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This paper is the opinion of the author, not necessarily the position of the Commission.

**Assessment of Water Utility
Low-income Assistance Programs**

**California Public Utilities Commission
Water Division**

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PREFACE

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INTRODUCTION

As provided by Section 739.8 of the Public Utilities Code, this Commission may provide rate relief programs for low-income water utility ratepayers. The purpose of this report is to provide the Commission with a summary of the current status of existing and possible future low-income assistance programs available to water utility customers. This report consists of a review of the reasons and support for low-income programs, existing programs, currently proposed programs, concerns of the Commission regarding proposed programs, investigation into alternative programs that may resolve the Commissions concerns, and recommendations regarding the next step in the development of water utility low-income programs.

OVERVIEW OF ISSUES

Introduction

The purpose of this overview is to provide the Commission with a summary of the current status of existing and proposed future low-income assistance programs available to water utility customers. This overview consists of a review of the reasons and support for low-income programs, a description of existing programs, a description of currently proposed programs, concerns of the Commission regarding proposed programs, investigation into alternative programs that would resolve the Commissions concerns, and proposals regarding various water utility low-income programs.

Reasons and Support for Low-Income Programs

Low-Income Population in California

In California, 14.2%¹ of state residents are at the poverty level while 28.7% are at or below 174% of the poverty level. In particular, for the areas the regulated water utilities serve in, the weighted average of Class A water utility customers that are at or below 174% of the

¹ Poverty: 1999 Census 2000 Brief, Issues May 2003, US Census Bureau.

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poverty level accounts for 27% of total customers, while, on average, 29.2% of Class B, C and D water utility customers are at or below 174% of the poverty level.²

The availability of a low-income assistance program for water utility customers would join the many already existing programs in this country that assist those in need, including Low-Income Home Energy Assistance Program, Lifeline rates for telephone customers, Food Stamps Program, Food Assistance Program, Aid to Families with Dependant Children, and Public Federal Housing Administration Programs, just to name a few. These assistance programs are necessary when 20% of the United States population has difficulty meeting at least one basic need (payment of utility bill, payment of mortgage/rent, visit doctor/dentist, eviction, and purchase of food) and 11% had difficulty meeting at least two of those basic needs.³

Many organizations have voiced their support for the institution of low-income assistance for water utility customers, in particular the California Public Utilities Commission (CPUC), National Association of Regulatory Utility Commissioners (NARUC), American Water Works Association (AWWA), and a recent Associated Press (AP) article.

CPUC Mandate

Historically, the CPUC has been supportive of low-income assistance programs for regulated utility customers. In addition to numerous energy low-income rate assistance programs, the telecommunications High Cost Fund, and selected water utility rate assistance programs (discussed below), the Public Utilities Code, in particular, PU Code 739.8⁴, which requires that the Commission consider and implement rate assistance programs for low-income ratepayers. The PU Code also requires that conservation be considered when the rate assistance program is developed.

² Based on 2000 U.S. Census Data. The Class A results range from 10.2% to 31.1%, while the Class B, C, and D results range from a 0% to 78.3%.

² Extended Measures of Well-Being: Meeting Basic Needs, Household Economic Studies, US census bureau, June 1999.

⁴ 739.8 (a) Access to an adequate supply of healthful water is a basic necessity of human life, and shall be made available to all residents of California at an affordable cost.

(b) The commission shall consider and may implement programs to provide rate relief for low-income ratepayers.

(c) The commission shall consider and may implement programs to assist low-income ratepayers in order to provide appropriate incentives and capabilities to achieve water conservation goals.

(d) In establishing the feasibility of rate relief and conservation incentives for low-income ratepayers, the commission may take into account variations in water needs caused by geography, climate and the ability of communities to support these programs.

NARUC

In March of 2004, the National Association of Regulatory Utility Commissioners (NARUC) adopted a joint resolution in support of a low-income assistance program for water utility customers. NARUC supports the timely development of a low-income program similar to the Low-Income Energy Assistance Program for energy rates.

AWWA

In 1998, the American Water Works Association Research Foundation provided grant money to the National Consumer Law Center to support their study of rate design and other issues that affect the rates charged to low-income water utility customers. In particular the study titled “Water Affordability Programs” states “Poor households are typically not refusing to pay for water service; they are becoming more unable to pay for water services....There are important lessons that can be learned from the experience of energy utilities. There are alternative rate structures and billing and collection methods that promise benefits to the utility, to the general body of ratepayers, and to the payment-troubled households. In addition to helping low-income customers maintain service, affordability programs in electric and gas industries have proven to be effective in reducing arrearages, disconnections, and reconnections, as well as the associated costs – benefiting not only the customer but the utility as well.”⁵

Associated Press

The Associated Press (AP) issued an article in December 2004 titled “U.S. Rentals Unaffordable to Poor”. In addition to discussing how difficult it is for low-income households to pay rent on their current income, the AP also found that “Overall, though, utility costs appear to be rising at a faster rate than rents”. This illustrates that the cost of utility service will be even more costly and more difficult for low-income individuals to pay in the future.

Existing Programs

Currently, California-American Water (Cal Am), Southern California Water (SoCal), and San Gabriel Valley Water have low-income rate assistance programs for their customers, while San Jose Water (D.04-08-054) is in the process of implementing a program that has been authorized by the CPUC and Valencia Water (D.03-05-030 & A.05-10-028) has filed an

⁵ Water Affordability Programs, Sponsored by the American Water Works Association Research Foundation; Prepared by Margot Saunders, Phyllis Kimmel, Maggie Spade, and Nancy Brockway of the National Consumer Law Center; page xxi.

application to propose and institute a program in compliance with D.03-05-030). Both Cal Am and So Cal base eligibility on the standards used by the energy utility CARE program, but provide different types of assistance. Cal Am⁶ waives the service charge each month, while SoCal⁷ provides a 15% discount off both the service and commodity charges.

In D.05-05-015 (San Gabriel Valley Water A.03-04-025), the Commission recently ordered that San Gabriel shall institute a rate assistance program for qualifying low-income customers (50% discount to service charge). It was determined that PU Code 739.8 requires that only customers of the utility be provided with a rate assistance program, and that individuals who are not customers of the water utility, such as those that live in multi-family housing, are not customers and therefore are not covered by PU Code 739.8.

Concerns with Recently Proposed Programs

Overview

New low-income assistance programs have been proposed in recent years by San Jose Water, Cal Am, San Gabriel Valley Water, California Water Service, and Valencia, all of which base their qualification for the program on the existing energy CARE program requirements. These programs have all been rejected for a number of reasons, including: 1) No assessment of need for a low-income assistance program, 2) No detail regarding tariff language, customer information, and rate design, and most importantly, 3) No method for passing on low-income assistance to residents of multi-family housing units, such as apartment houses.⁸ Since the water service these individuals receive is not separately metered and therefore they are not customers of the water utility, it is difficult to identify them.

In A.03-04-025, the assigned Commissioner and ALJ noted that low-income individuals in multi-family housing represented approximately one-third of the total individuals that would qualify for a low-income rate.⁹ In an effort to solve the Commission's concern as to reaching customers in multi-family housing units, several alternatives that were raised in that proceeding were investigated by the Water Division, but all were ultimately rejected, including: 1) Investigation of low-income assistance programs available in other jurisdictions, 2) Flow water

⁶ CPUC D.96-12-005 and D.00-03-053.

⁷ CPUC D.02-01-034 for Regions 2 and 3.

⁸ August 25, 2004 Ruling by the Assigned Commissioner and Administrative Law Judge in A.03-04-025 (San Gabriel Valley Water).

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rate discount through local energy utility bill, 3) A check equal to a low-income rate discount could be paid directly to renter, 4) A low-income rate discount could be paid directly to the landlord of low-income residents, and 5) Donate some dollar amount to a non-profit/ community charitable organization.

Programs in Other Jurisdictions

Water Division investigated whether other jurisdictions, including both public and water distribution utilities, were able to resolve the problem of providing water rate assistance to low-income customers living in multi-family housing units. Based on extensive research, it was determined that no stand-alone water distribution utility has determined how to provide rates to low-income customers of multi-family housing units. The only water distribution utilities that have resolved this issue are part of a multi-utility municipal provider, such as Los Angeles Department of Water and Power (LADWP), where the water and power are provided and billed by the same entity, so that the non-metered water customer (renter in multi-family housing) is identified through their metered power service.

Working with Energy Utilities

One alternative considered was the possibility that local energy utilities regulated by the CPUC could pass on the water rate adjustment to low-income individuals in multi-family housing, since the energy utility is able to and has probably already identified them through its own low-income rate program (power is separately metered in multi-family housing). The energy utilities are reluctant to participate in this alternative, and even if they were to participate, some water utility customers operate where the power is provided by a municipality, which the CPUC does not regulate. These municipal energy providers could not be ordered to provide this particular billing service for the water utilities.

Discount Direct to Non-Customer

Another alternative considered was the payment of an amount equal to a rate discount directly to qualifying low-income renters residing in multi-family housing. There are two problems with this – one is identifying the low-income resident and the second is that they are not a customer of the water utility. The low-income resident could be identified by the local energy utility, but as before, if it is a municipal energy utility, the Commission cannot order

⁹ August 25, 2004 Ruling by the Assigned Commissioner and Administrative Law Judge in A.03-04-025 (San Gabriel Valley Water), p.5.

them to participate as they can with the companies it regulates. The second point is the most important, in that it would not be in conformance with code for a water utility to pay money to an individual that is not a customer. It would therefore be illegal for the Commission to order this to occur. Therefore, this option is not feasible.

Discount to Landlord

Another suggestion was to provide the low-income rate discount directly to the landlord of low-income residents with the assumption that they would pass this lower rate onto their low-income customers. First of all, there is no guarantee the discount will be passed on to the low-income customer. Also, it will be difficult if not impossible to verify that the dollars have been passed on. Second, there is an issue of privacy regarding the financial status of the renter - it would be inappropriate and illegal for the utility to disclose to the landlord what a particular renters' financial position is such that they qualify for low-income rates.¹⁰

There is also the concern that the rates paid by the landlord (as a “normal” customer) would go up to subsidize discounted rates for low-income customers, so the landlord would raise the rent they charge their tenants. Even though the service charge paid by the landlord will increase for the multi-family dwelling, there is no proof that establishes a quantitative correlation between the monthly rent paid by tenants of a multi-family dwelling and the landlord’s water bill. Therefore, concern that the low-income residents of a multi-family dwelling will in some way “subsidize” other single-family low-income customers is not valid.

Discount Provided to Non-Profit Organization

In their ruling in A.03-04-025, the assigned Commissioner and ALJ stated that they were “intrigued by the suggestion to develop an alternative approach directed at providing substantially discounted water service to non-profit groups”,¹¹ in an effort to resolve the concern, in part, about reaching all low-income customers. While providing discounted rates to non-profit groups or community organizations is admirable and should be added to the list of qualifying customers, it still does not resolve how to provide discounted water rates specifically to those low-income individuals that live in multi-family housing.

¹⁰ Various State and Federal Laws address the privacy of personal information, including but not limited to – California Business and Professional Code Sections 350 – 352; California Civil Code Sections 1798 – 1798.84; California Constitution – Declaration of Rights, Article 1, Section 1.

¹¹ August 25, 2004 Ruling by the Assigned Commissioner and Administrative Law Judge in A.03-04-025 (San Gabriel Valley Water), p.5. This passage included a footnote that stated “The California Teleconnect Fund (CTF) is

Alternatives to Rate Adjustment Programs

Overview

Numerous methods that are not based on a rate discount also exist that can provide assistance to qualified low-income customers of water utilities. For example, services such as leak repair, provision and installation of low flow plumbing items, encouraging large companies to buy small companies, encouraging participation in other utilities low-income programs, such as the Low-Income Home Energy Assistance Program (LIHEAP) and the Telephone Lifeline Program, working with local community organizations to alert customers to the availability of programs, and using creative billing schedules and average billing.

Leak Repair & Low Flow Plumbing Fixtures

Leak repair and assistance in the purchase and installation of low flow plumbing items reduce the use of water, therefore lowering the quantity charge paid by the customer.¹² These types of programs are already in place in Aqua Pennsylvania's service territory, Pennsylvania-American's service territory¹³, Denver Water, and the Phoenix Water Services department.

Mergers and Acquisitions

The cost of complying with water quality requirements and replacement of infrastructure is something all water utilities must incur, but a large company has greater economies of scale than a small one, therefore the costs it incurs are lower, comparatively, than those incurred by a smaller company.¹⁴ Therefore, if a large company purchases a small company, the customers of that small company will benefit from the economies of scale as well as greater access to capital markets at lower rates that are enjoyed by the larger company which translates into lower rates for required services.

Participation in Other Utility Low-Income Assistance Programs

All utilities, be they water, energy, or telecommunications, should encourage their own customers, through, say, a bill stuffer, to participate in low-income assistance programs of other

a program that provides discounts of up to 50% for telecommunications service to, among other organizations, nonprofit community-based organizations.”

¹² Thinking Outside the Bill: A Utility Manager's Guide to Assisting Low-Income Water Customers, A study sponsored by the American Water Works Association (AWWA) Water Utility Council, November 2004, pg. 19 and 23; Water affordability and alternatives to service disconnection, Journal, AWWA, October 1994, pg. 67-69.

¹³ Pennsylvania-American's H2O – Help to Others Program Assists 5,864 Households in 2001, Pennsylvania-American News Releases, February 1, 2002.

¹⁴ Information for States on Developing Affordability Criteria for Drinking Water, United States Environmental Protection Agency, February 1998, p.7.

utilities, since the less the customer has to pay for the other bills, the better able they are to pay for that utility's bill.¹⁵

Working with Community Organizations

Utilities can work with community organizations to make sure that its low-income customers are aware of available assistance programs offered by the water utility and work in conjunction with other utilities in the area to promote their low-income assistance programs through community organizations.¹⁶ These same community organizations may also be able to assist the low-income customers in determining whether they are eligible for the Earned Income Tax Credit (EITC). As with the low-income assistance programs, these water utility customers may not know they are eligible. If they are, and do take advantage of the EITC, it will provide another source of income that will assist in the payment of the customers bills.¹⁷

Alternative and Budget Billing

The water utility can also adjust how it bills a low-income customer. Some low-income customers find that it is easier to budget and set aside the funds for a monthly bill instead of bi-monthly or quarterly billing, thus avoiding rate shock at the end of a two or three month period.¹⁸ Another aid is the averaging of usage for a 12-month period, so instead of having to pay varying amounts during the different seasons of the year, the customer pays the same amount every month, which helps the low-income customer in scheduling and budgeting for their water bill.¹⁹

Cost of Low-Income Assistance Program to Remaining Customers

The Public Utilities Code states that "In establishing the feasibility of rate relief and conservation incentives for low-income ratepayers, the commission may take into account variations in water needs caused by geography, climate and the ability of communities to support

¹⁵ Thinking Outside the Bill: A Utility Manager's Guide to Assisting Low-Income Water Customers, A study sponsored by the American Water Works Association (AWWA) Water Utility Council, November 2004, pg. 25-28.

¹⁶ Thinking Outside the Bill: A Utility Manager's Guide to Assisting Low-Income Water Customers, A study sponsored by the American Water Works Association (AWWA) Water Utility Council, November 2004, p. 28; Water affordability and alternatives to service disconnection, Journal, AWWA, October 1994, pg. 64-65.

¹⁷ Thinking Outside the Bill: A Utility Manager's Guide to Assisting Low-Income Water Customers, A study sponsored by the American Water Works Association (AWWA) Water Utility Council, November 2004, p. 28.

¹⁸ Thinking Outside the Bill: A Utility Manager's Guide to Assisting Low-Income Water Customers, A study sponsored by the American Water Works Association (AWWA) Water Utility Council, November 2004, p. 22; Water affordability and alternatives to service disconnection, Journal, AWWA, October 1994, p. 65.

¹⁹ Thinking Outside the Bill: A Utility Manager's Guide to Assisting Low-Income Water Customers, A study sponsored by the American Water Works Association (AWWA) Water Utility Council, November 2004, pg. 22 -23.

these programs.”²⁰. Therefore the cost effectiveness and ability of non-low-income customers to pay for the assistance program must be determined in the assessment of any proposed program.

This is not to say that less should be provided to qualifying customers, but that the most should be provided with the funds available. Those non-low-income customers that are subsidizing the assistance programs (who in some cases are in the minority²¹) should not be disadvantaged by the provision of an assistance program. The cost effectiveness and affordability of the various assistance options should be assessed based on a number of criteria, including the cost of the program, ability of remaining customers to pay for it, policy goals of both the utilities and the Commission, and the laws governing the provision of low-income rates.²²

Conclusions and Recommendations

Based on the investigation and assessment discussed above, none of the suggested alternatives to address multi-family housing that were investigated are acceptable. It is essential, though, that some form of a low-income assistance program be instituted for those qualifying individuals that can be identified (single-family housing) and are customers of a Class A water utility. Guidance regarding the type of ratepayer assistance program to institute can be found in D.05-05-015, as well as the alternative assistance programs discussed above.

In order to develop a resolution regarding the institution of a ratepayer assistance program for low-income water utility customers, the Water Division requests that interested parties respond by to the questions posed in Attachment A regarding the rules/regulations proposed in that attachment.

Once these comments are received, the Water Division/Commission will review them and determine how to proceed regarding the institution of a ratepayer assistance program for low-income water utility ratepayers – whether on a case by case basis or through a generic proceeding as well as the type(s) of ratepayer assistance programs to institute.

²⁰ PU Code 739.8 (d).

²¹ See Footnote 2 – “Based on 2000 U.S. Census Data. The Class A results range from 10.2% to 31.1%, while the Class B, C, and D results range from a 0% to 78.3%.”

²² Water affordability and alternatives to service disconnection, Journal, AWWA, October 1994, p. 71.

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Contact Information: If you have any comments or questions, please contact Ms. Seaneen M.

Wilson of the CPUC Water Division at (415) 703-1818 or smw@cpuc.ca.gov .

APPENDIX A

Section I of Appendix A lists the Proposed Rules and Regulations for Class A Water Utility Low-Income Ratepayer Assistance Program, while Section II lists the questions that each party shall respond to regarding the items in Section I.

Section I - Proposed Rules and Regulations

- A. Criteria for participation in a Low-Income Ratepayer Assistance Program (ratepayer that meets these criteria is herein described as “qualifying ratepayer” in the remainder of this document).
 - a. Gross Household Income at or below 175% of poverty level.¹
 - b. Must be direct residential customer of water utility (name is on bill) with a 1 inch or smaller meter.
 - c. Customers must re-apply every two years or when moves, whichever comes first.
 - d. Customer is not claimed as a dependant on another person’s tax return.
 - e. If customer becomes ineligible, they must notify the utility within 30 days.
 - f. May provide proof of acceptance into the energy CARE program to qualify for water utility program.
 - g. If customer does not have proof of acceptance into the energy CARE program, must provide other proof of household income.
- B. Rate Adjustment for qualifying ratepayers – 50% reduction to service charge.
- C. Rate Adjustment for qualifying ratepayers – 25% reduction to service charge.
- D. Provide each qualifying ratepayer with a Leak Detection Service.
- E. Provide each qualifying ratepayer with a Leak Repair Service.
- F. Provide each qualifying ratepayer with Low-Flow Plumbing Fixtures.
- G. Provide each qualifying ratepayer with Installation service of those Low-Flow Plumbing Fixtures.

¹ For purposes of these rules and regulations, Gross Household Income is defined as combined income from all sources, both taxable and non-taxable, before deductions, for all residents of household. This includes but is not limited to – wages, salaries, commissions, child/spousal support, interest, dividends; withdrawals from all types of savings and investments; pensions, business and rental income, loans, gifts, lottery winnings, tax refunds, insurance settlements, legal settlements; government benefits such as social security, veterans, disability, unemployment, workers compensation, AFDC, SSI, SSP, food stamps, free housing.

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- H. Encourage participation of qualifying ratepayers in other utility Low-Income Assistance Programs (such as those offered by energy and telecommunications companies) through bill inserts.
- I. Inform qualifying ratepayers that they may be eligible for an Earned Income Credit and who they can contact to determine this.
- J. Provide monthly billing to qualifying ratepayers as an alternative to bi-monthly or quarterly billing.
- K. Provide average billing to qualifying ratepayers.
- L. Use bill inserts to inform ratepayers of the Low-Income Assistance Programs being offered.
- M. Work with Community Organizations to inform/educate customers regarding Low-Income Assistance Programs.
- N. All surcharge revenue collected to support the Low-Income Assistance Programs shall be deposited in a joint fund by all Class A water utilities and administered by one of the Class A water utilities.
 - a. This fund shall be audited once a year by the Water Division.

Section II – Questions regarding Items in Section I

All Parties Respond to these Questions:

- 1. State whether items B through N would have a positive, negative, or neutral affect on conservation, and why.
- 2. State specific comments on items A through N that have not been addressed by questions 1 through 5.
- 3. Explain the need for/benefit of using an outside contractor to administer items A through N.
 - a. If cost is the deciding factor, provide the comparison performed.
- 4. Would you prefer that a ratepayer assistance program for low-income water utility customers be processed through a generic proceeding for all Class A water utilities or on a case by case basis? Provide reasons.

Utilities Only Respond to these Questions:

- 5. Provide estimated total annual cost for items A through N.
- 6. Provide estimated monthly and annual cost per customer for items A through N.
- 7. State whether items A through N are existing programs provided by your company.