized. Staff therefore believes that DHR/OHEP should be allocated the level of funds it believes can realistically be spent on EUSP low-income weatherization in Year 5, up to \$3.5 million.



Other parties, PE and OPC also noted that no more than \$3.5 million should be allocated to low-income weatherization in Year 5. According to PE, in addition, any weatherization funds carried over from Year 4 to Year 5 should reduce the amount of any “new funds” approved for low-income weatherization in Year 5.<sup>7</sup>

- **Arrearage Retirement.**

The Electric Universal Service Program Extension and Funding Act has retained the availability of Arrears Retirement Assistance for EUSP participants. The legislation provides that such assistance can be made available to EUSP applicants who are first-time recipients of arrears assistance. In addition, the amendment eliminates the “pre-July 1, 2000” limitation contained in the original legislation. There is a statutory limit of \$1.5 million for arrears retirement in any given fiscal year.

DHR/OHEP has indicated that the \$1.5 million limit specified in PUC Article § 7-512.1(a)(5)(iii) was exhausted in the fourth month of Program Year 4. For this reason, Staff believes that the \$1.5 million may not be enough to provide this one-time arrearage retirement benefit to every eligible EUSP participant in Program Year 5. However, the EUSP Enabling Legislation only provides for an arrearage retirement component of \$1.5 million.

OPC notes that retirement of arrearages is often crucial to the establishment or continuation of essential electric services. Thus, OPC suggests that the Commission or DHR/OHEP may want to revisit the statutory limitation issue with the Legislature.<sup>8</sup> Based on the new DHR/OHEP EUSP arrearage guidelines, PE suggests that

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<sup>7</sup> PE’s Comments, October 31, 2003 at 3-4.

<sup>8</sup> See OPC’s Comments, October 31, 2003 at 9-10.

consideration should be given to increasing the funding for “first-time” EUSP applicants.<sup>9</sup>

- **The impact on customers’ rates, including the allocation among customer classes, from collecting the total amount recommended by the Commission .**

According to Staff, the allocation of responsibility for EUSP funding is achieved through a 24-step collection mechanism for the commercial/industrial customers. PE supports maintaining the current allocation of responsibility for EUSP fees as between residential and commercial/industrial customers. PE also recommends revision to a 25-step commercial/industrial collection process so that the steps are based on distribution revenues instead of total bundled revenues, as well as any additional adjustments that may be necessary to reflect updated electric usage and changes to total EUSP funding.<sup>10</sup>

- **The impact of using other federal poverty level benchmarks on costs and the effectiveness of the universal service program.**

Section 7-512.1(a)(1) of the PUC Article provides that the Electric Universal Service Program shall assist electric customers with annual incomes at or below 150% of the federal poverty level. This income eligibility standard is the same as the one used for the MEAP, the federally funded program administered by OHEP.

Staff recommends that the existing benchmark of 150% or less of the federal poverty level should be maintained for Year 5. At the present time, the demographic profiles of the EUSP participants, particularly within the benefit levels, are not known. The draft Request for Proposals (“RFP”) to evaluate the EUSP will provide that a demographic evaluation be performed by the contractor. Utilizing data from Census 2000 and from DHR/OHEP such as denied applications, the contractor may be able to

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<sup>9</sup> See PE’s Comments, October 31, 2003 at 4.

<sup>10</sup> *Id.*

identify the number of ineligible applicants with incomes within a range only slightly higher than the 150% federal poverty level. This information should help to assess the effectiveness in reaching additional households that marginally exceed the current income limits.

Other parties, OPC and PE suggest no change(s) to the current federal poverty level benchmarks utilized by EUSP at this time. According to OPC, the “hardship” waiver authorized in 2003 permits some flexibility to allow DHR/OHEP to assist customers over 150 percent of the federal poverty level. OPC further submits that once demographic information has been accumulated and reviewed, changes in program participation benchmarks may be appropriate.<sup>11</sup>

- **Application Waivers.**

Staff noted that the 2003 revisions in PUC Article § 7-512.1(c)(1)(V) include a question as to the amount of funds needed for bill assistance, low-income weatherization and arrearage retirement, respectively, for customers for whom income limitations may be waived by DHR/OHEP and the basis for each determination. Staff has received no information concerning participants for whom income guidelines have been waived and therefore cannot respond to this question until DHR/OHEP has provided information concerning any waivers it has granted.<sup>12</sup>

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<sup>11</sup> OPC’s Comments, October 31, 2003 at 10.

<sup>12</sup> OHEP provided some data regarding this in its Report. DHR/OHEP's Report at 9.

#### **IV. CONCLUSION**

The Commission concludes that the Electric Universal Service Program is appropriately structured. The Commission recommends continuation of the \$34 million total funding level for Year Five. As the objectives of the program continue to be met, the funding level may need to be reexamined.

Additionally, the Commission is continuing to examine the \$1.5 arrearage retirement cap, and concerns regarding whether bill assistance funds are being used to satisfy customer arrears above the \$1.5 million cap. The Commission anticipates reconstituting a workgroup in January 2004 to consider this matter. Any viable comments proceeding from the workgroup may be submitted to the General Assembly with appropriate recommendations.

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## APPENDIX A

DHR/OHEP FY 2003 Annual Report for the Electric  
Universal Service Program (EUSP)

*See* Maillog Number 90112  
For Tables and Attachments A-Q

(PSC Official Filings)  
<http://www.psc.state.md.us/psc/>



MARYLAND DEPARTMENT OF HUMAN RESOURCES

COMMUNITY SERVICES ADMINISTRATION

OFFICE OF HOME ENERGY PROGRAMS

FY 2003 ANNUAL REPORT  
TO THE  
MARYLAND PUBLIC SERVICE COMMISSION



October 31, 2003

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## Introduction

The purpose of this Annual Report is to provide the Public Service Commission and others with concise, factual information about EUSP program activities during Fiscal Year 2003. In some situations, preliminary data from the 2004 fiscal year is presented as it relates to important issues concerning the Commission and the General Assembly.

The Electric Universal Services Program (EUSP) continues to evolve as a stable and helpful program for tens of thousands of low-income electric customers. There are now three complete years of experience to draw upon for making policy and planning decisions. FY 2003 data provides valuable information for the future of EUSP services.

With the exception of a few minor items of financial information, data is now complete for FY 2003. This information helps in projecting trends that we can expect in the near future.

## Program Highlights

- Total applications received for EUSP jumped by 12,478 between 2002 and 2003.
- Applications certified during FY 2003 for EUSP Bill Payment Assistance increased by 12,196 or about 22% over FY 2002.
- \$27.6 million was issued in benefits for Bill Payment Assistance.
- Arrearage Retirement Assistance payments were issued for 3,551 customers totaling \$1.5 million. The average benefit paid decreased from FY 2002 from \$423 to \$422.
- A Bill Payment supplemental benefit of \$170 totaling \$8,950,739 was issued to 52,745 recipients using funds retained from FY 2002.
- Payments were issued on a weekly basis except during the month of February where payments were delayed one week due to the major snowstorm and the issuance of MEAP Supplemental Benefits.
- OHEP's Statewide Outreach Team met ten (10) times during the fiscal year continuing to develop and implement strategies and share ideas. Emphasis on outreach throughout the program year helped make the program more widely known and contributed towards the increase in applications.
- Major application expos were conducted in Prince George's County, Montgomery County and Baltimore City. Sponsored by the local administering agencies, other government agencies and respective utilities in those service territories, the expos

generated significant publicity for the program and produced approximately 400 applications at each. A series of special “Application Days” in Baltimore City produced more than 600 additional applications.

- Maintained information on the DHR/OHEP Web site including the ability to download and print the OHEP application form.
- A contract for Electric Energy Efficiency Services (Weatherization) was executed as of December 20, 2002.

**Table 1**

**EUSP PROGRAM SUMMARY DATA FY 2001-2003**

Type of Program	Program Year		
	2003	2002	2001
<b>Arrearage</b>			
Applicants Served	3,551	5,148	26,211
Average Grant	\$422	\$423	\$292
Benefit Expenditures	\$1.5 million	\$2.2 million	\$7.7 million
<b>Bill Assistance</b>			
Applicants Served	69,781	57,585	56,245
Average Grant	\$395	\$287	\$270
Benefit Expenditures	\$27.6 million	\$24.6 Million (See note 1)	\$21.4 Million (See note 1)
<b>Weatherization</b>			
Applicants Served	See note 2	-	697
Average Grant	See note 2	-	\$2,152
Benefit Expenditures	See note 2	-	\$1.4 million

Source: Maryland Department of Human Resources  
Office of Home Energy Programs, October 2003

Note 1: Benefit expenditures include supplemental benefit payments. Average benefit calculation does not include the supplemental amount. The supplemental benefits were \$73 paid in FY 2002 and \$170 paid in FY 2003.

Note 2: Although Weatherization started during FY 2003 no invoices were received and paid until after the end of the fiscal year.

**Table 2**

MEAP PROGRAM SUMMARY DATA FY 2002-2003

Type of Program	Program Year		
	2003	2002	2001
<b>MEAP</b>			
Applicants Served	77,828	66,186	76,364
Average Grant	\$454	\$275	\$316
Benefit Expenditures	\$35.5 million	\$18.2 million	\$24 million

### Administrative Operations and Expenditures

EUSP applications are received and processed through local administering agencies. Payments of annual electrical grants are issued through the State OHEP Office. Administrative operations continue to evolve into a smooth and consistent mode of operation. Peak application periods may still result in some minor backlogs in application processing, but those are resolved within short periods of time. OHEP communicates with electric companies regularly either through daily contact on specific application issues, special meetings, or the OHEP Advisory Board. The companies receive copies of OHEP policy transmittals.

Payments to electric companies started in August and were consistently transmitted to electric companies on a weekly basis. In August 2003, revisions to the computer system to enhance payment operations were installed. These revisions serve to reduce the amount of time OHEP staff needs to process weekly payments. OHEP currently sends customer data electronically to three electric companies. It is anticipated that will increase by one or two in the next several months.

During the course of the program year 2003, OHEP participated in two sessions of the EUSP Working Group. Both of these Work Groups addressed pertinent issues to the operation of EUSP. Reports were filed on February 10, 2003 and October 15, 2003, respectively. OHEP, also, participated in the meetings of the Legislative Work Group appointed to address EUSP. The result of that endeavor was SB 504, which established funding and other critical programmatic and reporting parameters.

Administrative costs are limited to 10 percent of the total EUSP allocation by Commission order. OHEP was able to abide by this limitation and, in fact, spent less than the allocation. This primarily was due to lower computer related costs within the period than anticipated. Currently, OHEP believes that the 10 percent figure is adequate, however, as application numbers display an increasing trend, the capacity to process the

numbers in a timely fashion will be strained with existing resources. In the next few months, contracts for the delivery of services throughout the state will be negotiated. Increases in LAA budgets is expected.

**Table 2**  
**ADMINISTRATIVE EXPENDITURES**  
**EUSP FUNDS**

CATEGORY	EXPENDITURES		
	2003 Actual	2002 Actual	2001 Actual
OHEP Administrative	2,669,095	\$3,300,000	\$3,398,829
Public Service Commission – Administrative Oversight	\$340,000	\$100,000	-
<b>Total Administrative</b>	<b>3,009,095</b>	<b>\$3,400,000</b>	<b>\$3,398,829</b>

Source: Maryland Department of Human Resources  
Office of Home Energy Programs, October 2003

#### Computer System

During FY 2003, OHEP through DHR's Office of Technology for the Human Services (OTHS) contracted with Computer Sciences Corporation (CSC) for computer system maintenance and enhancements. That contract expired on August 31, 2003. During FY 2003, a total of \$ 624,917 was expended. Final invoices not yet posted are expected to bring the total to \$720,203.

Recognizing that continuity of system service and performance is critical to the successful operation of EUSP, OHEP through DHR OTHS initiated a new bidding process to procure another contract. This process was recently completed and CSC was

again selected as the contractor. The period covered by the new contract is November 2003 through April 2004 for a projected cost of \$598,407. Two one-year option years are available for costs of \$924,381 and \$956,767, respectively. The total value of the contract covering approximately two and a half years is \$2,579,556.

Overall, the computer system has been functioning properly and consistently. Downtime has been minor. The main system issue at the central server level involved the need to replace a failing hard drive which was done without incident. The net result was one day of downtime. Several times during the year, there have been locally related system issues primarily connectivity issues related to system routers. Resolution of these issues lies with DHR OTHS. Generally, these issues are resolved quickly. In late August, the Prince George's County Department of Social Services was without computer service for one full week until the problem was resolved.

For the future, OHEP is planning to continue system enhancements as a way to increase efficiency of operation. OHEP is also looking to develop additional reports for management and planning purposes. Working with OTHS, OHEP is seeking to expand connectivity to the OHEP database by providing Internet access to the system to authorized system users. This is accomplished through a secure virtual private network requiring logins and passwords.

An additional improvement that is being explored is the purchase of software to track activities and expenditures in the EUSP Weatherization program. As the number of completed units rise it will become increasingly difficult to track all the necessary information for managing and reporting weatherization activities. During FY 2003, OHEP initiated steps seeking appropriate weatherization software. At the current time, exploration of what is available and what is appropriate is occurring.

## Program Summary and Issues

### Bill Payment Assistance

The implementation of Bill Payment Assistance was steady throughout FY 2003. Payments of annual electrical grants were issued on a regular weekly basis. No new major programmatic issues surfaced. Applications for Bill Payment increased by 12,478 over the previous year. The number certified for payment increased by 12,196 or about 22%. Due to this increase, the original allocation was not sufficient and 2003 funds were re-allocated from the weatherization component to assure that all applicants received a benefit.

During 2002, EUSP applications approved were 87.0% of the total approved for MEAP. Improvement was achieved during 2003 as EUSP reached 89.6% of the MEAP applications. Attachment A displays data for each jurisdiction. To summarize, all jurisdictions demonstrated improvement in this ratio although some areas lagged. Most notable, is the percentage in Baltimore City. It is believed that the nature of heating source coupled with the fact that the electric company servicing this area is also the gas company has an impact on the numbers.

## Weatherization

Since the inception of EUSP, the Weatherization component has been fraught with issues that stalled its implementation. After extensive effort, the contract for delivering weatherization services was awarded and work started on December 20, 2002. The ramping up for service delivery took longer than expected due to the cold and snow plagued winter of 2003. Data presented is through October 30, 2003. Attachment O reveals that considerable effort has occurred in implementing weatherization.

Through October 30, contacts had been made to 1,200 households that had indicated an interest in weatherization services on their OHEP application form. From those contacts a total of 158 have received specific weatherization services. Another 496 units are currently in progress of receiving service and have not yet been invoiced. The difficulty of obtaining serviceable units is demonstrated by the fact that there were 358 unsuccessful contacts and another 188 that resulted in access charges only.

Through October 30, \$331,292 has been invoiced. Funds spent on actual weatherization services totaled \$212,832. With 158 units weatherized this resulted in an average amount per unit of \$1,357. The range of costs for work effort on an individual unit a low of \$150 simply contacting an applicant to a high of \$5,368 for providing a full range of services.

To evaluate the effectiveness of the measures, a review of electric bills is to be conducted on units receiving service after twelve months have passed since the installation.

During course of the year the Commission directed OHEP by Order 78661 to cease a number of the activities included as part of the contract. Responding to the Commission's direction, OHEP officially modified the contract to remove those items. For a list of the changes see Attachment N.

In light of this action, the weatherization activities allowed under the contract have become limited in relation to the objective of weatherization. In order to effectively "... reduce consumption by electric customers..." as stated in the statute, it is clear that there is a need to closely coordinate with other weatherization programs within the State. As such, OHEP will begin a dialogue with other entities delivering weatherization to explore methods of coordination.

## Arrearage

FY 2003 was the last year that arrearages were retired using amounts acquired prior to the July 1, 2000 start date of EUSP. Year One of EUSP showed a dramatic number (over 26,000) of arrearage applications and payments. More than \$7.7 million was expended to retire arrearages incurred through July 1, 2000, the start date of EUSP. A significant drop in numbers and dollars expended occurred between FY 2001 and FY 2002. The drop between 2002 and 2003 was not nearly as dramatic. Through FY 2003, \$1.5 million in Arrearage benefits was issued for 3,551 applicants only about \$500,000 less. The average benefit in 2003 was \$432. Logic indicates that a declining trend would occur as time went on since the number of potential eligible customers would decline. An increase in the number of program participants between 2002 and 2003 helped temper the trend.

## Outreach

Outreach is a critical activity at both the local and state level. The LIHEAP Block Grant requires outreach activities. Each local agency is required to submit an outreach plan to State OHEP. The activities conducted are wide and varied. Attachment Q is a list of typical activities conducted on a year to year basis. Activities are conducted on a continuing basis throughout the year although activity may be concentrated at certain times dependent upon program management needs, specific opportunities, application trends, etc.

Outreach efforts are focused on the general population, the low-income population, and the personnel and agencies that deliver services to the low-income population. A multi-faceted approach such as this is desirable, as past studies have indicated that the most frequent ways of finding out about the program is through word of mouth, utility companies and through referral from other social service agencies.

Special efforts are made to secure applications from persons living in subsidized housing, the elderly and households with young children. Informational material is provided or personal visits are conducted to subsidized housing communities, senior citizen centers, day care providers, and other venues where these populations obtain information.

## Application Waivers

SB 504 included the following language to issue a waiver to the EUSP income guidelines. "In a specific case, the Universal Service Program may waive the income eligibility limitation under paragraph (1) of this subsection in order to provide assistance

to an electric customer who would qualify for a similar waiver under the Maryland Energy Assistance Program established under Article 41, § 6-406 of the Code”.

Through October 10, 2003, OHEP has received requests for waivers to 44 applications. Of this number 40 were approved and 4 were denied. The benefits issued for these applications amounted to \$17,280 for Bill Payment and \$3,404 for Arrearage. Since MEAP waivers were initiated in FY 2002, there were 17 requests in FY 2002 and 75 in FY 2003. Of the total requests 8 were approved in FY 2002 and 73 in FY 2003. The intent of providing waivers is to address specific hardship situations primarily of a short-term nature. Applications from previous year waivers given under MEAP have demonstrated very few repeat requests. Between FY 2002 and FY 2003 there were only two repeat requests. To date from either FY 2003 or FY 2002 to FY 2004 there are seven repeat requests.

## Summary of Recommendations

### Total Amount of Funds

OHEP recommends a continuation of \$34 million as an appropriate amount of funding for the Electric Universal Service Program.

### Weatherization

DHR/OHEP recommends a continuation of weatherization as a component of EUSP. An effort to better coordinate with other weatherization programs should be implemented.

### Arrearage Retirement

DHR/OHEP recommends continuation of the Arrearage Retirement Assistance component of EUSP with a cap of \$1.5 million but with the ability for the Commission to revise this amount upon request from DHR/OHEP.



## Statutory Questions

In response to the Commission's notice of October 15, 2003 OHEP hereby submits comments on each of the statutory questions found in the Public Utilities Article, MD. CODE ANN. § 7-512.1(c). As the questions appear in Senate Bill 504:

(c) (1) On or before December 1[, 1999, and on an annual basis thereafter]OF EACH YEAR, the Commission shall report, subject to § 2-1246 of the State Government Article, to the General Assembly on the universal service program, including:

(+) (I) subject to [subsections (d) and (e)] SUBSECTION (D) of this section, a recommendation on the total amount of funds for the program for the following fiscal year BASED ON:

(+) 1. THE LEVEL OF PARTICIPATION IN AND THE AMOUNTS EXPENDED FROM THE UNIVERSAL SERVICE PROGRAM DURING THE PRECEDING FISCAL YEAR;

**COMMENT:** The level of participation in EUSP is moving in an upward direction. A growth of 20% between FY 2002 (58,263) and 2003 (69,781) was realized. In FY 2003 a preliminary total of \$29,097,035 was expended for benefits and \$3,009,095 for administration bringing the grand total expended to \$32,106,130.

(+) 2. HOW PAYMENTS TO CUSTOMERS WERE CALCULATED DURING THE PRECEDING FISCAL YEAR;

**COMMENT:** Individual benefits to customers are calculated from a benefit matrix developed by OHEP each year. Benefits are based on a customer's income in degrees of poverty and electrical usage. The household's degree of poverty and annual kilowatt-hour (kWh) usage determines the dollar amount of Bill Payment Assistance. The benefit matrix is designed so that the average benefit will cover approximately 50 percent of the average annual electric bill. Benefits are also viewed as a measure to reduce the amount of money as a percentage of income that a low-income household spends on electricity, i.e. electric energy burden.

(+) 3. THE PROJECTED NEEDS OF THE UNIVERSAL SERVICE PROGRAM FOR THE NEXT FISCAL YEAR; AND

**COMMENT:** It is projected that this trend is to continue, as the knowledge of the program becomes more widespread. OHEP's Annual Plan for FY 2004 projected serving 72,000 households. Expecting this trend to continue OHEP projects that 76,000 households could be served in FY 2005.

(IV) 4. THE AMOUNT OF ANY SURPLUS CARRIED OVER IN THE UNIVERSAL SERVICE PROGRAM FUND UNDER SUBSECTION (F)(5)(I) OF THIS SECTION;

**COMMENT:** As EUSP matures as a program, it is anticipated that the level of unspent funds will be minimal in relation to the overall level of funds expended. The preliminary total of unspent funds for FY 2003 is \$1,893,870. These funds, however, are encumbered for purposes of making payments on the weatherization contract as invoices are received and for outreach activities (\$200,000).

The ability capacity to fully expend the funds appropriated is realized by these numbers. Continuance of \$34 million in funding appears to be an appropriate amount.

(2) (II) for bill assistance:

(i) 1. the total amount of need, as determined by the Commission, for electric customers with annual incomes at or below 150% of the federal poverty level and the basis for this determination; and

(ii) 2. the percentage of need, as determined by the Commission, but at a minimum of 50%, that should be funded through the universal service program and the basis for this determination;

**COMMENT:** As discussed above, the capacity to expend funds for Bill Payment purposes is clear. With a potential of some 278,000 households under 150% of poverty it is a matter of reaching the population rather than expending the funds. OHEP has taken a reality-based view in projecting the number to be served and, therefore, is confident the funds will be expended.

(3) (III) for low-income weatherization, the amount of funds needed, as determined by the Commission, for measures that reduce consumption of energy by electric customers with annual incomes at or below 150% of the federal poverty level and the basis for this determination;

**COMMENT:** Based on the experience during the first ten months of implementing the weatherization contract, the capacity to reach the original projections of units served needs to be closely examined. Looking at the reality of what has been accomplished and recognizing that unspent weatherization funds will be carried over to FY 2005 OHEP suggests a \$1.5 million weatherization allocation.

(4) (IV) the amount of funds needed, as determined by the Commission, to retire arrearages ~~that were incurred prior to the initial implementation date by~~ FOR electric customers ~~with annual incomes at or below 150% of the federal poverty level~~ WHO HAVE NOT PREVIOUSLY RECEIVED ASSISTANCE IN RETIRING

ARREARAGES UNDER THE UNIVERSAL SERVICE PROGRAM and the basis for this determination;

**COMMENT:** Legislation passed by the General Assembly during the 2004 Legislative Session in the form of SB 504 made a significant revision to the Arrearage component of EUSP. Beginning July 1, 2004, any electric arrearage could be paid as long as the applicant had not previously received a EUSP Arrearage benefit. The amount of the benefit was no longer based on the amount prior to July 1, 2000. The legislation, also, placed a \$1.5 million limit on arrearage expenditures. At the time the limit was discussed, no comparable data was available to determine the number and dollar value of arrearages. The removal of the July 1, 2000 date allowed for a new group of applicants to receive assistance. Arrearage assistance was now available for persons with shorter-term arrearages. Experience through October 31, 2003 now provides some indication of the numbers involved.

OHEP started taking applications for arrearage retirement beginning July 1, 2003 using the new criteria. Certifications of arrearage grants effectively ended by September 9, 2003. A total of 7,594 applications were received for arrearage through October 31, 2003 with 4,868 being certified and receiving a benefit. Payments of \$1.5 were issued for an average benefit of \$311.

Local administering agencies were informed to continue taking Arrearage applications in order to assess the extent of need. Of the approximately 7,600 applicants who have applied for Arrearage Retirement Assistance leaving 2,700 potential households without assist due to funds being exhausted. An average of about 1900 arrearage applications are received per month. Extrapolating the numbers of applications taken through mid-October to the end of the application period suggests that as many as 20,900 applications could be received for arrearage retirement assistance. At an average amount of \$311 per applicant, a total of \$6,500,000 would be required to meet the need of all applicants. In terms of future consideration, the number served should decline gradually as customers receive assistance. Approximately 70 percent of applications are repeat applications and since customers can only receive arrearage assistance once any increase would be dependent upon new applicants.

Not all arrearage applications were approved for a benefit. Preliminary data shows 277 applications were denied because OHEP records indicated that they had received an arrearage benefit in a previous year through EUSP.

OHEP continues to take applications for arrearage retirement in order to be able to better assess the need. Recognizing that about 70 percent of all applications are repeat applications this number could be expected to drop somewhat over time.

OHEP has explored options that could be implemented. This exploration continues the criteria that benefits are provided only to first-time arrearage applicants resulting in receipt of a EUSP arrearage benefit once in a lifetime.

1. Maintaining the current cap on the amount of dollars available results in a known impact on expenditures. The negative aspect is that a significant number of customers go unserved.
2. Continue with the current cap, but require customers to have made a payment towards their bill within the previous three months before application. The intent here is to remove disincentives to paying the electric bill prior to receiving assistance from EUSP. A potential administrative issue is posed in terms of obtaining the information from the electric companies.
3. Removing the cap on the amount of expenditures and letting the expenditure be whatever is required to fulfill all applicants. The actual impact is unknown but estimated to be approximately \$7.6 million. This results in a significant impact in terms of fewer funds available for other components of EUSP. It also means that developing a benefit matrix for Bill Payment becomes much more difficult and involving a greater degree of guesswork. The risk of exhausting or under-spending funds becomes greater.
4. A cap on the amount of the arrearage benefit could be imposed. This provides a degree of uncertainty for the customer, as they would have to provide the balance of funds before service could be maintained or restored. It would, however, result in more customers being served, as the average benefit would be lower than if there was no cap. It is likely that a higher degree of benefits would be returned to OHEP, as customers do not provide the balance. Ultimately, a higher number of customers may not be served. This presents an issue of increased administrative costs to account for the funds as they are returned and the re-issued for other customers.
5. The allocation of funds for arrearage could be placed with the Commission as had been under the previous statute. The advantage of this action is that it would allow a cap on expenditures to be in place, but provide the option of revising the cap during the year if conditions warrant.
6. Eliminate the arrearage component altogether. Implementing this option would make it clear that the customer is responsible for any past due bills. Knowing that there is no assistance for past bills may act as an incentive to pay those bills. Or, since the customer does not have the funds to pay the bill it could mean that those bills would go unpaid and customers would lose service. Losing service would also prevent the customer from receiving a EUSP Bill Payment.

**Although FY 2004 funding for arrearages was expended within the first three months of the fiscal year, OHEP recommends that the current cap of \$1.5 million remain for FY 2005 with certain caveats. It is the intent of the arrearage program to help applicants on a one-time basis get on service if a termination has occurred or avoid disconnect if a termination is eminent due to non-payment of their electric bill.**

**OHEP understands that the spirit of the program is to assist low-income households with a one-time assistance for a temporary inability to keep up with electric bills. OHEP also recognizes the concerns of the Commission and Legislature of the potential for abuse of this assistance whereas applicants may stop paying their bills in order to claim the grant.**

**OHEP recommends that in order to discourage abuse of the arrearage program, the applicant should be required to show proof of good faith efforts to make payments against the bill within the past three months of application, albeit it is not sufficient to diminish the growth of arrearage.**

**OHEP also recommends that the \$2,000 cap on individual grants for off-service applicants remains in force.**

(V) THE AMOUNT OF FUNDS NEEDED, AS DETERMINED BY THE COMMISSION, FOR BILL ASSISTANCE, LOW-INCOME WEATHERIZATION, AND ARREARAGE RETIREMENT, RESPECTIVELY, FOR CUSTOMERS FOR WHOM INCOME LIMITATIONS MAY BE WAIVED UNDER SUBSECTION (A)(6) OF THIS SECTION, AND THE BASIS FOR EACH DETERMINATION;

**COMMENT: Extrapolating from the numbers of waivers granted during FY 2004 it is projected that \$70,000 is required to accommodate Bill Payment application waivers during FY 2005. It is impossible to project what may be needed for arrearage waivers.**

~~(6)~~ (VII) the impact of using other federal poverty level benchmarks on costs and the effectiveness of the universal service program.

(2) (I) TO ASSIST THE COMMISSION IN PREPARING ITS RECOMMENDATIONS UNDER PARAGRAPH (1) OF THIS SUBSECTION, THE OFFICE OF HOME ENERGY PROGRAMS SHALL REPORT TO THE COMMISSION EACH YEAR ON:

1. THE NUMBER OF CUSTOMERS AND THE AMOUNT OF DISTRIBUTIONS MADE TO FUEL CUSTOMERS UNDER THE MARYLAND ENERGY ASSISTANCE PROGRAM ESTABLISHED UNDER ARTICLE 41, § 6-406 OF THE CODE, IDENTIFIED BY FUNDING SOURCE AND FUEL SOURCE; AND

**COMMENT:** Approximately 77,900 customers received assistance through MEAP. All of these funds were from the Low-Income Home Energy Assistance Program (LIHEAP) Block Grant. Expenditures for MEAP consisted of \$27.1 million going to utility fuels (electric and gas) and \$8.4 million being used for other fuels (oil, kerosene, propane, wood and coal).

**Distribution of MEAP Applicants Served by Fuel Type – FY 2003**

Type of Heat	POVERTY LEVEL			Total
	1	2	3	
Electricity	3,197	5,543	16,014	24,754
Gas	7,142	10,714	19,342	37,198
Propane	494	1,223	1,365	3,082
Oil	1,164	3,651	4,385	9,200
Kerosene	476	1,520	1,299	3,295
Coal	27	65	64	156
Wood	50	109	68	227
<u>Total</u>	12,550	22,825	42,537	77,912

**Source:** Maryland Department of Human Resources  
Office of Home Energy Programs, October 2003

2. THE COST OF OUTREACH AND EDUCATION MATERIALS PROVIDED BY THE OFFICE OF HOME ENERGY PROGRAMS FOR THE UNIVERSAL SERVICE PROGRAM.

**COMMENT:** Detailed financial data is not currently available on outreach related activities during FY 2003. However, OHEP approximates that about \$120,000 was expended.

(II) THE OFFICE OF HOME ENERGY PROGRAMS MAY SATISFY THE REPORTING REQUIREMENT OF SUBPARAGRAPH (I)1 OF THIS PARAGRAPH BY PROVIDING THE COMMISSION WITH A COPY OF MATERIAL THAT CONTAINS THE REQUIRED INFORMATION AND THAT THE OFFICE OF

HOME ENERGY PROGRAMS SUBMITS TO A UNIT OF THE FEDERAL GOVERNMENT.

**COMMENT: Attachment P is the report OHEP submits to the federal government each year.**

## Attachments



Attachment A – Annual Applications and Certifications by County

Attachment B – Annual Applications and Certifications by Program Year

Attachment C – EUSP Monthly Income Eligibility Table for FY 2003

Attachment D – EUSP Bill Payment Assistance Benefit Table for FY 2003

Attachment E – Annual Kilowatt Usage by EUSP Recipients in FY 2003

Attachment F – Comparison of Average Annual Electric Bill and EUSP Grants by  
Poverty Level in FY 2003

Attachment G – Households and Payments by Utility and Bulk Fuel

Attachment H – Arrearage Assistance By Local Agency for FY 2003



Attachment I – Arrearage Assistance By Local Agency for FY 2004

Attachment J – Living Arrangements by Poverty Level for FY 2003

Attachment K – Fund Expenditures Report as of 9/30/03

Attachment L – OHEP Administrative Costs for FY 2003

Attachment M – EUSP Yearly Summary Analysis

Attachment N – EUSP Electric Energy Efficiency Weatherization Services



Attachment O – EUSP Weatherization Program as of October, 2003



Attachment P – LIHEAP Household Report

Attachment Q – Outreach Activities

