

**Case No. U-15918**

**Low Income Energy Resources Task Force Report**

**to the**

**Michigan Public Service Commission**

**June 30, 2009**

## **Task Force Members**

### **Data Collection** – Lisa Pappas, Staff facilitator

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Paul Stankewitz – Michigan Catholic Conference  
Tom Connelly – SEMCO Energy Gas Company  
Tony Alfaro – Michigan Community Action Agency Association  
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Travonne Young – Society of St. Vincent de Paul  
Michael Peters – Michigan Electrical Cooperative Association  
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**Other individuals who were part of the task force and participated as alternate work group members include:**

Jim Ault – Michigan Gas and Electric Association  
Dan Forsyth – SEMCO Energy Gas Company  
Elaine Tycocki – SEMCO Energy Gas Company  
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Mike Buda – Michigan Electric Cooperative Association  
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Jerry Norcia – DTE/Mich Con  
Drew Walker – Office of Services to the Aging  
Jessica Cook – Newaygo County Community Services

## **Executive Summary**

On March 18, 2009, the Michigan Public Service Commission (Commission) issued an order in Case No. U-15918 establishing a low income energy resources task force in accordance with requirements contained in 2008 PA 286 and 2008 PA 295. The Commission observed that the legislative mandate occurred at a time when Michigan's economy is suffering the worst downturn in a generation or more. Dire economic circumstances coupled with a significant rise in energy prices since 2000 are making energy affordability an increasingly intractable problem for low and lower middle income customers. As a result of these conditions, the Commission established the Low Income Energy Resource Task Force with the goal of "ensur[ing] that Michigan is doing all that it can to efficiently use federal, state, and private funds available for low-income and senior citizen customer assistance programs . . . [and to] develop recommendations for low-income utility rates aimed at Michigan households and examine policies for the optimization of low-income customers' energy usage."

The task force was divided into four work groups: Data Collection, Available Assistance, Process Issues, and Low Income Rate Alternatives. Each work group met several times over the course of 10 weeks to write and revise the different sections of the report. In early June, the entire task force met to discuss additions and changes to the report.

The Data Collection work group determined what data was needed (with input from the other work groups) and located or acquired that data. The Data Collection work group recommended that the data collected for this report continue to be updated on an annual basis. The work group observed that having current data will enhance the efforts of the Commission, the utilities, and the many other agencies that are assisting customers to determine and fulfill the needs of the many customers who are seeing help. The work group also recommended that in the future, data

collection formats should be standardized so that collection of the data can be done as quickly and efficiently as possible.

The Available Assistance work group examined several low-income programs funded by federal and state government and addressed various issues related to improving assistance program efficiencies. Specifically, the programs under review included the Low Income Home Energy Assistance Program (LIHEAP) federal block grant that funds the Home Heating Credit (HHC), the assistance available to deliverable fuels customers and customers in more rural areas of Michigan, and the extension of the Low Income Energy Efficiency Fund (LIEEF) grant cycle. The Available Assistance work group, and the Process Issues work group recommended that a statewide education and promotion campaign be implemented to help bring more Earned Income Tax Credit (EITC) dollars into the state and to ensure that low income households are informed of all available assistance programs. This education campaign should also advertise sites that provide help in filling out various assistance forms and should offer a different outreach approach to customers in rural areas of the state.

The Available Assistance work group also recommended that efforts should be made to streamline the process of getting assistance dollars to eligible customers through expansion of the electronic payment process that automates the way customers receive assistance payment. The work group recommended that a small, low income task force be created to meet and further discuss issues related to delivery of assistance dollars. One specific area the task force would examine is how other states and utilities distribute assistance dollars. A final report written by the task force would be sent to applicable entities, including the Commission, state agencies and the Legislature. The Available Assistance work group also highlighted the need to continue discussions about the HHC and the administration of energy assistance dollars.

The Process Issues work group examined issues and obstacles to assistance in current programs including procedural issues, client education, backlogs and delays in providing assistance, and coordination of assistance. The Process Issues work group discussed the Michigan Benefits Access Initiative (MBAI), a streamlined system for signing up for various forms of assistance that, when implemented, is expected to significantly improve the ability of low income customers to apply for and receive a range of state and federal benefits. The work group then discussed proposals for improving the current system for utility assistance while the MBAI is pending implementation.

The Process Issues work group recommended that the utilities cross reference databases with the Department of Human Services (DHS) to help identify low-income customers needing assistance. The work group also recommended that the utilities send information to customers on usage for the HHC on a monthly basis and that the utilities provide consumption data on their voice response systems. The work group recommended that agencies be engaged to complete HHC and EITC forms by phone and then send them to customers for signature. In addition, the work group recommended that phone support be provided to Michigan 2-1-1 for the application process for HHC so that the same message is used by Michigan 2-1-1, other agencies, and utilities etc. The Process Issues work group recommended that weatherization information be provided to customers seeking assistance at the Michigan Unemployment Insurance Commission.

The Process Issues work group recommended that an arrearage forgiveness program be designed for Winter Protection Program (WPP) customers who are not DHS clients and who maintain their payments during the heating season. Finally, the work group plans to continue its work to ensure implementation of its recommendations.

The Low Income Rates work group evaluated possible alternatives or additions to current low income assistance programs. The Low Income Rates work group focused on specific methods including low-income block rates, rate discounts, lifeline rates, and percentage of income payment

programs (PIPP). The advantages and disadvantages of these programs were discussed and legal constraints to the implementation of alternatives were described.

The Low Income Rates workgroup agreed that it should continue its work assessing alternatives or additions to the low income energy assistance programs currently available, including programs that may require legislative action. The work group further recommended that the group continue its efforts by collaborating to design pilot programs for low income customers that are appropriate to each utility, service territory, and customer base, including programs that establish commodity discounts for electric customers where appropriate. These pilot programs should be designed to determine the effect that low income rates would have on other ratepayers, and the degree to which low income rates would offset the external costs of the low income energy burden, including utility administrative costs for any program.

Finally, the Low Income Rates work group agreed that customer responsibility must be a part of any proposed pilot. Customers wishing to participate in a program should be required to take advantage of all assistance programs for which they qualify (including non-utility programs like the EITC), and customers must participate in weatherization programs, energy education, and household budgeting education, if appropriate.

## **Introduction**

On March 18, 2009, the Michigan Public Service Commission (Commission) issued an order in Case No. U-15918, creating a task force to assess low income resources for meeting home energy costs. The Commission observed that Public Act 286 allows the Commission to establish low income and eligible senior citizen rates for electric utilities with 1 million or more retail customers. MCL 460.11(3) and (5). In addition, MCL 460.11(3) provides for electric utilities with 1 million or more customers: “Upon filing of a rate increase request, a utility shall include proposed eligible low-income customer and eligible senior citizen customer rates and a method to allocate the revenue shortfall attributed to the implementation of those rates upon all customer classes.” Similarly, Section 71(3)(a) of 2008 PA 295, MCL 460.1071(3)(a) directs that all energy optimization plans include offerings for low income residential customers.

The Commission observed that the legislative mandate occurred at a time when Michigan’s economy is suffering the worst downturn in a generation or more. Deteriorating economic conditions coupled with significant increases in energy prices are making energy affordability an ever more difficult problem for low and lower middle income customers. Because an increasing number of customers are unable to pay their gas and electric bills, the costs associated with arrearages, uncollectibles, and theft are also increasing. The majority of these costs are then passed on to all ratepayers.

The Low Income Energy Resources Task Force was established with the goal of “ensur[ing] that Michigan is doing all that it can to efficiently use federal, state, and private funds available for low-income and senior citizen customer assistance programs . . . [and to] develop recommendations for low-income utility rates aimed at Michigan households and examine policies for the optimization of low-income customers’ energy usage.”

The Commission directed that the Task Force develop both short-term and long-term policies and recommendations considering:

- Making energy bills more manageable by offering flexible payment options or determining customer specific affordable payment amounts.
- Reducing customer costs by lowering or eliminating charges associated with making a payment, reconnecting service, and assessing interest on late payments.
- Removing barriers to obtaining or retaining service by modifying deposit policies, allowing former customers to pay prior bills in installments, and offering arrearage forgiveness plans.
- Determining the amount and effect of an affordable low-income utility rate.
- Evaluating Low Income Home Energy Assistance Program (LIHEAP) funding, as required by MCL 460.10s, which requires the Commission to monitor the extent to which federal funds are available for low-income and energy efficiency assistance programs.
- Examining eligibility restrictions for low-income assistance programs that may prevent aid to those most in need.
- Identifying ways to coordinate the activities of government assistance programs, non-government assistance programs, and service providers to more effectively allow payment of low-income customers' utility bills.

The Task Force was divided into four work groups: Data Collection, Available Assistance, Process Issues, and Low Income Rate Alternatives. Each work group met several times over the course of 10 weeks to write and revise the different sections of the report. In early June, the entire task force met to discuss additions and changes to the entire report.

The Data Collection work group determined what data was needed (with input from the other work groups) and located or acquired that data. The work group drafted and circulated an initial list of data needs and the potential sources for that data, and discussion among members of the work group and comments from other task force members led to a final determination of the information that would be collected.

To avoid duplication of efforts, the Data Collection work group first looked for existing sources that contained information that would be useful to the task force. The work group provided a copy

of the Needs Assessment Study performed by the Coalition to Keep Michigan Warm, which was issued in February 2009, and a copy of the 2008 Individual State Report by the National Association of Regulatory Utility Commissioners (NARUC) Consumer Affairs Subcommittee on Collections Data Gathering, issued on November 17, 2008. Other studies of note are the Commission's Michigan Energy Appraisal and the Michigan Energy Overview.

The work group also acquired information that was not readily available or was not compiled in a single document. The Department of Treasury (Treasury) provided a comprehensive collection of charts and graphs on the Home Heating Tax Credit (HHC) and the Earned Income Tax Credit (EITC). The Department of Human Services (DHS) supplied data on the amount of LIHEAP funding that was received in Michigan over the last five years. To obtain the additional data that various work groups required, a data request was sent out to a number of parties that were represented on the task force. Utilities provided information on the types of rates that are available to senior citizen and low income customers and the number of customers who are on those rates. Utilities also provided the number of customers who are enrolled in the Winter Protection Plan (WPP) or the utilities' alternative protection plans, the average costs of discontinuing service for non-payment, and other relevant data. The Salvation Army provided the amount of assistance that they had dispersed and the source of those funds over the last five years. All of this information was then given to the other work groups to assist them in their analyses.

The goal of the Available Assistance work group was to examine several low-income programs funded by the federal and state government and address various issues related to improving assistance program efficiencies. Specifically, the programs under review included the LIHEAP block grant that funds the HHC, the assistance available to deliverable fuels customers and customers in more rural areas of Michigan, and the extension of the Low Income Energy Efficiency Fund (LIEEF) grant cycle.

The Process Issues work group examined issues and obstacles to assistance in current programs including procedural issues; client education regarding the type and availability of assistance; backlogs and delays in providing assistance; and coordination of assistance (e.g., are customers adequately taking advantage of other programs so that more financial resources are available for utility bill payment?) The Process Issues work group discussed the Michigan Benefits Access Initiative (MBAI), a new program that streamlines the process for low income households to access benefits that, when implemented, is expected to significantly improve the ability of low income customers to apply for and receive a range of state and federal benefits. The work group then made recommendations for improving the current system for utility assistance while the MBAI is pending implementation.

The Low Income Rates work group evaluated possible alternatives or additions to current low income assistance programs. The Low Income Rates work group focused on specific methods for making energy more affordable for low income customers including low-income block rates, rate discounts, lifeline rates, and percentage of income payment programs (PIPP). The advantages and disadvantages of these programs were discussed and legal constraints to the implementation of any alternatives were described.

## **Background**

### Household and Population Characteristics

Michigan is the 8<sup>th</sup> largest state in the United States in terms of population. The median income in the state in 2007 was near the median for the United States, with poverty rates that are slightly higher than the average for the United States. The following population and housing data was developed from the US Census Bureau's American Community Survey (ACS) for 2005-2007:

<b>Population Profile</b>	<b>Number</b>	<b>Percent/Rank</b>
Total Population	10,094,027	8 <sup>th</sup> nationally
Individuals 65 and Over	1,267,355	12.6%
Individuals age 19 and under	2,775,076	27.5%
Individuals Below Poverty	1,382,881	13.7% (19 <sup>th</sup> nationally)
Individuals 65 and Over Below Poverty	102,655	8.1%
<b>Household Profile</b>		
Total Households	3,864,307	
Median Household Income	\$48,642	23 <sup>rd</sup> nationally
<b>Housing Profile</b>		
Total owner-occupied homes	2,902,094	75.1%
Median Home Value	\$152,200	
Total Renter-occupied units	962,213	24.9%
Median monthly rent	\$683	

According to ACS estimates for 2007, 10.1% of all families in Michigan live below the poverty level (258,629 families) and 16% of all families with children less than 18 years of age are below the poverty level (201,489 families). Among married couple families, 6.0% of families with children have incomes below poverty level (50,040 families), and 39.3% of families with a female householder, with no husband present, and children under 18 years of age live below the poverty level (130,722 families).

Among families 65 years and older, an estimated 4.1% of total families are below the poverty level (17,333 families). For married couple families 65 years and older, 3.0% had incomes below

the poverty level ( 10,325 families) and 10.2% of female householders age 65 and older, with no husband present, had incomes below the poverty level (6,300 families).<sup>1</sup>

Federal poverty guidelines (FPG) are determined by the U.S. Department of Health and Human Services (HHS), adjusted annually with different levels based on family size. Eligibility for energy assistance is based on income thresholds relative to the poverty level. For 2009, the HHS guidelines are as follows:

Size of family unit	100% of poverty	110% of poverty	125% of poverty	150% of poverty	175% of poverty	185% of poverty	200% of poverty
1	\$10,400	\$11,440	\$13,000	\$15,600	\$18,200	\$19,240	\$20,800
2	\$14,000	\$15,400	\$17,500	\$21,000	\$24,500	\$25,900	\$28,000
3	\$17,600	\$19,360	\$22,000	\$26,400	\$30,800	\$32,560	\$35,200
4	\$21,200	\$23,320	\$26,500	\$31,800	\$37,100	\$39,220	\$42,400
5	\$24,800	\$27,280	\$31,000	\$37,200	\$43,400	\$45,880	\$49,600
6	\$28,400	\$31,240	\$35,500	\$42,600	\$49,700	\$52,540	\$56,800
7	\$32,000	\$35,200	\$40,000	\$48,000	\$56,000	\$59,200	\$64,000
8	\$35,600	\$39,160	\$44,500	\$53,400	\$62,300	\$65,860	\$71,200

The median monthly housing costs for Michigan homeowners with a mortgage were \$1,321, non-mortgaged homeowners had median costs of \$423, and median rent was \$689. Twenty four percent of owners with mortgages, 5.1% of owners without mortgages, and 48% of renters in Michigan spent 30% or more of household income on housing.<sup>2</sup>

<sup>1</sup> Michigan: Poverty Status in the Past 12 Months of Families, 2007 American Community Survey 1-Year Estimates. Available at: [http://factfinder.census.gov/servlet/STTable?\\_bm=y&-qr\\_name=ACS\\_2007\\_1YR\\_G00\\_S1702&-geo\\_id=04000US26&-context=st&-ds\\_name=ACS\\_2007\\_1YR\\_G00\\_&-tree\\_id=307&-lang=en&-format=&-CONTEXT=st](http://factfinder.census.gov/servlet/STTable?_bm=y&-qr_name=ACS_2007_1YR_G00_S1702&-geo_id=04000US26&-context=st&-ds_name=ACS_2007_1YR_G00_&-tree_id=307&-lang=en&-format=&-CONTEXT=st)

<sup>2</sup> Michigan: Selected Housing Characteristics: 2005-2007 American Community Survey 3-Year Estimates. Available at: [http://factfinder.census.gov/servlet/ADPTable?\\_bm=y&-geo\\_id=04000US26&-qr\\_name=ACS\\_2007\\_3YR\\_G00\\_DP3YR4&-context=adp&-ds\\_name=&-tree\\_id=3307&-lang=en&-redoLog=false&-format=](http://factfinder.census.gov/servlet/ADPTable?_bm=y&-geo_id=04000US26&-qr_name=ACS_2007_3YR_G00_DP3YR4&-context=adp&-ds_name=&-tree_id=3307&-lang=en&-redoLog=false&-format=)

The most recent Michigan Economic Update, published monthly by the Michigan Department of Treasury, continues to paint a grim economic picture for the state. Michigan's April monthly unemployment rate increased by 0.3 percentage points from March 2009 to 12.9% and the current Michigan jobless rate is 5.0 percentage points above the point it was a year ago.

### Household Energy Profile

Most residential houses in Michigan are heated with natural gas. Home energy commodity prices per unit are moderate, with natural gas costs per thousand cubic feet (Mcf) for 2008 at approximately 14% below the national average, and electricity prices at 2% above the national average. The weather is cold in the winter with annual heating degree days (HDD)<sup>3</sup> ranging from 6,500 to 10,000, compared to the national average of 4,500 HDD per year. Summer temperatures are moderate with an average of approximately 600 cooling degree days compared to the national average of 1,260.<sup>4</sup> The following energy profile was developed from data from the 2005 ACS, and the US Department of Energy, Energy Information Administration:

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<sup>3</sup> Heating degree days express the number of degrees that a day's average temperature is below 65° F, the temperature below which buildings need to be heated. Heating degree days are calculated by finding the average of a day's high and low temperatures and subtracting that average from 65. For example, if the day's average temperature is 50° F, its HDD is 15. If every day in a 30-day month had an average temperature of 50° F, the month's HDD value would be 450 (15 x 30).

<sup>4</sup> US Department of Commerce, National Climate Data Center. Available at : <http://www.ncdc.noaa.gov/oa/documentlibrary/hcs/hcs.html>

<b>House Heating Fuel</b>	<b>Number</b>	<b>Percent</b>
Natural Gas	3,020,210	78.2%
Bottled, tank, or LP gas	370,655	9.6%
Electricity	264,696	6.8%
Fuel oil, kerosene, etc.	92,004	2.4%
Wood	82,794	2.1%
Other		0.9%
<b>2007-2008 Energy Information</b>		
Residential Natural Gas Cost	\$11.82/Mcf	
Average Monthly Usage	7.5 Mcf	
Average Monthly/Total Annual Bill	\$88.65/\$1063.80	
Residential Electricity	\$10.4/kWh	
Average Monthly usage (2007)	686 kWh	74% of US average
Average Monthly/Total Annual Bill	\$70.02/\$840.24	70% of US average

For 2008, the Commission estimated residential usage of 73 Mcf of natural gas per month during the heating season, at a price of \$12.63 per Mcf, for a total expenditure of \$922 for the heating season based on normal weather.<sup>5</sup> Although the natural gas price estimate was slightly high, the 2008-2009 heating season was 4% colder than normal, thus, the estimate for total expenditure for this heating season was reasonable.

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<sup>5</sup> Michigan Energy Appraisal: Semiannual Projections Energy Supply and Demand, Winter Outlook 2008-2009, p. 2. Available at: <http://www.dleg.state.mi.us/mpsc/reports/energy/past/08winter/ea-winter08.pdf>

## Low Income Customers and Energy Costs

The home energy burden is defined as the amount a household spends on energy as a percent of total income. The energy affordability gap, a related concept, is the difference between what are considered affordable energy costs – 6% of the household income for all home energy – and what households are actually paying.<sup>6</sup>

The energy burden for all households in the United States has increased significantly since 2000 when prices for heating fuels began to rise sharply. The Commission Staff estimates that from 2002 to 2006, annual natural gas bills increased over 55% in Michigan. Similarly, households that use propane for space heating saw prices rise 30% in that same period, and those households using fuel oil saw an increase of over 90%. As a result, even median income households saw their home energy burden increase from 1% to 3% of income or more from 2000 to 2005.

The situation is much more serious for low income households in Michigan. In an analysis of 2006 energy prices, Michigan's approximately 181,000 households at 50% or less of FPG had an average home energy burden of 63.3%. Households with incomes between 50% and 100% of FPG were paying over 20% of their household incomes for electric and gas service, levels that are

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<sup>6</sup> In setting target affordability levels, it should be noted that analysts have developed two important indicators of energy affordability – an affordable energy burden and a high energy burden. In determining an affordable energy burden, Roger Colton of Fisher, Sheehan, and Colton, has recommended using an affordability standard of 6% of income based on the idea that a household can afford to spend about 30% of income on shelter costs and that about 20% of shelter costs are used for energy bills. Alternatively, the Applied Public Policy Research Institute for Study and Evaluation (APPRISE) has proposed an approach for defining “high energy burden” using a model that identified a severe shelter burden as 50% of income or more and energy costs as about 22% of shelter costs. Using that approach, APPRISE has suggested that analysts might use 11% of income as an indicator of “high energy burden.”

unaffordable for most families.<sup>7</sup> According to the Michigan Department of Treasury, among filers for the Michigan Home Heating Credit who reported their heating expense, the average heating expense was \$1,308 for 2007. This was 2.5% greater than the \$1,276 in average heating expense reported for 2006.

### Seniors and Energy Costs

Increasing energy costs pose special difficulties for senior citizens. Many seniors in Michigan live on modest fixed incomes and are thus more vulnerable to increasing energy prices than other low income residents. A key distinction between poverty between non-seniors and seniors is that while the majority of non-seniors have an opportunity to pursue adequate employment to rise above poverty and can better address a rise in energy costs; this is not true for seniors in poverty. As they age seniors move from being much less able, to totally unable, to absorb increased energy costs, without depleting resources from their fixed income base. While an extra expense of \$25 or \$50 per month, for example, may be a bearable increase for most age groups in Michigan, the Michigan Office of Services to the Aging (OSA) notes that the effect of such extra expenses on seniors aged 60-65 living on incomes between 101% and 200% of the poverty level, is disproportionate to their ability to adjust their lives and finances to it.

The OSA asserts that almost all single seniors in this range of earnings are living hand-to-mouth with constantly depleting savings. Married low income seniors fare little better, with between \$500 and \$1,100 per year of discretionary income. This situation is worsened by the fact that seniors in the 60-65 year age group have no way of predicting how long they will live and thus how long they will need to manage any available savings to address costs that exceed their fixed incomes. In

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<sup>7</sup> Fisher, Sheehan & Coulton, *On the Brink, 2007 The Home Energy Affordability Gap* (April, 2008) available at: [http://www.homeenergyaffordabilitygap.com/downloads/2007\\_Released\\_Apr08/States/Michigan.pdf](http://www.homeenergyaffordabilitygap.com/downloads/2007_Released_Apr08/States/Michigan.pdf).

addition, these seniors do not know what significant and potentially ruinous future expenses they may have to bear, a circumstance that is much more common among this group compared to younger groups.

The effect of unexpected expenses among elders living between 101% and 200% of poverty amounts to an “economic security gap” which may cause many who are otherwise managing day-to-day expenses to begin to fall behind and suffer serious consequences of shrinking and non-recoupable resources.

The population of seniors in Michigan between the ages of 65 and 69 who fall between 101% and 200% of the poverty level is approximately 99,000, and the number of those between 60 and 64 years of age who are between 101% and 200% of the poverty level is approximately 101,000 based on the 2000 Census. By 2020, this number is expected to increase by 46%, amounting to some 47,000 additional persons between 60 and 64 who will be between 101% and 200% of the poverty level.

### **Available Assistance**

One of the Available Assistance work group’s initial assignments was to identify how other states administer LIHEAP funds. The DHS developed a comprehensive list of state programs offered to low-income customers using LIHEAP funds, and other state and federal dollars. *See Appendix A.* As the list shows, every state uses the federal LIHEAP funds differently and only Michigan has an HHC program. The work group also examined how propane and deliverable fuels dealers assist low-income customers, and the length of time for LIEEF contracts. For each program reviewed, best practices were considered and a list was created of the benefits and problems of each program. After concluding the review, the work group provided a list of recommended best practices.

The work group focused the majority of its attention on the five main issues identified at the first Low-Income Energy Resources Task Force meeting. These issues include:

- Review of LIHEAP and the use of LIHEAP funds for the HHC (is it the best practice?);
- Consideration of assistance to seniors (do we need to expand this group or look at it differently?);
- Review of assistance programs outside of natural gas and electric heat (e.g. propane, fuel oil, etc.);
- Examination of low-income eligibility (What should percent of poverty be to be eligible for assistance?);
- Extension of the LIEEF grant cycle beyond nine months (i.e. eliminate gap/offer a two year grant).

The report provides a description of the work group discussions on each of these issues and identifies the benefits and problems of addressing the issue or establishing the best practices. It should be noted that the work group had differing opinions regarding the various topics and potential solutions to addressing available assistance issues. The report indicates where consensus was reached as well as the differing viewpoints.

### Overview of LIHEAP

LIHEAP is a federal block grant given to each state to assist low-income individuals and families with energy costs. In Michigan, the LIHEAP block grant is used for the following programs:

- Home Heating Credit;
- State Emergency Relief (SER); and
- Weatherization

It should be noted that the Weatherization Assistance Program (WAP), discussed more extensively below, is a separate block grant provided by the U.S. Department of Energy. States may allocate up to 15 percent of their basic LIHEAP grant allocation for residential weatherization

or other energy-related home repair and up to 25 percent if they meet certain conditions and obtain a waiver from HHS. The table below shows the allocation of LIHEAP funds to HHC, SER, and weatherization from 2005:

	2005	2006	2007	2008
Total Net LIHEAP	\$108.1 million	\$102.6 million	\$111.5 million	\$120.8 million
HHC Total	\$67,700,000	\$76,800,000	\$79,000,000	\$61,800,000
SER Total	\$32,000,000	\$36,100,000	\$28,400,000	\$52,600,000
Weatherization (LIHEAP)	\$6,000,000	\$3,000,000	\$1,600,000	\$3,500,000

### Home Heating Credit

The HHC is designed to assist low-income families living in Michigan with the cost of heating their homes. The HHC is available to all eligible low-income households at or below 110% of the FPG. Under provisions set forth in the State Income Tax Act, MCL 206.1 *et seq.*, DHS administers Michigan’s energy assistance programs, and Treasury determines eligibility, processes HHC claims, and issues payments. It is not necessary to file a state income tax return in order to receive the HHC; an individual may apply for the HHC only. MCL 206.527a

Application forms for the HHC are available from the Treasury, local DHS offices, and wherever Michigan tax forms are available. Forms are automatically mailed to households that received an HHC for the previous year. The application period is January 1 through September 30 of each year. Eligibility is based on household income, the number of exemptions, and household heating costs.

1967 PA 281, the Income Tax Act of 1967, provides requirements for the HHC. In addition, the 1040CR7 instruction booklet provides tax information and assistance with the application process.

## State Emergency Relief

The SER Program provides immediate help to individuals and families facing conditions of extreme hardship or for emergencies that threaten health and safety. SER provides a wide range of non-energy and energy-related emergency services year-round to both homeowners and renters.

SER energy services covered by LIHEAP include:

- **Heating Fuel:** Payment is provided for any type of fuel used to heat the dwelling unit up to an annual maximum as determined by DHS. This year because total federal LIHEAP funding was at \$5.1 billion, Michigan's crisis allotment was approximately \$120 million. This allowed DHS to set the caps for energy assistance as follows:
  - \$550 for households which heat with natural gas or wood;
  - \$850 for households which heat with deliverable fuel other than wood (fuel oil, propane, coal, etc.); and
  - \$1,100 for household that are all-electric (including heat).
- **Electricity:** Payment is provided for electricity needed to operate the heating system or to provide energy to the dwelling unit to make it livable, up to an annual maximum of \$550 per household.
- **Home Repairs:** Payment for energy-related home repairs that are the minimum necessary to maintain a decent, safe, and warm dwelling unit. The lifetime maximum is \$4,000. Exceptions may be granted for unique or unusual circumstances.<sup>8</sup>

Payment for heating fuel or electricity is made to prevent shut-off, restore service, provide a delivery of fuel and/or repair or replace a furnace when it is essential to prevent serious harm.

Payment is the minimum amount necessary to resolve the emergency and may include reconnection or hook-up fees that will not be waived by the provider. Payment in excess of the maximums may be made on an exceptional basis.

Payments for SER energy services are made within 30 days from the date of application. However, emergency situations are most often resolved within 48 hours or within 18 hours if the situation is life-threatening. Payments are made directly to the heating fuel, electricity or home repair provider.

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<sup>8</sup> Emergency Relief Manual (ERM) 208, 301.

The SER Program is administered by DHS. An application is required to request assistance and an appointment is generally required. All applicants should contact the local DHS office in the county in which they reside. Eligibility for SER energy services is based on the household's demonstration of immediate need for assistance with home heating fuel, electricity, or energy-related home repairs. Immediate need may be demonstrated by a declared need for a deliverable fuel such as fuel oil, liquefied petroleum gas, wood or coal, presentation of a shut-off notice for natural gas or electricity or a verified need for an energy-related home repair of a home owned or being purchased.

In addition to immediate need, SER energy services eligibility is based on income to be received in the 30-day period following application. All households will have their income compared to the SER Income Need Standard established to cover shelter, heat, utilities, personal and incidental needs. The SER Income Need Standard for all family sizes is below 60% of the State's median income.

The State ERM provides eligibility requirements for SER. The manual is used in conjunction with the LIHEAP State Plan and federal HHS memorandums.

#### Weatherization Assistance Program

Michigan's WAP is a federally funded, low income residential energy conservation program. The program provides free home energy conservation services to low income Michigan homeowners and renters. These services reduce energy use and lower utility bills, thus creating more self-sufficient households. WAP is administered by the DHS through community action and limited purpose agencies. Services include:

- Wall, attic, and foundation insulation;
- Air leakage reduction;
- Smoke detectors; and

- Dryer Venting.

A trained inspector will assess eligible dwellings for energy conservation needs. A typical inspection will include blower door testing for air leakage, combustion appliance testing for safety and efficiency, and a health and safety inspection. A computerized audit is used to determine which measures are most cost effective for each individual dwelling.

A household with income at or below 150% of the FPG is eligible for WAP. Recipients of the Family Independence Program (FIP) administered by DHS or those who receive Supplemental Security Income (SSI) automatically qualify for this no-cost program.

The Community Services Policy Manual (CSPM) defines standards for the administration of funds provided to community action agencies and limited purpose agencies. The manual is designed to be used in conjunction with the Master Agreement, Federal Office of Management and Budget Circulars, various program-specific agreements, and the Weatherization Field Manual.

In order to receive an energy payment, all providers must sign and abide by the rules set forth in the Energy Supplier Participation Agreement. In addition, all providers must be enrolled in the State of Michigan payment system.

#### Review of LIHEAP and its use for the Home Heating Credit

The Available Assistance work group focused the majority of its time on evaluating the HHC. It was agreed that since legislation had been introduced and discussion is already underway to streamline and automate the SER Program<sup>9</sup>, discussion of the HHC would be a better use of the work group's time and resources.

The HHC, as discussed above, is one of the programs that the State of Michigan uses to comply with the federal LIHEAP, codified at 42 USC 8621 *et seq.* LIHEAP is comprised of three components: heating assistance, crisis assistance, and weatherization assistance. Michigan uses the

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<sup>9</sup> See HB 4649 and HB 4650; SB 553 and SB 555.

SER program to administer the crisis assistance portion of LIHEAP and the WAP to apply the weatherization assistance portion of LIHEAP. Finally, the State uses the HHC to administer the heating assistance portion of LIHEAP.

The Work Group reviewed the HHC program's effectiveness and efficiency both in its administration and benefits to the customers.

### Overview of the Home Heating Credit

To be eligible for the HHC, Michigan residents must rent or own a homestead in Michigan, have an active heating account, or have heat included in rent, and also meet the income criteria. Full-time students claimed as a dependent by another taxpayer and full-year residents of licensed care facilities are not eligible. College or university-operated housing (dormitories, residence halls, or apartments) does not qualify as a homestead. To meet the income criteria, a claimant generally has to live in a household where household income is at or below 110 % of the FPG, based on the number of Michigan income tax exemptions allowed.

There are two credit calculations possible (the standard and the alternate credit) and the credit that is issued is the higher of these two calculations. The standard credit is equal to the difference between a standard allowance, determined by the number of income tax exemptions allowed to the claimant, and 3.5% of household income.

If the claimant is responsible for the home's heating expenses, the alternate credit calculation is available and is based on the actual heating expenses for the previous heating year (November through October) less 11% of household income. The claimant then multiplies the difference by 70% to calculate the credit amount. This calculation is only available for claimants who meet a more restrictive set of income criteria.

Michigan law requires that home heating credits be prorated to ensure that the total amount of credits paid in any fiscal year does not exceed the amount of funding available for the HHC

Program. The proration calculation limits home heating credits to the federal funding available from the LIHEAP block grant after subtracting the amount used for crisis assistance, weatherization, and administrative costs and adding in any amount left over from the previous year. Pursuant to Section 206.527a(18) of the Income Tax Act, MCL 206.527a(18), the proration amount is calculated by dividing the amount available for the HHC (as certified by the Director of DHS) by an estimate of the amount of home heating credits that would be paid with no reduction (as certified by the State Treasurer and the State Budget Director).

The HHC provides additional benefits to seniors and the disabled. The standard credit is based on the difference between the standard allowance and 3.5% of household income. The standard allowance for each household is determined based on the number of personal and special exemptions the claimant is allowed on the Michigan income tax return. Special exemptions are allowed for seniors (65 or older), the disabled (blind, deaf, those with other qualifying disabilities, including veterans with disabilities), and those who receive more than 50 percent of adjusted gross income from unemployment insurance. Each special exemption the claimant is allowed raises the standard allowance and thus the HHC amount.

During 2008, Treasury processed approximately 443,000 credits totaling \$63.5 million. The average credit was \$143. Due to an increase in federal funding, there is \$88 million available for the HHC in 2009. The proration factor was increased from 53 percent for 2008 to 65 percent for 2009, so the average credit should be approximately \$175 for 2009. *See Appendix B.*

#### Work Group Discussion

Most of the utility companies represented in the work group expressed concerns about the efficiency of the HHC. Although the State does send an HHC application to people who received the HHC the previous year, the State provides no assistance in helping customers to fill out the HHC form. The utilities argued that the complexities of the HHC form and calculation make it

difficult for a person to apply without some assistance. Several companies indicated that helping their customers fill out the HHC form was both labor intensive and inefficient, because it was difficult to find customers who qualified for the credit and costly to the company. However, Michigan's utilities voluntarily provide this assistance because it brings in more credits to help with bill payment.

DHS and Treasury responded that because the HHC is the primary method by which it complies with the requirements of the federal LIHEAP, major revisions to the HHC would not be possible without an acceptable alternative that fulfilled those requirements. Further, DHS and Treasury argued that the HHC is a very inexpensive way for an assistance program to reach a wide range of customers.

The work group considered several options, the pros and cons of those options, and agreed on some approaches for further discussion.

#### Options Discussed

##### *Option 1: Maintain the HHC as it is.*

Because the HHC reaches over 400,000 customers a year, and is cost-effective for the State to operate, one option is to do nothing and leave the program in place without changes.

Arguments for this approach were mostly offered by DHS and Treasury. With the need for energy assistance increasing, a lack of state resources to address the problem, and a program that reaches so many customers in an effective and efficient way, DHS and Treasury argued that the HHC works very well in its current form. They also made it clear that the purpose of the HHC was to help offset the energy costs that low-income households incur during the year and not to provide assistance with emergency situations, as is the case with the SER.

According to DHS and Treasury, the benefits of the HHC include:

- Low administrative costs.

The DHS and Treasury point out that the HHC allows a large amount of low-income assistance to be distributed to a large number of households at a low administrative cost. Treasury received an appropriation of \$2,559,800 from the LIHEAP funds for FY 2009 to administer the credit. The credit will pay out approximately \$88 million worth of assistance to approximately 450,000 recipients. Therefore, a major benefit of the HHC is that for every dollar spent for program administration, more than \$34 of assistance benefit dollars are issued to claimants. Eliminating the HHC would likely increase administrative costs to the State thus reducing funds available for assistance to low income clients.

- Avoids DHS intervention.

The HHC allows for assistance to be provided through the tax system, so that claimants may receive assistance without ever engaging with a welfare agency. This allows claimants who otherwise would not seek assistance from welfare agencies to receive energy assistance from the State. In this regard, the HHC is similar to the EITC, which has been estimated to have a significantly higher participation rate than food stamps and other assistance.<sup>10</sup>

- Familiarity.

The HHC is familiar to recipients because it was established in 1978 and has continued in almost the same form since that time.

- Efficient direct payment process.

The direct payment process between Treasury and DTE Energy (DTE), Consumers Energy Company (Consumers), and SEMCO Energy Gas Company (SEMCO), the State's three largest utilities, allows assistance payments to be applied quickly to the bills of claimants whose credit filing matches the information reported by the utility.

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<sup>10</sup> Scholz, *The Earned Income Tax Credit: Participation, Compliance, and Antipoverty Effectiveness*, 47 National Tax Journal 1, 63-87 (1994).

- Senior citizen focus.

The HHC provides additional assistance to seniors, with seniors receiving more in total credits than their share of Michigan's population. *See Appendix C.* The distribution of the HHC to seniors primarily reflects two factors. First, the HHC is designed to offset the heating expenses of households, and households with at least one senior make up a larger share of Michigan households than the share of Michigan population represented by senior citizens. The latest data from the ACS reports that 23.0% of Michigan households have at least one member who is 65 years of age or older, compared to 12.7% of seniors in the overall population. Almost 10% of Michigan households are comprised of one senior living alone. The higher prevalence of households with a senior, compared to the senior share of the overall population, makes it reasonable that home heating credits filed by seniors should account for more than the senior share of the overall population. Second, the HHC provides an additional exemption for each senior in the household. The additional exemption raises the standard allowance, making it more likely the household will receive an HHC, and also increasing the HHC amount.

- Alternate volunteer sites.

The American Association of Retired Persons (AARP), Volunteer Income Tax Assistance (VITA) sites and other agencies provide assistance to customers in filling out the HHC form. These agencies could be better utilized to address the utility companies' issues with costs of assisting customers with the HHC application.

Arguments against the approach of doing nothing were mostly offered by the utility providers and, to a lesser degree, work group participants representing private agencies that assist low income households. These participants observed that while the HHC may reach over 400,000 people, because of the nature of the program, it is difficult to easily assist people applying for the HHC when they are facing a shut off. Furthermore, the utilities argued that the HHC was under-utilized

for the transient population with high foreclosure rates. DTE, in particular, argued that many of its most vulnerable customers could not easily access the assistance they were entitled to receive through the HHC.

DTE analyzed this particular challenge and feels that there is a significant HHC opportunity missed by many of its low-income customers. The company estimates that 16% of Michigan's households are at or below 110% of poverty. The current Michigan population is comprised of 3,864,300 households, meaning that roughly 618,300 of Michigan's households are at 110% of poverty. DTE estimates that 50% of the customers meeting this criterion are in its service territory, yet only 112,000 DTE customers received an HHC payment in 2008. Not every household below the income threshold is eligible for an HHC, and renters with heat included in the monthly rent receive their HHC payment in the form of a check rather than an energy draft. Still, DTE estimates that a large segment of its customer base is eligible to receive HHC funds but these customers have neither applied for nor received such assistance.

*Option 2: Eliminate the Alternate Credit*

The complexity of the HHC alternative credit calculation leads to a significant number of errors. Errors increase the time the Treasury spends processing credits and therefore delay payment to recipients and providers. Through February 2009, approximately 18% of the HHC forms filed had been found to have errors. This is higher than the average error rate of 8% for all income tax returns. The high error rate is in part due to a relatively complex calculation on a credit that must be done by claimants near poverty, who may lack the reading and math skills necessary to accurately complete the form. The complexity of the HHC form may discourage some potential recipients from filing for the credit, in addition to requiring additional work by the utility companies.

For most claimants, the amount of the HHC is unrelated to actual energy costs. In recent years, approximately 20 percent of all filers used the alternate credit calculation based on actual energy

costs. These credits are relatively large, accounting for more than 40 percent of all credit payments. The remaining 80 percent of applicants use the standard credit calculation, which is based on household size or other exemptions.

To address these issues, one option proposed by the utility companies was to eliminate the alternate calculation method, which would remove usage data requirements and eliminate some filing errors. Without usage requirements, DHS could theoretically send a file to Treasury with all the income and household size information needed to automatically provide an HHC to the utility on a customer's behalf.

The arguments in favor of this option are that it would reduce the amount of time it takes for a customer to receive an HHC and for the credit to be applied to a utility account. Because many HHC forms containing errors involve the consumption data needed for the alternate credit, the utilities argue that eliminating this requirement would reduce the amount of errors in filed forms. It would also allow the utilities to streamline the application process to help their customers receive the HHC more quickly.

DHS and Treasury disagreed with this option because of concerns that the alternate credit portion of the HHC is required to comply with federal LIHEAP requirements. Specifically, 42 USC 8624(b)(5) directs the state to "provide, in a timely manner, that the highest level of assistance will be furnished to those households which have the lowest incomes and the highest energy costs or needs in relation to income, taking into account family size." Likewise, the LIHEAP state plan that is submitted to the federal government every fiscal year requires the governor of Michigan (or her designee) to certify that, "the highest level of assistance will be furnished to those households which have the lowest incomes and the highest energy costs or needs in relation to income, taking into account family size." These statutory and programmatic requirements require the state to use a method of assistance delivery that provides the highest amount of assistance in relation to income

and family size. The alternate calculation of the HHC fulfills this requirement. Further, because MCL 206.527a clearly outlines the permitted calculations, eliminating the alternate credit part of the HHC would require legislative changes and could affect people who have received the credit in the past.

*Option 3: Make the HHC a Seniors-only Program.*

This option, suggested by the large utilities, would limit the HHC to low-income senior citizens, age 65 and older, at or below 110% of poverty. The argument for this option was that it would allow more money to be channeled to other assistance programs, such as SER. Programs like SER have the potential to provide a more streamlined application of funds and for more assistance money to be received by customers through an automated process.

The larger utilities argued that, in theory, this would allow more assistance money to reach vulnerable low-income customers than is currently the case with the HHC. SER also tends to have a higher cap that would allow more assistance money to be received by a low income customer. Some of the smaller utilities and DHS and Treasury had reservations about this option, observing that limiting the HHC to seniors only may violate federal law.

Specifically, DHS and Treasury observed that there are at least three provisions of the federal LIHEAP statute that bar the limitation of the heating portion of the LIHEAP block grant to only seniors. The first provision, 42 USC 8621(a), states, “The Secretary is authorized to make grants, in accordance with the provisions of this title to states to assist low income households, particularly those with the lowest incomes that pay a high proportion of household income for home energy.” Section 8624(b)(5) also requires that the State agrees to, “provide, in a timely manner, that the highest level of assistance will be furnished to those households which have the lowest incomes and the highest energy costs or needs in relation to income, taking into account family size.” These two sections preclude a seniors-only option because they direct the State to provide assistance to clients

with high heating cost-to-income ratios. If the State were to limit a portion of LIHEAP assistance funds to a single age group, it would not be delivering assistance based on this directive and would not comply with Sections 8621 and 8624.

The third provision that prevents a seniors-only HHC is Section 8625(a), which states: “No person shall on the ground of race, color, national origin, or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under, any program or activity funded in whole or in part with funds made available under this title. Any prohibition against discrimination on the basis of age under the Age Discrimination Act of 1975 or with respect to an otherwise qualified handicapped individual as provided in section 504 of the Rehabilitation Act of 1973 also shall apply to any such program or activity.” The Age Discrimination Act, 42 USC 6102, states, “Pursuant to regulations prescribed under section 6103 of this title, and except as provided by section 6103(b) and section 6103(c) of this title, no person in the United States shall, on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under, any program or activity receiving Federal financial assistance.”

Section 8625(b) states that when a state is in non-compliance with Section 8625(a), the Secretary of Health and Human Services is authorized to “(1) refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted; (2) exercise the powers and functions provided by title VI of the Civil Rights Act of 1964, the Age Discrimination Act of 1975, or section 504 of the Rehabilitation Act of 1973, as may be applicable; or (3) take any such other action as may be provided by law.” Therefore, a program that limited participation in the heating assistance portion of LIHEAP to persons 65 and older would put the state in non-compliance with Section 8625 and expose the state to a civil action.

The OSA recommends that the age at which a claimant is classified as a senior should be lowered. The OSA notes that the population in the age 50-65 cohort is the leading edge of the

“Baby Boom” generation, a group that is rapidly changing in ways that are now affecting, and will increasingly affect, the HHC program in the future. The OSA maintains that the growth of this population as well as its generally weaker financial profile is a problem for which the State must immediately begin to prepare.

This “booming” population, between 60 and 64 who fall between 101% and 200% of the poverty line, will be affected by many factors that did not as severely affect earlier generations reaching this age:

- Fewer will have adequate savings to deal with unexpected expenses.
- More will be scrimping to save a disproportionate amount of their incomes for retirement.
- Out-of-pocket medical expenses will continue to increase, costs which seniors need to absorb without entitlement support.
- Whatever programmatic support that seniors will be eligible for will continue to decrease as recipient numbers rise.

The OSA claims that this adds up to the conclusion that the baby boom population will be significantly more likely to have problems with heating costs than previous 60-64 year-old populations.

Treasury notes that the HHC uses the definition of senior, age 65 and over, from the Income Tax Act, MCL 206.30(3)(a). Changing this to a lower age threshold (say age 50) that is not accompanied by additional funding would shift benefits away from those who are under 50 or over 65 to those who are between ages 50 and 65.

Treasury notes that seniors have filed approximately 18% of all of the HHC credits filed in the past few years, and have received approximately 16% of payments. In comparison, more than 1/3 of homestead property tax credits are paid to seniors. Thus the HHC does not target payments as directly to seniors as does the homestead property tax credit. Veterans and the disabled received approximately 9% of credit payments for the past few years. *See Appendix C.*

Other work group members point out that if more seniors became eligible for the HHC based on a lower age standard, more households would become eligible for assistance; therefore each would receive fewer assistance dollars. The HHC has a specified amount of funding each year to give out to low income households so, by increasing the number of households eligible for assistance money, the credit payments would be lower for everyone.

*Option 4: Simplifying the HHC Form*

In response to leaving the HHC the same, one option discussed was to develop an HHC intake form that utility vendors could provide customers in an effort to make customers better prepared when contacting agencies for assistance with the HHC tax form. A proposed intake form was drafted to start a discussion. *See Appendix D.*

Preliminary feedback on the intake form was very positive. All work group members agreed that, with some further discussions, there might be a path found to a simpler form or to at least make it more user-friendly for both customers and the agencies assisting them.

*Option 5: Examine low-income eligibility standard*

This option was discussed briefly. The effect of raising the income threshold for the HHC would broaden eligibility to more households who are above the eligible poverty guidelines. However, without additional funding, raising the income thresholds will spread the available funding for the HHC among a wider population resulting in a redistribution of the assistance from those below 110% of FPG to those above 110% of FPG.

In addition, the HHC is available to claimants at or below the minimum threshold for LIHEAP, (110% of FPG), and is established by statute. Specifically, MCL 206.527a(1)(b) says that the income thresholds should be adjusted each year to ensure that a claimant with household income below 110% of poverty is not denied a credit. Thus, any change to the income eligibility threshold would require legislative action.

Several other low-income programs already provide bill payment assistance to households above 110% of FPG. For example, LIEEF funds are available for households at or below 200% of FPG. Based on these comments, the low income eligibility level was not discussed further.

#### *Summary of Recommendations for the Home Heating Credit*

- Continue discussions about how the HHC form can be improved to make it easier to understand while still complying with the HHC statute;
- Continue open dialogue about how Michigan administers energy assistance dollars;
- Continue exploring ways the State, utilities, and low income groups can work together to promote the HHC so it is utilized by all low income customers who qualify for the assistance; and
- Continue specific inquiry into how other states administer the heating portion of LIHEAP for possible alternatives to the HHC. The work group did not spend a lot of time on this, but a careful review of how other Midwestern states utilize their LIHEAP allotments might help form a consensus on change.
- Continue to consider assistance to seniors in light of the expected increase in the senior population.

#### Review of Deliverable Fuels Assistance

Deliverable fuels, including propane, fuel oil, wood, and coal are used primarily by households in rural Michigan. These households have access to most low-income assistance available through the state and federal governments and non-profits, except in cases where the program targets natural gas and electric customers. Because most deliverable fuel customers are located in rural areas, there may be challenges in getting fuel assistance from service agencies particularly during the harsh winter months.

DHS is a primary source of assistance for deliverable fuels households. In FY 2009, there were 19,907 deliverable fuel DHS cases that reached the maximum allowable payment cap. In comparison during FY 2008, there were 21,318 DHS deliverable fuel cases reaching the maximum allowable payment cap. There are approximately 1,250 deliverable fuel providers enrolled with

DHS statewide, representing about 500 fuel oil providers, 30 coal providers, and 720 propane providers.

The Michigan Propane Gas Association (MPGA), which represents approximately 84% of the propane retailers in Michigan, reported that there are 357,502 residential households using propane. Although there are many households in the Upper Peninsula with propane heat, the area is less populated. Thus, the Lower Peninsula – especially northern Michigan – actually has the highest number of households using propane.

The policies and procedures related to shut-off of a customer's heating source for non-payment is different for customers with deliverable fuels than for those with natural gas or electric heating. The process for delivering the fuel types and the competitive environments faced by regulated and non-regulated energy providers are different and, as such, a question arises as to whether a single standard for shut-off protection is possible for the deliverable fuel markets. The deliverable fuel companies do not follow the same shut off notice procedures required by statute for the utility companies regulated by the Commission; but, they must comply with federal and state standards related to safety issues.

The MPGA doesn't feel that a blanket shut off policy could encompass the entire propane industry. Propane companies are independent businesses and each independent company has different policies. Typically, when a customer runs out of fuel it is because the customer did not adhere to the propane supplier's practices, policies, and procedures. As a result, these customers may have a propane system that is potentially dangerous as valves and other portions of system are pressurized and require liquid propane to operate normally.

On the other hand, several of the regulated utilities expressed concerns that although deliverable fuels are a different commodity and the nature of the deliverable fuels business prevents these providers from doing some of the things the utilities are required to do, there should nevertheless be

some basic level of protection for all low income customers no matter where they live or how they purchase their energy. Clearly, further dialogue is necessary on shut-off policies because different opinions exist between the propane industry and the investor owned utilities.

Although the work group did not have members from all of the deliverable fuels entities, the MPGA stated that propane companies rarely physically shut off a household's propane system. Rather, the customer's fuel source runs low or out, and the customer then seeks special arrangements with their propane dealer, DHS, or another assistance agency.

Low income customers with a deliverable fuel heating source can contact DHS and, if eligible, may receive fuel payment assistance up to the available cap amount by declaring that their heating source is dangerously low or exhausted. DHS and the LIHEAP state plan consider a client's verbal statement of need for a fuel delivery to be acceptable as verification of a crisis. DHS provides the SER payments directly to the fuel provider. If the client's tank is completely empty, DHS will pay up to \$200 per service for the required safety check fees. This is similar to a reconnect fee required of natural gas and electric utilities.<sup>11</sup>

#### *Customer Education and Outreach for Deliverable Fuels*

Deliverable fuel, natural gas, and electric customers are continually informed of available low income assistance programs through communications from state agencies, utilities, deliverable fuels companies and nonprofits. There are a variety of means used to alert customers to assistance programs including press releases, consumer alerts, and information on websites. The utility

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<sup>11</sup> When a propane customer is completely out of fuel, the propane company must go to the customer's home and light the pilot, check the system, perform pressure leak tests, and other important safety measures. Safety codes require that a vapor system is leak tested whenever it is initially placed into service or whenever service is interrupted, such as when a customer runs out of gas. Most insurance companies require this procedure be followed, as well as documenting lighting pilots, and checking over appliances. Because this is a time consuming procedure, propane companies charge for this service. If a shutoff notice is required, then customers would face not only unsafe situations but additional costs.

companies regulated by the Commission are also required to develop a low-income assistance brochure that is provided to all customers every year.

Most members of the work group participated in the development of the Energy Assistance Directory issued by The Coalition to Keep Michigan Warm. The Directory is posted on the Commission's website, and provides information on private and public programs that offer energy assistance, with a county by county listing of utilities, programs, and resources available to low-income customers.

Although deliverable fuels companies participated in the development of the Energy Assistance Directory, outreach to propane customers was limited. The MPGA reported that the Michigan propane retailers offer a variety of options to customers with bill payment problems, and encourage customers to contact their propane retailer to discuss options available to them.

Propane retailers use a variety of methods to communicate with their customers about available payment assistance that are very similar to the methods used by the regulated energy providers. These methods include bill stuffers, information at locations where business is conducted, customer newsletters, billboards, digital communication, company websites, and media advertisements.

The work group concluded that although customer education on available low-income assistance programs is already provided by deliverable fuel providers, as well as the utilities and other agencies, there is an ongoing need to better inform customers about assistance programs, and to address special needs that may exist in rural areas of the state.

#### Extend the Low-Income Energy Efficiency Fund beyond nine months

The LIEEF was created by 2000 PA 141 and continues under the Commission's general ratemaking authority. The Commission administers the fund through grants to qualifying organizations. The purpose of the LIEEF is to provide shut-off protection for low-income customers and to promote energy efficiency for all customer classes.

The LIEEF was originally funded from securitization savings in excess of the amount needed to achieve a five percent electric rate reduction for residential and business customers. In November 2004, the Commission approved, in Case No. U-13808, Detroit Edison's request to establish a permanent LIEEF funding level in its electric rates of approximately \$40 million annually. The Commission further extended LIEEF funding by approving Consumers' request to contribute \$27 million annually through the Company's electric rates in its December 22, 2005 order in Case No. U-14347. An additional \$17 million annually was authorized in Consumers gas rates in the November 21, 2006 order in Case No. U-14547.

The work group limited discussion on the LIEEF in part because of the March 2009 issuance of a Request for Proposals (RFP) for low-income energy efficiency grant projects; and, the April 2009 issuance of an RFP for low-income energy assistance projects. Both proposals included revisions to eliminate duplicative questions and reduce boiler plate language. The low-income energy efficiency grant proposals also included an extension of the grant cycle beyond the nine month period.

The total amount of funds available for the Low-Income Energy Assistance Grants is \$55 million. It is anticipated that one or more grants will be awarded by the Commission in August/September, 2009; and the grant period is expected to begin October 1, 2009 and end July 31, 2010, a 10 month cycle.

In comparison, the total amount of funds available for the Low-Income Energy Efficiency Grants is \$14 million. The Commission is likely to award these grants in August/September 2009. The grant period is expected to begin October 1, 2009 and end December 31, 2010, which is an extended 14 month project cycle.

As noted, the low income energy efficiency grant cycle was extended beyond one year and the assistance grants to 10 months. This issue may need further discussion, along with other concerns

expressed by grantees including an energy education component, expanded software bridges, and improved public relations.

### Recommendations to Achieve Best Practices

The Available Assistance work group members agreed that there is a growing need for low income assistance in Michigan and that all assistance should be administered efficiently. The HHC as well as the EITC bring millions of dollars into the State and help hundreds of thousands of Michigan households. However, many eligible households in Michigan do not claim the EITC. Treasury estimates that between 100,000 and 150,000 Michigan residents fail to claim the credit leaving \$100 million a year or more of federal funds not coming into the State during a critical economic period. Continued efforts must be pursued to ensure that LIHEAP is funded at the highest allocation level as reached in 2009, and the EITC is claimed by all eligible recipients. In conclusion, the Available Assistance work group made the following recommendations:

- **An Education Campaign.**

A short term statewide education campaign may be needed to help bring more EITC dollars into the State and ensure that low income households are informed of available assistance programs. In the past, an education outreach campaign was administered by the Commission and funded by the utility companies. The “Be Winter Wise” campaign informed customers of available assistance and was a relatively inexpensive method of reaching low-income customers through billboards, newspaper, radio, and TV ads, and brochure distribution. This type of education approach could be reinstated at least until the MBAI is instituted, as discussed by the Process work group. The education campaign could also advertise sites that provide help in filling out HHC forms and offer a different outreach approach to customers in rural areas of the state.

- **Streamline Processes.**

In the interest of building on efforts to streamline the process of getting assistance dollars to eligible customers, the work group recommends any efforts that would enable all utilities and appropriate state agencies to participate in an electronic payment process that automates the way customers receive assistance payments.

- **Collaborative Effort.**

Building on discussions and recommendations of the work group and efforts by The Coalition to Keep Michigan Warm, the Available Assistance work group recommends that a small, low-income task force be created to meet and further discuss issues related to delivery of assistance dollars. This task force would also develop solutions to improving delivery of assistance to customers. At a minimum, members of the task force should include representatives from utilities, the Commission, DHS, Treasury, OSA, and the deliverable fuels industry, drawing in other interested parties for input as needed. One area the task force should also examine is how other states and utilities distribute assistance dollars. A final report written by the task force should be sent to applicable entities, including the Commission, state agencies, and the Michigan Legislature.

- **Home Heating Credit Review.**

As indicated in the HHC recommendations discussed above, there exists a need to continue discussions about the HHC and the administration of energy assistance dollars.

### **Process Issues**

The general issues that the Process work group addressed included:

- Identifying the problems with current processes for delivering low income energy assistance, propose possible changes, and identifying the pros and cons resulting from a program change.
- Determining the impact that process change may have on the state's budget.
- Identifying the flexible WPP payment options offered by the utilities.

- Listing the benefits and problems of each program and identifying best practices.

The specific issues the work group focused on included:

- Exploring the benefits of the MBAI as a means of assistance beyond Michigan 2-1-1 service.
- Determining benefits of bringing back the Energy Direct Program.
- Examining shutoff notice requirements as it relates to the WPP.
- Reviewing DHS process for recipients to address the backlog.
- Providing help to low-income customers on the front end, e.g. weatherization, shutoff prevention, etc.

#### The Michigan Benefits Access Initiative

The Michigan Benefits Access Initiative (MBAI) is a “one-stop shopping” concept that goes beyond the services offered by Michigan 2-1-1. The MBAI is a viable approach to address several low income assistance process issues. The current Michigan 2-1-1, a community information and referral service, which provides “health and human service equivalent of 9-1-1 to give or get help” can be geared to respond to many of the process issues covered here. Michigan 2-1-1, operated by Michigan United Way, is currently available by direct dial to only 71% of Michigan’s population, and 76% of the nation’s total population, there are plans to make Michigan 2-1-1 accessible to all Michigan residents by 2011.

The MBAI is an attractive option for service in Michigan because currently over \$900 million in federal supports and benefits go unclaimed annually by Michigan households. These benefits, which range from food stamps to the EITC, go unclaimed for a variety of reasons including failure to complete the application process for lack of trust, lack of will, or other reasons such as the fact that many people are unaware of the benefits because they never required assistance when the state’s economy was better. The MBAI provides a promising opportunity and solution for

Michigan citizens to claim these benefits. It removes the barriers to accessing public benefits by reducing the complex multiple application process to a single set of questions that allows nonprofit counselors to accurately complete forms for all benefits, allowing an efficient hand-off to public agencies to process.

The MBAI has already laid the groundwork for the system. The Michigan Association of United Ways convened representatives from 30 nonprofits, along with five State of Michigan department stakeholders, to evaluate this emerging solution and plan steps forward. Collectively the MBAI stakeholder group:

- Reached consensus on the partnership opportunity between nonprofits and state departments to increase access to benefits through a single, shared technology;
- Identified national leading benefit access practices and studied twenty potential approaches;
- Developed a Michigan benefit access vision and mission; established Michigan system requirements and selected four potential platforms;
- Created an RFP driven by Michigan requirements, assessed technology solutions available and recommended the best approach;
- Produced a statewide business plan for advancing a benefit access network solution.

The Process work group reviewed the work of the MBAI collaborative and engaged in extensive discussion of the benefits of such a system. The group participated in an on-line demonstration of the proposed platform and was favorably impressed by the potential for a shared platform to mobilize community-based organizations in garnering unclaimed weatherization, LIHEAP, SER, EITC, and HHC along with sixteen other benefits.

Work group members propose collaborating with the MBAI to help bring a benefit access system to Michigan. The first two years of the MBAI business plan charts the engagement of 2,000 community based counselors in utilization of the system to bring \$128 million dollars into Michigan households.

Stakeholders are ready to leverage this opportunity. The next step is garnering \$4 million to support startup and the first two years of implementation. Upon securing funding, the benefit access system could be operational within 120 days. The United Ways and Michigan's foundation community have identified partial funding that is contingent upon State of Michigan participation. The Process work group has recommended that the Commission become one of the driving forces for the MBAI in order to make the process of providing assistance to Michigan citizens flow smoothly, quickly and more efficiently.

Although the Process work group recommends the MBAI, the group recognizes that the program, in all likelihood, will not be rolled out in time for the 2009-2010 heating season that begins November 1. Therefore, the work group has provided alternatives to accomplish some of the goals that can be accomplished with the MBAI.

#### Other Assistance to Low Income Customers

While the MBAI is pending, there are several areas that the work group proposes that utilities and agencies work on including promoting the HHC, the EITC, and weatherization pre-qualification. A significant education campaign was suggested in order to implement these recommendations. For example, people need to be more informed about the HHC, WAP, and EITC application process. In addition to making brochures and other printed materials available for distribution at a variety of locations, DVDs, radio, and television advertising could be used to get the information out about these benefits, especially to the group of people who are new to the world of assistance.

The Process work group also proposes that a small group comprised of utilities, consumer groups, DHS, Treasury, and the Commission continue to work during the summer to further develop the recommended processes to be implemented during the upcoming heating season. Methods of getting the information out to customers as an interim step include:

- Cross-referencing databases with DHS for the target audience to help identify low income customers that can be reached for assistance. This includes reaching out to customers as well as working with customers who call in to DHS, state and private agencies, or utility companies.
- DHS and Treasury can enter into a public relations campaign with the utilities promoting the HHC and EITC and directing low-income customers to agencies that can assist them in accessing the resources. The HHC remains underutilized, which means that many low-income households do not receive a potential resource available to them to help with energy bills. Identification of customers, which include low-income and seniors, is one of the biggest challenges energy providers face as part of efforts to customize payment arrangements, understand arrearage levels, identify the scope of problems and minimize disconnections. Sharing of data, where possible, would impact the ability to serve low income and senior populations.
- Have utilities send information to customers on usage for the HHC on a monthly basis and not just around tax time using a “W-2” type notice with consumption information. DHS would be asked to help identify low-income clients that qualify for HHC. Recipients can be directed to 2-1-1 and other agencies that provide free tax assistance for the EITC and HHC.
- Engaging agencies to complete HHC, WAP, and EITC forms by phone and then sending the forms to customers for signature.
- Asking DHS to send information encouraging clients to take advantage of the HHC on a monthly basis when they send out their monthly messages to clients. The message might read "YOU CAN GET FREE MONEY" or some other catchy phrase that will grab attention.
- Providing customer usage data through the utility companies’ voice response systems when a customer calls in for that information or other information from the company. However, this is not an available option, at this time, for all utilities.
- Providing phone support to 2-1-1 for the application process. In other words, the call centers would be provided the same message that is being used by other agencies, utilities, etc. so that the customer hears one message no matter which agency he/she contacts.
- Providing weatherization information to unemployed customers seeking assistance at the Michigan Unemployment Insurance Commission
- Posting a news release on the Michigan Housing Locator website. This website is used by State agencies, local housing agencies, the Continuum of Care network agencies and more to assist low income families find housing. Placing an alert on the homepage and providing a link to further information, can reach a good share of the population we want to have this information.

### Benefits of Reviving the Energy Direct Program

An additional possibility that the work group reviewed was the DHS Energy Direct Program, an automated payment process from DHS to the utilities. However, because the Legislature is attempting to address this issue through SB 555, the Process Issues work group did not spend time discussing the merits of the bill. The bill states in part that “not later than April 1, 2010, the Department shall operate an electronic payment process with participating energy providers to provide for the payment of low-income customer energy bills that are subject to shutoff.” More analysis must be completed to determine the benefit cost for the smaller utilities to make the information technology (IT) investment to build the electronic interface. This may not be financially feasible for small utilities. However, DHS has indicated that they will implement a streamlined automated application process using SER funds in 2010 even if there is no mandate from the Legislature.

### Shutoff Notice Requirements of the Winter Protection Plan

Shutoff notices and the WPP was another issue for discussion. Under MCL 460.10t and the Commission's rules, utility companies are prohibited from sending shutoff notices to WPP customers during the winter heating season, from November 1 through March 31. Because WPP customers are only required to pay a certain percentage of their annual bill during the heating season, these customers often accrue large arrearages at the end of the heating season and are subject to shutoff when the winter protection period ends. At this point, these customers, unless they are DHS clients, are often unable to get assistance.<sup>12</sup>

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<sup>12</sup> In a recent survey of 51 of their Salvation Army service sites, the agency found that a large percentage of the customers surveyed indicated that they felt that the WPP is harmful to them, presumably because of large arrearages accrued by the end of the heating season. That is one indication that changes are needed in the WPP.

DHS clients who are customers of Consumers, DTE, and SEMCO and who participate in the WPP can participate in an arrearage forgiveness program called the Arrearage Payment Program (APP) where companies and the department share files and DHS makes payments electronically. Customers who receive service from other gas and electric companies and rural electric cooperatives, or who are not DHS clients, are not able to take advantage of this program. Therefore, there is a question of equity in what is available for customers who have WPP arrearages. The funding for the APP comes from the LIEEF. The Michigan Electric and Gas Association companies and the co-ops do not contribute to the LIEEF.

Recommendations to address this issue include:

- Providing all customers who maintain their payments during the heating season with the opportunity to have their arrearages paid, or a portion of them paid, at the end of the heating season. Further explore the question of whether all utility companies should contribute to the LIEEF so that funds will be available to assist customers who are not DHS clients at the end of the heating season;
- Having DHS, The Heat and Warmth fund (THAW), Michigan 2-1-1, The Salvation Army or some other statewide agency administer the arrearage program for customers who are not DHS clients. It should be noted that increasingly, there are more people Michigan in need of aid, yet they fall just outside of the income eligibility criteria. They are recently unemployed, have never been a part of the DHS system and are not familiar with it. THAW, which has the capacity to operate statewide because of a propriety internet-based system, has already begun to meet this increasing need;
- Requiring the utility companies to provide some arrearage forgiveness for customers who make their payments during the season. More discussion is needed on this to determine how the utilities would recover these arrearage forgiveness funds. In order to have arrearages forgiven, customers may be required to participate in weatherization, energy education and money management sessions, where available. As discussed in the Low Income Rates section, these are services that could bring the bills down, and address the problem long-term, rather than facing crisis year after year.

### Backlog of DHS Applications

There was limited discussion about the backlog in the DHS process for recipient applications.

The backlog stems from the fact that more people applying to DHS for aid and caseworker staff reductions at DHS. As a result, caseloads have gone as high as 800 cases per caseworker. One way

to shorten the application process is for other entities to pre-qualify people based on income. In addition, some relief might occur when the Bridges system is fully operational. Bridges is a new application and eligibility computer system that the agency is installing that combines three computer systems into one. It was suggested that Treasury may be able to help with the verification of income. It was also suggested that the use of a MBAI program could possibly streamline the application process to DHS and increase the number of people receiving assistance without increasing caseloads. DHS nevertheless indicated that even though the application process may be streamlined, DHS is still required to have visual contact with most applicants.

Full statewide implementation of Bridges in September, 2009 should help to reduce the application backlog. Many of the remaining utilities who are currently not linked to Bridges have not begun to determine the IT work needed to build this interface nor have they budgeted for this task.

### **Low Income Rate Alternatives**

Concern for the ability of low income customers to pay for electric and gas utility service is not new; and the issue in most cases is the ability to pay, not the willingness to pay, higher gas and electric rates. Because demand for electricity and gas is relatively inelastic, paying for utility services represents a much higher burden on low income customers than for other customers. As a result, low income residents may face difficult financial choices in meeting basic service needs. As discussed previously, affordability problems are becoming more evident in Michigan through increasing arrearages and uncollectible expenses, late payments, service disconnections, and theft. The costs associated with these items are eventually passed on to other ratepayers.

As outlined more extensively above, Michigan generally provides the majority of its low income assistance through the HHC, with additional crisis assistance available through the SER and through programs run by various nonprofits with funding from the LIEEF and individual donors.

Some Michigan utilities also provide assistance through arrearage forgiveness programs and discounts.

Other states and individual utilities have implemented a variety of approaches to providing long-term assistance for electric and gas utility bills to low-income residents. These approaches are generally described in the table below:

<b>Alternative Rate Structures</b>	
Lifeline rates	A minimum required usage level for essential service is determined and for that service level (i.e., first tier), reduced cost rates are established for qualified customers. Service in excess of the specified minimum level, for the second or higher tiers, can be charged either at a standard rate or some appropriate discount.
Credits and discounts	Qualified customers receive a specified dollar reduction on their bill or a percentage discount on the total bill or usage portion of bill.
Waiver of a fixed cost portion of the bill	Exemption from paying a fixed cost (e.g., meter charge or system access charge) portion of bill.
Budget billing	Even monthly billing based on annual expected usage. Budget billing is available to all customers.
Energy conservation incentive rate structures	To encourage reduced energy use, many utilities have adopted an increasing block tiered rate with higher charges for increased use. This rate structure would apply to all customers.
<b>Payment Assistance</b>	
Financial emergency grant	In certain cases, a qualified customer may receive a grant to pay all or a portion of the bill.
Full or partial payment forgiveness; alternate payment schedules	Some customers who have fallen behind on payments have limited prospects for repayment. Rather than disconnect service and contribute to potential health or safety issues, the utility may opt to work out alternate payment arrangements or reduce the amount of payment arrearage in full or in part.
Percentage of income payment plans (PIPP)	Utility costs are established at a level determined to be affordable for the customer based on a specified percentage of income. Additional costs are covered by state or federal assistance or universal service funds collected from ratepayers.

<b>Other</b>	
Full or partial grant or no interest loan for energy efficiency upgrades.	A utility may have a comprehensive or targeted program to encourage installation of energy efficient upgrades. Weatherization and energy efficient equipment could be provided free or at reduced cost to all customers or those meeting specified income limits.
Energy audits	A utility may conduct energy audits on a request basis in a targeted area to identify opportunities for reduced electric and gas use. Qualified customers may receive reduced cost or free repairs. Programs may also include energy conservation education.
Financial counseling	Some utilities have found that low income residents benefit from counseling on money management and debt reduction strategies.
Reassess fee structure	Most utilities have adopted fees for late payment, nonpayment, returned check, or disconnection/ reconnection. These fees often contribute to low income customers' financial difficulties. Some utilities have considered waivers or fee reductions in certain circumstances for low income customers.

The purpose of this section of the report is to evaluate the potential benefits and drawbacks to various alternatives, or supplements, to existing low income assistance programs. The Low Income Rate work group has focused on PIPP, lifeline rates, and education programs, three approaches that have met with some success in addressing the issue of low income electric and gas affordability.

It should be noted that the approaches discussed in detail below are promising alternatives or additions to the low income assistance programs currently offered in Michigan. The work group adds that, because of wide variations in service territory, utility rate design, and diversity of customer base, a “one-size-fits-all” approach to low income energy assistance would be unsuitable. The work group thus suggests that utilities consider designing and implementing pilot programs to determine whether the benefits of a particular low income program outweigh the associated costs.

## Percentage of Income Payment Programs

In a PIPP, a household is required to pay a portion of its energy bill, with the percentage paid tied to the household income, and with the balance of the bill paid by federal or state assistance and program funds. For example, if a household has an income of \$10,000 and the limit on the percentage of income to be used for electricity is 6%, the household would be responsible for paying \$600 per year, or \$42 per month, for service, and the balance of the household's electricity bill would be paid by LIHEAP, a universal service fund (USF), or other energy assistance program. Alternatively, a PIPP administrator may determine the percentage of the energy bill that the customer is required to pay under a straight PIPP program, and require the program participant to pay that percentage of each month's bill rather than a fixed dollar amount (percentage of bill plan). A third PIPP alternative requires the household's energy bill to exceed a certain percentage of household income to be eligible for a credit, which is tiered based on income.

### *The New Jersey Universal Service Fund*

New Jersey's USF low-income energy assistance program began in October 2003 as a result of New Jersey's 1999 utility restructuring legislation. The legislation provides for a permanent fund to help address low-income energy needs. The restructuring act gave discretion to the New Jersey Board of Public Utilities (NJBPU) to determine the level of USF funding, its administration, purposes, and programs to be funded, as well as whether new charges should be imposed to fund new or expanded programs.<sup>13</sup> The USF program is a PIPP under which participants are required to pay no more than 6% of their annual income toward electric and gas bills — 3% for electric and 3% for gas or 6% for all-electric heat customers. Credit to customers is capped at \$1,800 annually.

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<sup>13</sup> The USF is part of a societal benefits charge (SBC), a volumetric charge to all electric and gas customers in New Jersey. The SBC includes charges for clean energy, uncollectibles, USF, lifeline, and consumer education.

The following table shows how the USF credit is calculated for a USF participant with an annual income of \$10,000. The calculation takes the difference between the previous 12 months electric and/or gas billing, minus any LIHEAP or other benefits, and 3% (one service) or 6% (two services) of the eligible customer's income.

	Annual	Monthly
Customer's annual electric and gas bill	\$1500	\$125
Customer's PIP Payment (no more than 6% of income) <sup>14</sup>	\$600	\$50
LIHEAP benefit	\$300	\$25
USF benefit	\$600	\$50 <sup>15</sup>

New Jersey electric and gas customers whose household income is equal to or less than 175% of FPG are eligible for the program. During its first year of operations, the USF spent about \$65 million on credits and enrolled about 130,000 households. For FY 2008, it served about 153,000 households with a budget of about \$175 million.

Although the New Jersey PIPP provided significant relief on a going-forward basis, many customers were still struggling with high monthly payments due to significant arrearage balances. Thus, in March 2004, the NJBPU approved the establishment of "Fresh Start," an arrearage payment plan for USF enrollees. The program allows these customers a chance to have their past due bills forgiven if they pay their monthly PIP in full and do so for an entire year. The program began in April, 2004, and was available to about 135,000 USF enrollees. Forty percent of the

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<sup>14</sup> The PIP is the amount USF participants are required to pay the utility company.

<sup>15</sup> Fixed monthly benefit paid on behalf of the customer from the USF directly to the USF participant's natural gas and/or electric utility.

customers enrolled in the USF program had accrued significant unpaid utility bills. Under the program, only pre-program arrears are eligible for forgiveness, and arrearages must total more than \$60.

During FY 2005, the first full year of Fresh Start operations, arrearage payments totaled \$23 million; payments totaling over \$10 million were made during FY 2008 to about 50,000 households. For FY 2009, the USF budget has been set at \$248 million, including \$12 million for Fresh Start.

During 2006, the program's first evaluation was completed by APPRISE. APPRISE analyzed the program's operations and results from its start in October 2003 through FY 2005. According to the evaluation, about 177,000 New Jersey households have received USF benefits since the program began; 139,000 households received electric benefits and 100,000 received gas benefits. On average, USF participants received \$626 per year in USF credits.

Among positive aspects of the program, APPRISE found the following:

- The impact of the USF is significant for those who receive it – it covers about 40 percent of the total energy bill for eligible clients.
- The program's standard of energy affordability, i.e., 6% of income, is one of the most progressive in the country. Similar programs in Ohio and Pennsylvania require low-income households to pay up to 17 percent of their income on energy bills.
- About 41 percent of participants had incomes at or below \$10,000, and 37 percent of households had an elderly household member.
- The majority of USF customers, 67%, were able to meet 100% of their annual PIP obligations.
- The Fresh Start program eliminated about 90% of pre-program arrears for USF customers.
- Compared to LIHEAP recipients in other Northeastern states, USF participants had a lower rate of utility shutoffs.

The evaluation also found that although the USF program targets the lowest-income households, it does not necessarily reach the most vulnerable groups such as the young, the elderly, groups with language barriers, or those households with the highest energy burdens.

### *The Ohio PIPP*

The Ohio PIPP was developed by the Public Utility Commission of Ohio (PUCO) in 1983 in response to an emergency arising from the inability of low-income Ohio residents to maintain their home energy service. PUCO found that the disconnection of utility service for nonpayment by those who are financially unable to pay constituted an “emergency” as described by Ohio statute. Ohio’s PIPP is the largest and oldest state-mandated PIPP in the country, serving over 200,000 households (both electric and gas) during FY 2007.

The Ohio PIPP, as initially conceived, did not represent a true discounted rate for low-income customers. Instead, the PIPP was designed to enable low-income customers to retain their utility service by entering into an agreement under which the customer would make a utility bill payment equal to a prescribed percentage of income. Customers entering into these agreements, however, would not be relieved of paying bills in excess of the percentage of income. Rather, customers would continue to be liable for any arrears. The accrued arrears would be subject to repayment by the customers when they left the program.<sup>16</sup>

Ohio’s restructuring legislation, passed in 1991, established a USF for low-income customer assistance programs that included Ohio’s existing PIPP and added a consumer education program, and administration costs. Funding originates from a universal service rider assessed on retail electric distribution service rates.

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<sup>16</sup> The shutoff protection program in Michigan functions in an analogous fashion. During the winter heating season, low income and senior citizen customers in the program are required to pay an amount equal to 7% of the household’s estimated annual bill to avoid shut off. After the heating season ends, customers must pay any accrued arrearage.

The 1991 legislation assigned administration of these programs to the Ohio Department of Development (ODOD), the LIHEAP and WAP grantee, with a goal of lowering program administration costs and providing a one-stop shop for program clients. The legislation initiating the USF also reversed one of the major policy decisions that PUCO used to initially support the program: that the customer continues to owe whatever bill exceeds the percentage of income payment. Under the 1991 legislation, PIPP clients have a portion of their bill paid by USF funds. While not dictated by statute, the treatment of natural gas arrearages was agreed to through a negotiated settlement with three Ohio gas companies.<sup>17</sup>

There are two distinct PIPP programs in Ohio, one for natural gas and one for electric. The electric program is now under the administration of the ODOD while the gas programs are administered by the gas utilities. Currently both programs operate under the framework established by the PUCO prior to the transfer to ODOD.

The Ohio PIPP permits customers with incomes up to 150% of federal poverty guidelines to pay a percent of their monthly household incomes to the utility or utilities providing their primary and secondary heating service. There are several different PIPP plans, but the maximum PIPP payment is 15% of the household's income. If a customer remains current on his PIPP payment, he cannot be shut off at any time regardless of the amount of arrears. The amount of the bill not

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<sup>17</sup> In that stipulation, certain consumer groups and the gas companies agreed to a process by which PIP participants arrears would be forgiven. If a PIPP participant pays her PIPP amount on time and in full for twelve consecutive months, the gas company will credit the customer's account balance by 33% of the amount outstanding. If the customer continues for another period of twelve consecutive months, the company will credit the customer's account for 50% of the remaining outstanding amount. If a customer continues for a third consecutive twelve month period of full and timely payments, the company will credit 100% of any amount outstanding. Under the agreement, if a customer fails to make his or her PIPP amount on time and in full in any given month, the 36-month period would begin anew, but any crediting that had occurred in a prior period would remain.

covered by a combination of the customer's PIPP payment, LIHEAP funding, and any other energy assistance the customer may receive, is recovered through the USF.

The PUCO rules distinguish between the heating and non-heating seasons of the year and are formulated in terms of restrictions on the disconnection of service for nonpayment. The regulations provide that "no company shall disconnect the service of any residential customer for nonpayment or refuse to reconnect, because of an arrearage, the service of a residential customer" so long as specified payments are made by the customer.

The payment requirements "during any billing period all or part of which is within the winter period" include:

- a. Ten percent of his/her monthly household income to the jurisdictional company that provides the customer with his/her primary source of heat and pays at least five percent of his/her monthly household income to the jurisdictional company that provides the customer a secondary source of heat.
- b. Fifteen percent of his/her monthly household income to the jurisdictional company that provides both primary and secondary source of heat.
- c. Fifteen percent of his/her monthly household income to the jurisdictional electric company that provides the totality of energy used for heating purposes to his/her residence.
- d. Ten percent of his/her monthly household income to the jurisdictional company that provides the primary source of heat when a nonjurisdictional utility company or other person provides the secondary source of heat.
- e. Five percent of his/her monthly household income to the jurisdictional company that provides the secondary source of heat when a nonjurisdictional utility company or other person provides the primary source of heat.<sup>18</sup>

For usage during any billing period "no part of which is within the winter period," the customer may not be disconnected for nonpayment so long as the customer makes a percentage of income payment as described above "or the current bill for actual nonwinter usage, whichever is greater."

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<sup>18</sup> OAC, §4901:1-18-04(B)(2) (2007).

Under either circumstance, the customer must also apply for all public energy assistance and all weatherization programs for which she is eligible.

USF revenues for 2007 totaled around \$111.5 million and were projected to total approximately \$148 million for 2008. While the majority of the USF revenues fund the PIPP (at least \$99 million during 2007), about \$7 million is set aside each year for an energy efficiency program and \$6 million for consumer education.

The natural gas PIPP, administered by the utilities, served about 208,000 households during 2007, up from 194,000 during 2006. The program cost about \$85 million during 2006. The gas PIPP rider is embedded in gas distribution charges and companies collect for costs as needed, rather than readjusting the rider annually.

For the past several years, a PIPP reform working group has been studying ways to improve the PIPP and proposed program changes during 2008. Some of the suggestions for improving the Ohio PIPP include:

- Contain escalating costs of the program while continuing to provide a valuable benefit. Records show the rider revenue required for the 2008 electric USF (\$148 million) was an increase of more than 100% over the 2001 level (\$64.6 million). Additionally, the high program cost creates a cash-flow dilemma that requires ODOD to borrow funds to avoid paying penalties to companies.
- Increase payment frequency while reducing PIPP payment requirements. Many stakeholders find the 15% of income customer payment too high and recommend reducing the PIPP payment to a more affordable amount of 6 to 8% of income. Less than 9% of participating households make their PIPP payment every month.
- Create more program similarity between the gas and the electric PIPPs.
- Create a better way to repackage energy assistance programs, including LIHEAP, to make payment plans more affordable and reduce reliance on emergency LIHEAP. The number of repeat users of emergency LIHEAP in consecutive years has been as high as 40%. The new model would require customers to meet a standard for payments in order to retain eligibility for PIPP.

Several of the Michigan utilities represented in the work group noted that the Ohio PIPP has resulted in high administration costs for Ohio utilities, a situation that must be considered in designing such a program in Michigan.

*A Michigan PIPP*

Absent specific statutory authority, it is questionable whether the Commission could establish a USF to fund a PIPP for Michigan gas or electric customers. Under MCL 460.6 and MCL 460.6a, the Commission does not have emergency powers, like those of the PUCO, that would permit establishment of a PIPP on an emergency basis. Nevertheless, the Legislature should consider enacting PIPP legislation for natural gas service at least, provided that a pilot natural gas pilot PIPP proves successful. As discussed more extensively below, Act 295 provides the Commission authority to establish low income and senior citizen rates for electricity for some Michigan electric utilities. However, clear authority to address high gas prices is nonexistent, even though annual natural gas bills in Michigan are 50% higher on average than electric bills. The Commission could authorize a gas utility to provide a discount on gas delivery charges for low income customers; however, commodity costs have increased to the extent that now the delivery portion of the gas bill is less than 25% of the total gas bill.

Because PIP programs target benefits based on a customer's energy burden, they typically result in a higher benefit amount for a smaller group of customers compared to the rate discount approach. Moreover, those with low incomes and high energy bills receive more assistance than those with higher incomes and lower energy bills. The incentive to conserve and manage energy usage can be built into the program design because customers can be required to pay for any increased usage during the program year, if the monthly bill credit is established at the beginning of the program year and any additional usage is the customer's responsibility. In addition, participating customers can be required to participate in energy management programs with clear

objectives for reducing energy usage. It should be noted, however, that some low income customers are using too little energy, for example maintaining household temperatures at levels that are so low as to be unsafe. For these customers, energy education and home weatherization are still worthwhile, even if household energy use does not decrease substantially.

As both New Jersey and Ohio found, even with a PIPP, large arrearage balances must be addressed if the PIPP is to succeed. When a customer enters this type of program with a large arrearage, the arrearage balance can threaten the affordable purpose of the program. If the customer is required to pay 6% of household income for electricity and natural gas, for example, but enters the program owing a back balance of \$1,000, the payments required to pay off the balance can double or more than double the required monthly payment. It is unlikely that such households can continue to make regular monthly payments when a large arrearage balance is present and must be paid. Thus, on the basis of experience in other states, any PIPP program must also provide for full or partial arrearage forgiveness.

### Lifeline Rates

Lifeline rates are another means to address the issue of energy affordability. Under a lifeline program, eligible customers receive a certain level of service at a discounted rate. Lifeline rates are commonly seen in telecommunications and in many water utility programs. For example, Lifeline and Link-Up services offered in most states, including Michigan, provide a significant discount to low income households for basic telecommunications service. In Michigan, qualifying customers<sup>19</sup> receive a minimum discount of \$8.25 per month on their telephone bill, and may also receive a reduced charge of up to 50% (to a maximum of \$30.00) for the cost of landline installation. Other states offer a flat low income rate for a certain amount of service. For example, a qualifying

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<sup>19</sup> Qualifying customers are those at or below 150% of FPL or who receive certain forms of public assistance.

customer in California may pay the lesser of one half the carrier's rate or \$2.91 to \$3.27 per month, for 60 local calls per month. Additional calls are charged at regular rates.

Lifeline rates for electric use, through an inverted block tariff (IBT), can be made available to all residential electric customers, or may be targeted to a particular demographic group (e.g., low-income, senior citizen, disabled). Consumers currently has an IBT that is effective for all customers during the summer months. From the billing months of June through September, Consumers charges residential customers \$0.047517 per kWh for the first 600 kWh used in the month. During those same months, residential customers are charged \$0.084687 per kWh for all kWh used over 600 kWh per month.<sup>20</sup>

Supporters of IBT argue that these tariffs promote conservation by setting high marginal prices for many consumers while protecting small energy consumers, especially the poor, by keeping the price for a baseline level of consumption relatively low.<sup>21</sup> Critics argue that there is no basis for the assumption that low income customers necessarily consume less than average customers and that therefore an IBT could harm some low income customers. In response, some proponents argue that higher rates in higher consumption tiers send a strong price signal to low income customers to move to more energy efficient housing.

California's regulated utilities adopted increasing-block residential electricity tariffs in the 1980s. Before the California electricity crisis in 2000, all of the regulated utilities in California had two-tiered residential rate structures where the marginal price in the second tier was 15%-17% higher than in the first tier, an IBT structure that was in line with the structure in many other states.

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<sup>20</sup> All usage is charged at \$0.047517 per kWh for all kWh during the billing months of October-May

<sup>21</sup> Borenstein, *Equity Effects of Increasing-Block Electricity Pricing* (University of California Energy Institute, November, 2008).

After the electricity crisis, California electric utilities needed to raise substantial revenues, but policy makers were concerned about the effect on low-income households. Regulators adopted a five-tier increasing-block retail pricing structure where the prices in the first two tiers were frozen at pre-crisis levels and incremental revenue needs were to be collected by raising prices on tiers 3, 4 and 5. The result has been a much more extreme increasing-block tariff structure. By 2008, the price on the highest block—which is the marginal price for about 6%-9% of all residential customers—ranged from about 80% higher to more than triple the price on the lowest.<sup>22</sup>

The baseline rate, or first tier, represents a minimal basic amount of electricity usage. In practice, the baseline is the same for all residential customers in a region regardless of the size of the residence or the number of people who live there. The tiers and established rates apply to all customers in the utility’s service area and have arguably helped mitigate the rate shock resulting from the electricity crisis and may have motivated some customers to undertake energy efficiency upgrades.<sup>23</sup>

In addition to the low cost lower tiers, available to all customers, qualifying customers may also take service under the California Alternate Rates for Energy (CARE) program. CARE is an income-based program that offers a credit to customers at or below 200% of FPG. The CARE program is advertised by all regulated utilities as offering “a 20% discount” off the standard residential rates, but not all components of the bill are included in the discount and the exact

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<sup>22</sup> *Id.* at 2-3.

<sup>23</sup> However, “Numerous analyses have estimated demand elasticity on the assumption that customers respond to the marginal price that they face, but it seems likely that the vast majority of customers in California not only do not know what tier their consumption puts them on, but even that the rate structure is tiered at all. In that case, the response to increasing-block pricing is likely to be more muted, possibly much more muted. . . . This, of course, would have important implications for use of the tiered structure, reducing the conservation effect some suggest comes from the high marginal prices.” *Id.* at 25-26.

implementation varies across utilities. In practice, the discount is 20%-30% on the lowest two tiers of consumption and can be greater than that for higher tiers.<sup>24</sup>

### *Lifeline Rates in Michigan*

A lifeline rate for electricity could be offered in Michigan without additional statutory authority. Section 11(3) of Act 286, which applies to electric utilities with 1 million or more retail Michigan customers, specifically provides that:

Notwithstanding any other provision of this act, the commission may establish eligible low-income customer or eligible senior citizen customer rates. Upon filing of a rate increase request, a utility shall include proposed eligible low-income customer and eligible senior citizen customer rates and a method to allocate the revenue shortfall attributed to the implementation of those rates upon all customer classes. As used in this subsection, “eligible low-income customer” and “eligible senior citizen customer” mean those terms as defined in section 10t.

Since the low-income rate is being established “notwithstanding” any other provision in the Act, the legislature has carved out an exception to the mandate for cost-based rates, which Act 286 compels for virtually all other customers of the large electric utilities. By specifically permitting low-income rates, without indicating whether the resulting discount applies to the commodity or some other portion of the bill, the Legislature implicitly authorized a commodity discount, at least for large electric utilities. This conclusion is further supported by the Legislature’s decision to “allocate the revenue shortfall” resulting from low-income rates on all customer classes. The revenue shortfall could, at least in part, be attributable to the failure of the utility to collect the full cost of fuel and purchased power from the low-income customer. For electric utilities with less than 1 million Michigan retail customers and for regulated gas utilities, this provision of Act 286 does not provide support for a commodity discount.

Section 7(4) of Act 106 provides:

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<sup>24</sup> For example, a standard Pacific Gas and Electric (PG&E) customer paid \$0.1153 per kWh for the first block of power and \$0.1311 for additional use in the second tier in 2006-2007. A PG&E CARE customer paid \$0.0832 and \$0.0956 for the first and second tiers.

The rates of an electric utility shall be just and reasonable and a consumer shall not be charged more or less than other consumers are charged for like contemporaneous service rendered under similar circumstances and conditions. An electric utility doing business within this state shall not, directly or indirectly by a special rate, rebate, draw-back, or other device, charge, demand, collect, or receive from a person, partnership, or corporation, a greater or lesser compensation for a service rendered than the electric utility charges, demands, collects, or receives from any other person, partnership, or corporation for rendering, a like contemporaneous service.

The Commission has interpreted Section 7(4) to allow it to consider “circumstances and conditions” which distinguish one group of customers from another. For example, the Commission approved a senior citizen rate for Consumers Power Co. on July 31, 1978 in Case No. U-5331, pp. 95-106, by citing, among other things, that customer group’s “inability to pay.” p. 105. When initially established, the senior citizen rate was a commodity discount, with those seniors using less than 300 kWh per month being charged only \$0.026 cents per kWh, compared to \$0.0396 cents per kWh for all other residential customers. Later, the discount became a credit on the overall bill, similar to the low-income rate established in 2008 for Consumers electric customers. *See* Case No. U-15245. In adopting the senior citizen rate, the Commission specifically found that the commodity discount for Consumers complied with Act 106 of 1909. Notably, gas utilities are not subject to Act 106 and it cannot be argued that the Act prohibits them from offering commodity discounts.

The implementation of power supply and gas cost recovery clauses presented the Commission with a new legal issue in authorizing commodity discounts. 1982 PA 304 allows for the monthly adjustment of rates for increased power supply and gas costs. Since a utility can only recover its actual cost of gas or power through an Act 304 process, any discount to one group of customers would necessarily mean that the utility’s rates would be rendered confiscatory since it could not charge other customers more than the cost of their power or gas. However, Act 286, by not distinguishing between the commodity portion and the rest of the utility bill, addresses this issue for

large electric utilities because it specifically permits the revenue shortfall from any and all parts of the rate can be attributed to “all customer classes.” Moreover, Act 304 does provide that “the commission may adopt different procedures with respect to customers served under the various rate schedules of the utility and may, in appropriate circumstances, order refunds or credits in proportion to the excess amounts actually collected from each such customer during the period covered.” MCL 460.6h (13) and MCL 460.6j(14). By recognizing the need to adopt different procedures for different rate schedules, the Commission also recognized the need to allow for the possibility of commodity discounts. Two years after the enactment of PA 304, the Legislature enacted Act 49 of 1984 which provided for different rates for each block of electrical usage by the customer to encourage conservation. The statute was initially designed as a “lifeline” rate for low-income customers who used less electricity than the average customer. Act 49 was another legislative enactment of a commodity discount and since it was enacted subsequent to Act 304, it affirms the Legislature’s intent that such discounts can co-exist with Act 304.

In sum, a commodity discount has been previously found by the Commission to be lawfully adopted, even without statutory support. With the enactment of PA 286 of 2008, the Legislature has clearly indicated its desire for the large electric utilities to discount low-income rates. By not excluding the commodity portion of the customer’s bill in requiring large utilities to request approval for such rates, the Legislature has allowed the Commission to adopt a commodity discount for these utilities. To apply such a discount to other utilities may require additional legislation.

As noted above, Consumers electric division already uses an IBT during the summer months; thus an IBT could be extended to other electric utilities and could be made year round. The discount on the lifeline block could be recovered by adding a third tier for usage over 1000 kWh per month for example.

The advantages of this type of rate structure include that it is simple to understand and administer, it provides some protection for low income customers, and it provides a conservation incentive to all customers.

There are, nevertheless, important caveats to designing a lifeline rate. Policy makers must determine whether the public interest is best served by limiting the initial power block to qualifying customers, or whether an initial, affordable block of energy should be available to all customers. Next, utilities and regulators must ensure that an initial lifeline block is properly designed to truly cover basic needs for cooking, refrigeration, and heating<sup>25</sup> and that the lifeline rate is reasonably available to all customers who qualify. The Commission Staff points out that lifeline electric rates have been implemented in the past and, because certain low income customers were found to be above-average electric users, these rates actually caused more harm than good. Finally, the utilities point out that if the IBT is designed to recover the “subsidy” for the lifeline block by increasing the price for additional blocks of power, rate designers must be cognizant of the probable decrease in electric use resulting from energy optimization programs offered by the utilities under 2008 PA 295. Failure to consider and estimate decreasing household energy use as part of lifeline or IBT rate design could result in an unsustainable program.

#### Education and Energy Conservation

While energy affordability programs are necessary to address the low income energy burden, it is essential that energy affordability programs also incorporate additional elements that address home weatherization and energy efficiency, conservation education, and financial management education where appropriate.

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<sup>25</sup> Information from the EIA on residential electric sales shows that while the largest peak in electric usage tends to occur in the hottest summer months, the months of November through January also demonstrate above average electric sales due to increased lighting requirements, more indoor cooking, and the use of electric furnace fans in gas forced air furnaces.

Several of the Michigan utilities have proposed energy optimization plans (EOPs) that include aggressive customer education campaigns detailing a variety of conservation measures that can significantly affect customer consumption. Act 295 requires all utilities to provide energy efficiency programs to all customer classes including low income customers. A low income pilot program (LIP) operated by Wisconsin Electric Power Company d/b/a We Energies (WEPCo), in Milwaukee County, Wisconsin, contains several elements that are worthy of consideration by other Michigan utilities. The LIP, which is operated by WEPCo in conjunction with two community based agencies, includes: 1) a reduced budget bill payment amount; 2) arrearage forgiveness; 3) allowances for limited payment failure; 4) case management; and 5) energy efficiency, financial, and program education.

The budget bill payment amount calculation is scaled in accordance with household income and the federal poverty guidelines (participants with lower household incomes are provided with lower payment limits). The arrearage forgiveness program forgives a quarter of program arrears every three months if the household successfully paid all their bills at the reduced bill payment amount in that period of time. At the end of 12 months, if a household made 12 successful payments, 100% of household arrears will be written off. The program builds in flexibility for circumstances where a household cannot make its monthly payment and provides an opportunity for households to catch up and still reap full benefits, rather than eliminating them from the program altogether. However, the amount a household owes to the utility due to payment failures (including relevant taxes and late fees) cannot exceed twice the amount of the established budget amount, or two late payments. If this does happen, then the household is removed from the program.

The LIP also provides a case manager to provide individualized assistance to LIP participants. WEPCo defines case management as follow-up with participants who are behind in payments or not fulfilling other program requirements. However, administering agencies may go beyond this basic

level and provide more extensive one-on-one counseling. The LIP requires households to attend financial management and energy education training. Households attend four to six hours total of training, depending on the format and administering agency. This education not only provides basic information about budgeting and energy conservation, but also provides an opportunity to emphasize program requirements.

The Business Case for Low Income Assistance

The energy burden faced by low income households clearly imposes a cost on those households that are unable to pay and ultimately face a shutoff and complete deprivation of the basic need of energy for heating, lighting, cooking, and refrigeration. But the low income energy burden also imposes costs on other ratepayers and society in general. For example, ratepayers must ultimately bear most of the carrying costs for arrearages and collections, bad debt, service termination and reconnection, theft, and complaint resolution through increases in base rates. Indeed, the cost of uncollectible expense as a percentage of operating revenue has risen substantially for Michigan’s two largest electric and gas utilities:

Uncollectible Expense as a Percent of Operating Revenue					
	2003	2004	2005	2006	2007
Consumers Gas Division	0.50052%	0.52273%	0.48154%	0.74816%	0.72708%
Consumers Electric Division	0.27153%	0.26705%	0.27438%	0.28802%	0.33331%
Detroit Edison	1.03490%	1.42780%	1.10409%	0.79296%	0.86022%
Michigan Consolidated Gas	2.89972%	2.12949%	2.66720%	2.52933%	4.17622%

Estimates for 2008 are not yet available, but indications are that uncollectible expense rose significantly, reflecting the ongoing economic downturn and colder than normal winter

temperatures that caused higher than normal natural gas bills. If economic conditions continue to worsen, the uncollectible expense amounts may be higher in 2009.

When the energy burden is too high, ratepayers must not only assume the costs associated with the high energy burden, but as taxpayers, ratepayers must also assume the costs associated with the need for additional health care for low income household members trying to reduce energy usage;<sup>26</sup> additional costs for public safety, which result when low income households attempt to supplement central heating by using kitchen ovens or space heaters for heat leading to fires; and the costs associated with homelessness for low income families forced from their homes because electric or gas service has been shut off for nonpayment.

As the table above shows, Michigan's current programs are not sufficient to assist many low income customers facing declining income and ever increasing energy costs. The objective of any new program, whether that program is a PIPP, a lifeline rate, or some other type of assistance method, must be to create mechanisms that can provide affordable energy for low income customers and that (preferably) cost less than the sum of certain currently incurred costs that can be avoided or reduced by implementing the program (i.e., arrearage and uncollectible expense, theft, disconnections/reconnections, and other administrative costs) that utilities and ratepayers currently pay. It is the work group's general view (although not a consensus) that the costs of a low income

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<sup>26</sup> Weather-induced health problems are often exacerbated by attempts by low income customers to reduce energy use in the winter. High energy bills limit available household funds for the purchase of food or preventative medical care. In a recent survey of LIHEAP participants, 19% of respondents reported keeping their home at a temperature that they felt was unhealthy or dangerous and 16% reported that they became ill in the past 5 years because their home was too cold. 18% reported leaving their home for all or part of the day because it was too cold or too hot. 20% of respondents reported going without food for at least one day in the past five years, and 35% reported forgoing necessary medical or dental care. National Energy Assistance Directors' Association, *The Low Income Home Energy Assistance Program: Providing Heating and Cooling Assistance to Low income Families during a Period of High Energy Prices* (January 29, 2005) available at [http://www.neada.org/LIHEAP\\_Issue\\_Brief\\_03.pdf](http://www.neada.org/LIHEAP_Issue_Brief_03.pdf).

rate or program, if properly designed, could more than offset the currently incurred costs identified above. The low income rates workgroup agreed that it should continue its work looking at alternatives or additions to low income energy assistance programs currently available, including programs that may require legislative action.

The Low Income Rates work group further recommends that the group continue its work by collaborating to design pilot programs for low income customers that are appropriate to each utility, service territory, and customer base including programs that establish commodity discounts for electric customers. These pilot programs should be designed to determine the effect that low income rates or discounts would have on other ratepayers, and the degree to which low income rates would offset the external costs of the low income energy burden. The utilities represented in the work group add that consideration must be given to the fact that the utilities do not have the capability to validate income or employment status in qualifying customers for low income programs and that coordination with state and nonprofit agencies is essential. Further, the utilities point out that utility administrative costs for any program must be accurately accounted for and considered in evaluating any pilot. For any pilot program implemented, the workgroup should monitor participation levels to ensure that all eligible customers are enrolled and refinements to the programs are made to ensure full participation.

Finally, the work group generally agreed that customer responsibility must be a part of any proposed pilot. Customers wishing to participate in a low income program should be required to take advantage of all assistance programs for which they qualify (including non-utility programs like the EITC), and customers must participate in energy education, and weatherization programs and household budgeting education, if appropriate. The work group recognizes that there are some low income individuals whose homes are reasonably efficient or who do not lack adequate

budgeting skills, but who are simply without sufficient financial resources to cover high energy costs.

## **Conclusions and Recommendations**

### **Data Collection**

The Data Collection work group recommends that the data collected for this report continue to be updated on an annual basis. The work group believes that having this data will enhance the efforts of the Commission, the utilities, and the many other agencies that are assisting customers to determine and fulfill the needs of the many customers who are seeing help. The work group also recommends that in the future, data collection formats should be standardized so that collection of the data can be done as quickly and efficiently as possible.

### **Available Assistance**

The Available Assistance work group and the Process Issues work group recommended that a statewide education and promotion campaign be implemented to help bring more EITC dollars into the state and to ensure that low income households are informed of all available assistance programs. This education campaign should also advertise sites that provide help in filling out various assistance forms and offer a different outreach approach to customers in rural areas of the state.

The Available Assistance work group also recommended that efforts should be made to streamline the process of getting assistance dollars to eligible customers through expansion of the electronic payment process that automates the way customers receive assistance payment. The work group recommended that a small, low income task force be created to meet and further discuss issues related to delivery of assistance dollars. This task force would also develop solutions to improving delivery of assistance to customers. One specific area the task force would examine is how other states and utilities distribute assistance dollars. A final report written by the task force

would be sent to applicable entities, including the Commission, state agencies and the Legislature. The Available Assistance work group also highlighted the need to continue discussions about the HHC and the administration of energy assistance dollars.

### Process Issues

In addition to recommending an education campaign for promoting the EITC and HHC, the Process Issues work group also recommended that the utilities cross reference databases with DHS to help identify low-income customers needing assistance. The work group also recommended that the utilities send information to customers on usage for the HHC on a monthly basis and that the utilities provide consumption data on their voice response systems. The work group recommended that agencies be engaged to complete HHC and EITC forms by phone and then send them to customers for signature. In addition, the work group recommended that phone support be provided to Michigan 2-1-1 for the application process for HHC so that the same message is used by Michigan 2-1-1, other agencies, and utilities. The Process Issues work group recommended that weatherization information be provided to customers seeking assistance at the Michigan Unemployment Insurance Commission.

The Process Issues work group recommended that an arrearage forgiveness program be designed for WPP customers who are not DHS clients and who maintain their payments during the heating season. Finally, the work group plans to continue meeting to ensure implementation of its recommendations.

### Low Income Rates

The Low Income Rates work group should continue its work looking at alternatives or additions to low income energy assistance programs currently available, including programs that may require legislative action. The work group further recommended that it continue to collaborate to design pilot programs for low income customers that are appropriate to each utility, service territory, and

customer base, including programs that establish commodity discounts for electric customers where appropriate. These pilot programs should be designed to determine the effect that low income rates would have on other ratepayers, and the degree to which low income rates would offset the external costs of the low income energy burden. In any proposed pilot, consideration must be given to the fact that the utilities do not have the capability to validate income or employment status in qualifying customers for low income programs and that coordination with state and nonprofit agencies is essential. In addition, utility administrative costs for any program must be accurately accounted for and considered in evaluating any pilot.

Finally, the work group generally agreed that customer responsibility must be a part of any proposed pilot. Customers wishing to participate in a program should be required to take advantage of all assistance programs for which they qualify (including non-utility programs like the EITC), and customers must participate in weatherization programs, energy education, and household budgeting education, if appropriate.

Appendix A  
Low Income Programs by State

Use of LIHEAP by State – APPENDIX A

State	FY09 Funding Amt*	Income Elig.	Asst. Lvl's	Other State/Private Assistance
AL	\$64,273,998	175% FPL	\$70-240	<b>Neighbors Helping Neighbors Fund:</b> In 1996, Senate Bill 45 was passed in the legislature providing for a state low-income weatherization program to supplement federal funds by including a voluntary tax check-off option for state income-tax filers. Taxpayers may designate an amount of their refund as a voluntary contribution to the fund.
AK	\$30,927,787	150% FPL	\$170-2975	<b>Power Cost Equalization Program (PCE):</b> PCE program provides economic assistance to customers in rural areas of Alaska where the kilowatt-hour charge for electricity can be three to five times higher than the charge in more urban areas of the state. The program seeks to equalize the power cost per kilowatt-hour statewide.
AZ	\$31,083,670	200% FPL	\$25-400	<b>Energy Support Program:</b> Offers a discount up to 40 percent off the cost of electricity for customers who meet certain income guidelines. The income guidelines are based on 150% of the federal poverty guidelines and change every July 1st. The discount varies depending on how much electricity is used each month.
AR	\$39,710,892	150% FPL	\$42-159	<b>Energy Arkansas:</b> Sales tax exemption on the first 500 kWh used each month for customers with an annual household income of less than \$12,000.
CA	\$248,486,694	75% State Median Income.	\$131-479	<b>Low-Income Rate Assistance:</b> Through the California Alternate Rates for Energy (CARE) program eligible customers receive a 20 percent discount on electric and natural gas bills. Eligibility: total household income is at or below 200 percent of federal poverty level.
CO	\$71,351,514	185% FPL	\$350-900	<b>Property Tax, Rent, and Heat Rebate:</b> Operated through the state Department of Revenue, allows tax rebates for home heating payments to residents at least 65 years old, surviving spouses at least 58 years old, or to disabled. The income limit for single households is \$11,000, for married couples, \$14,700. Qualified applicants can receive a rebate of up to \$600 of their property tax and \$192 directly or as part of their rent payments.
CT	\$125,886,559	150% - 200% FPL <sup>†</sup>	\$650-925	<b>State Appropriated Fuel Assistance Program:</b> The State General Assembly provides an annual appropriation of state funds for energy assistance benefits to elderly and/or disabled households with incomes between 151-200% of poverty guidelines. These and additional state funds provided by the General Assembly supplement the Connecticut Energy Assistance Program (LIHEAP).
DC	\$16,248,702	60% State Median Income	\$750 max.	<b>Low-Income Rate Assistance:</b> The Public Service Commission requires Potomac Electric Power Company (PEPCO), and Washington Gas to offer discount rates to low-income residential customers.
DE	\$18,748,265	200%	\$550	

		FPL	avg.	
<b>FL</b>	\$101,700,657	150% FPL	\$100-200	<b>Weatherization:</b> In 1992 the Florida legislature passed the William E. Sadowski Affordable Housing Act. Funding comes from a portion of documentary stamp taxes on deeds and supports two programs that supplement the state's WAP: State Housing Initiatives Partnership, which funds weatherization measures; and the Low-Income Emergency Home Repair Program, which funds emergency and energy-related home repairs.
<b>GA</b>	\$80,409,964	150% FPL	\$310-350	<b>Natural Gas Service:</b> The regulated natural gas provider program, provided by SCANA Energy and partially funded by the state's universal service fund, provides natural gas service to low income households and to consumers who are unable to obtain or maintain natural gas service from another marketer. Households meeting the low-income requirements established by the Georgia Department of Human Resources qualify for a reduced security deposit, special rates and a lower customer service fee.
<b>HA</b>	\$5,182,356	150% FPL	\$400 max.	<b>Hawaiian Electric Company:</b> Starting in June 2008, qualified customers on Oahu can sign up to receive energy efficient equipment at no cost through Hawaiian Electric Co.'s residential low-income program. Covered under the program are compact fluorescent lights, faucet aerators, low-flow showerheads and water heater temperature set backs.
<b>ID</b>	\$27,246,741	160% FPL	\$113-506	
<b>IL</b>	\$265,679,324	150% FPL	\$100 min.	<b>Low-Income Rate Assistance and Energy Efficiency:</b> Effective 1998, the Supplemental Low-Income Energy Assistance Fund (SLEAF) was authorized through electric utility restructuring legislation. The law directed gas and electric utilities to assess a monthly surcharge from customers and deposit it into a state fund, which the General Assembly appropriates yearly to the state Department of Commerce and Community Affairs, the LIHEAP and weatherization grantee.
<b>IN</b>	\$116,486,731	150% FPL	\$100-350	<b>Universal Service Program:</b> Beginning January 1, 2005, eligible customers of Citizens Gas and Vectren, who have applied for the state's LIHEAP through local community action agencies, will automatically be enrolled in the new USP and will receive bill reductions in addition to LIHEAP. Monthly bill reductions will range from 9 percent to 32 percent of the total bill (not including LIHEAP benefits), depending on the consumer's income level and utility provider.
<b>IO</b>	\$76,942,847	150% FPL	\$390 avg.	
<b>KS</b>	\$76,929,443	130% FPL	\$40-491	

<b>KY</b>	\$74,658,717	130% FPL	\$400 max.	<b>Low-Income Rate Assistance:</b> The Department of Social Services Preventive Assistance Program initiative assists families with an energy payment of up to \$300 per family if payment would prevent removal of a child from the family or assist in reuniting the child with the family.
<b>LA</b>	\$61,501,777	60% State Median Income	\$150-600	
<b>ME</b>	\$79,186,986	200% FPL	\$5-800	<b>Low-Income Assistance Program (LIAP):</b> Maine's transmission and distribution utilities are required to create or maintain a LIAP to make electric bills more affordable for LIHEAP-eligible customers. The Maine State Housing Authority administers, implements and coordinates the statewide plan and the individual LIAPs in conjunction with its delivery of LIHEAP. The fund amounts to approximately \$5.7 million yearly.
<b>MD</b>	\$109,164,402	175% FPL	\$50-1200	<b>Electric Universal Service Program (EUSP):</b> Authorized through restructuring legislation, the EUSP includes current electric bill assistance, retirement of certain old bills, and weatherization services. Its funding of \$34 million per year continues but is subject to annual review and approval by the Maryland Public Service Commission (PSC) and the legislature. Eligibility: electricity customers with incomes at or below 150% FPL. Eligible customers may receive both EUSP and LIHEAP.
<b>MA</b>	\$213,499,771	60% State Median Income.	\$865 max.	<b>Low-Income Rate Assistance:</b> Over a dozen gas, electric and combination IOUs offer utility rate discounts totaling nearly \$40 million per year and ranging from 20 percent to 42 percent off the low-income customer bill. These discounts were negotiated during the past two decades and were required to continue under Massachusetts' restructuring legislation. Households earning less than 175 percent of Federal Poverty Guidelines, or receiving one of several means tested programs, including LIHEAP, Food Stamps, TANF and SSI are eligible.
<b>MI</b>	\$249,416,480	Heating: 10% FPL/ Crisis: 60% State Median Income.	\$141 avg.	<b>Home Heating Credit:</b> A state tax credit to assist low-income families living in Michigan with the cost of heating their homes. The Credit is based on household income, the number of exemptions claimed and the home's actual heating costs. Special exemptions may be available to customers 65 and older and to people with disabilities.
<b>MN</b>	\$163,982,395	50% State Median Income	\$100-1200	<b>Low-Income Rate Assistance:</b> As a result of legislation passed in 1994, Minnesota requires that electric companies serving over 200,000 residential customers provide a 50 percent discount for low-income customers on the first 300 kilowatt hours consumed each month. The provision applies only to the state's largest utility, Xcel Energy. The average benefit is \$108 per household.

<b>MS</b>	\$42,621,613	150% FPL	\$250 avg.	<b>Mississippi Power:</b> Monthly base charge is waived (\$0.46 per day) for eligible low-income and elderly customers receiving SSI or AFDC.
<b>MO</b>	\$114,902,312	125% FPL	\$65- 301	
<b>MT</b>	\$35,202,358	175% FPL	\$919 avg.	<b>NorthWestern Energy:</b> Customers who qualify for LIHEAP, automatically receive a discount on their NorthWestern Energy electric and natural gas bills.
<b>NB</b>	\$44,086,275	125% FPL	\$1733 max.	
<b>NV</b>	\$14,599,076	150% FPL	\$180 min.	<b>Universal Energy Charge (UEC):</b> In August 2001, a UEC was imposed on customers of electric and gas utilities to pay for low-income energy programs. About \$10 million is raised annually with 75% to be distributed through the state LIHEAP agency to supplement LIHEAP; and 25% through the state weatherization agency for low-income energy efficiency.
<b>NH</b>	\$47,736,727	60% State Median Income	\$120- 975	<b>Low-Income Rate Assistance:</b> Beginning October 1, 2002, the tiered-discount program (TDP), a modified percentage of income plan, will serve about 23,800 households. The tiers are structured to provide qualified low-income households with monthly energy bill payments equal to, on average, four percent of income for general use customers and six percent for electric heat users. Arrearages existing on or before August 31, 2002 are eligible for retirement.
<b>NJ</b>	\$185,773,240	225% FPL	\$115- 1138	<b>Lifeline Assistance Program:</b> Funded from the New Jersey general fund, Lifeline provides a credit on electric or natural gas bills of \$225 per year to disabled and senior homeowners and tenants. Beneficiaries of Medical Assistance to the Aged, Medical Assistance Only, or New Jersey Care, are sent Lifeline applications automatically every August. Supplemental Security Income recipients receive Lifeline automatically.
<b>NM</b>	\$27,451,018	150% FPL	\$40- 560	
<b>NY</b>	\$538,243,393	75% State Median Income.	\$800 max.	<b>Low-Income Rate Assistance:</b> New York's eight investor-owned utilities, and one municipal power authority, have low-income energy programs totaling about \$20 million per year. The programs vary considerably by utility service territory and have varying eligibility guidelines. Most offer rate assistance and one or more other services such as arrearage forgiveness, weatherization, appliance repair and replacement and aggregation.
<b>NC</b>	\$132,528,494	Heating:1 10% FPL/ Crisis:15 0% FPL	\$600 max.	

<b>ND</b>	\$38,240,410	60% State Median Income	\$578 avg.	Qualifying households can get a voucher for up to \$300 from their local county social services office to buy a window air conditioner and fans. To qualify, the low-income household must have at least one person with a medical need that makes him or her vulnerable to heat-related illnesses. A note is needed from a medical professional verifying that he or she has a condition.
<b>OH</b>	\$245,750,378	175% FPL	\$72-520	<b>Percentage of Income Payment Plan (PIPP):</b> Ohio's regulated gas and electric utilities are mandated to participate in the statewide PIPP. Low-income customers who heat with natural gas pay 10 percent of their monthly income to their gas company and 5 percent to their electric company. Those with incomes at or below 150 percent of federal poverty guidelines (FPG) pay 3 percent instead of 5 percent to their secondary source of heat. If their utility provides both gas and electric, or if they heat with electricity, they pay 15 percent of income to the one utility. Eligibility: must receive primary or secondary heat source from a company regulated by the Public Utilities Commission of Ohio, total household income must be 150 percent FPG or below, and, if eligible, must apply for all energy assistance programs.
<b>OK</b>	\$52,878,236	130% FPL	\$286 max.	<b>Oklahoma Gas &amp; Electric:</b> LIHEAP customers pay the regular residential rate for the first 600 kWhs used and then receive a credit of \$0.67 per kWh from November through April. On bills of June through September, the Customer Charge will be waived from the monthly billing.
<b>OR</b>	\$51,460,386	60% State Median Income.	\$150-320	<b>Oregon Energy Assistance Program:</b> Oregon's restructuring legislation requires its two investor-owned electric companies to collect \$10 million per year, beginning in 2000, for low-income electric bill payment assistance. The funds are administered by the state LIHEAP office and must be expended in the service area of the electric company from which the funds are collected. Income eligibility for the electric assistance funds is the same as for LIHEAP, 60 percent of state median income.
<b>PA</b>	\$308,394,335	60% State Median Income	\$300-800	<b>Low-income Rate Assistance:</b> Pennsylvania's major gas and electric utilities are required to provide Customer Assistance Programs (CAPs), which generally provide a percentage of bill plan or a percentage of income payment plan, wherein low-income customers' utility payments are based upon their incomes and/or utility bills. Some programs include utility arrearage forgiveness; others provide flat rate discounts or bill credits. Under electric and gas restructuring legislation all electric and gas utilities are required to offer universal service programs, to include CAPs, and to continue pre-restructuring low-income programs.
<b>RI</b>	\$38,653,082	60% State Median Income	\$250 min.	

<b>SC</b>	\$51,046,655	150% FPL	\$130- 300	
<b>SD</b>	\$31,057,911	160% FPL	\$235- 865	
<b>TN</b>	\$80,511,543	125% FPL	\$300- 600	<b>Memphis Light Gas and Water On Track:</b> A payment program designed to help customers with limited incomes to manage debt and pay off their bills over a period of time. The program focuses on education, financial management and social services. To qualify for the program customers must have a steady, but limited, income and owe more than \$600 to MLGW. Participants may receive Extended Payment Plans for up to three years; minor home repairs for homeowners; and deposit credited back to the account after completion of program.
<b>TX</b>	\$169,195,961	125% FPL	\$1200 max.	<b>Lite-Up Texas:</b> Effective July through October 2007, low-income customers in areas with retail electric choice (Houston, Dallas, and areas of South and West Texas) are eligible for a summer discount. Households currently receiving Food Stamps or Medicaid will automatically be included in the program if the information on file with the Health and Human Services Commission matches information on file with the household's Retail Electric Provider.
<b>UT</b>	\$35,754,718	150% FPL	\$875 max.	<b>Rocky Mountain Power (PacifiCorp) and Home Electric Lifeline Program (HELP):</b> The program is funded through a surcharge on all electric customer bills, averaging about \$0.12 per month, and operates in coordination with Utah's LIHEAP. Applications will be available for non-LIHEAP households at community-based organizations when LIHEAP is not operating. Participating customers will receive an \$8 per month credit on their bills.
<b>VT</b>	\$36,155,603	Heating:1 25% FPL/ Crisis:15 0% FPL	\$1783 avg.	<b>Low-Income Energy Efficiency:</b> The Weatherization Trust Fund, established in 1990, is funded by a 0.5 percent gross receipts tax on regulated utilities and all fuels except wood. The trust fund has raised about \$3 million annually to supplement the Vermont Weatherization Assistance Program.
<b>VA</b>	\$127,668,416	130% FPL	\$142- 441	All participating vendors for the LIHEAP Fuel and Crisis Assistance components agree to waive charging the State Sales Tax on all fuel deliveries. Eligible households receive the amount that would be paid to the State for sales tax in the total amount of fuel delivered.
<b>WA</b>	\$84,645,245	125% FPL	\$25- 750	
<b>WV</b>	\$45,018,758	130% FPL	\$80- 500	All gas and electric utilities offer a reduced rate of 20% from December - April. Eligible customers must receive either SSI, WV WORKS, or Food Stamps AND be 60 years of age or older. Customers must be a recipient of one of these programs during November, December, January, February, and March to get the discount for that month.

WI	\$147,607,702	150% FPL	\$10- 1200	<p><b>Low-Income Rate Assistance</b> : A Public Benefits Fund (PBF) created in 1999 under energy reliability legislation funds low-income energy programs, along with other conservation and renewables programs. Funding for the low-income energy portion of the PBF varies each year and comes from three sources: prior utility (gas and electric) low-income expenditures (about \$21 million per year), a new access fee or customer charge on all electric bills, and the current year's federal LIHEAP and weatherization allocations. Funding is split between energy assistance and energy efficiency. The new funding allows the LIHEAP program to pay a non-heating electric benefit, averaging about \$92 for FY 2003, along with the regular LIHEAP heating benefit. Low-income programs formerly operated by utilities will transition to the LIHEAP grantee by January 2003.</p>
WY	\$14,315,404	75% State Median Income	\$1278 max.	<p><b>Senior Tax Rebate</b>: Provides a tax rebate in the form of a check made out to the client, 65 years of age or older, or over age 18 and 100% disabled, and a Wyoming resident for one full year at the time of application, for up to \$500 or \$600 depending on program guidelines.</p>

\* Includes regular block grant amount and emergency contingency funds.

† This rate is for seniors and the disabled.

All information in this document is taken from the U.S. Department of Health and Human Services LIHEAP Clearinghouse website at <http://liheap.ncat>

## Appendix B

### Summary Information on Home Heating Credits

**Summary Information on Home-Heating Credits**  
Updated March 31, 2009

<b>Tax Year</b>	<b>Number of Claimants</b>	<b>Credits Issued</b>	<b>Average Credit</b>	<b>Proration Factor</b>	<b>Non-prorated Credits</b>	<b>Percent Change</b>
1992	397,163	\$74,303,595	\$187.09	100%	\$74,303,595	
1993	404,708	\$75,418,825	\$186.35	100%	\$75,418,825	1.5%
1994	404,046	\$75,946,412	\$187.96	100%	\$75,946,412	0.7%
1995	284,342	\$32,218,609	\$113.31	62%	\$51,965,498	-31.6%
1996	311,518	\$40,782,457	\$130.92	70%	\$58,260,653	12.1%
1997	310,508	\$43,678,935	\$140.67	74%	\$59,025,588	1.3%
1998	299,095	\$44,234,134	\$147.89	82%	\$53,944,066	-8.6%
1999	303,850	\$49,685,849	\$163.52	90%	\$55,206,499	2.3%
2000	310,593	\$57,758,290	\$185.96	100%	\$57,758,290	4.6%
2001	317,678	\$61,516,047	\$193.64	100%	\$61,516,047	6.5%
2002	334,755	\$68,188,190	\$203.70	100%	\$68,188,190	10.8%
2003	356,820	\$61,826,025	\$173.27	80%	\$77,282,531	13.3%
2004	386,518	\$68,080,794	\$176.14	76%	\$89,579,992	15.9%
2005	391,778	\$74,123,508	\$189.20	76%	\$97,530,932	8.9%
2006	406,243	\$81,525,121	\$200.68	76%	\$107,269,896	10.0%
2007	442,788	\$63,505,015	\$143.42	53%	\$119,820,783	11.7%
2008 (est)				65%	\$135,400,000	13.0%

Source:

Home Heating Credit Production Report, Michigan Department of Treasury

Note:

The amount available for tax year 2008 home heating credits is \$88.0 million, resulting in the 65% proration amount.

Prepared By: Office Of Revenue and Tax Analysis, Michigan Department of Treasury

Filename: M:\orta\Taxes\INCOME\CREDITS\home heating\certification\hhc\_2007estimate\_111607.xls]2007FullCredit

Updated: 3/31/2009 9:30 AM

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Appendix C

Home Heating Credit Distributions  
2005-2006

**Distribution of Home Heating Credits by Household Income  
Individual Income Tax, 2005**

<b>Household Income</b>	<b>Senior Citizens</b>		<b>General</b>		<b>Disabled<sup>(1)</sup></b>		<b>Veterans</b>	
	<b>Number of Returns</b>	<b>Home Heating Credit</b>	<b>Number of Returns</b>	<b>Home Heating Credit</b>	<b>Number of Returns</b>	<b>Home Heating Credit</b>	<b>Number of Returns</b>	<b>Home Heating Credit</b>
\$ 1,000 and below	1,068	\$633,871	12,241	\$5,640,375	259	\$128,635	6	\$1,841
1,001 - 2,000	249	109,401	4,977	1,586,056	86	32,479	1	365
2,001 - 3,000	404	166,100	6,610	1,968,188	145	51,776	4	1,316
3,001 - 4,000	681	269,310	8,845	2,560,791	268	89,043	3	799
4,001 - 5,000	1,196	412,991	11,033	3,023,305	396	124,887	5	1,897
5,001 - 6,000	2,110	644,875	13,594	3,498,712	772	204,629	10	2,941
6,001 - 7,000	4,954	1,267,882	21,089	4,923,129	5,025	999,631	28	6,721
7,001 - 8,000	8,456	1,916,738	28,916	6,081,480	6,741	1,235,537	33	6,696
8,001 - 9,000	6,707	1,379,099	22,163	4,256,910	2,528	487,387	19	4,122
9,001 - 10,000	7,741	1,352,166	22,181	3,959,119	2,497	423,291	32	5,350
10,001 - 11,000	8,610	1,320,672	20,794	3,717,025	2,707	470,124	38	6,102
11,001 - 12,000	7,971	964,178	18,413	3,411,998	2,052	322,872	24	4,195
12,001 - 13,000	7,649	728,085	16,418	2,607,454	1,725	247,885	23	3,174
13,001 - 14,000	6,577	506,089	15,202	2,109,778	1,508	200,418	26	2,741
14,001 - 15,000	2,459	337,079	11,219	1,739,542	886	154,260	18	2,573
15,001 - 16,000	1,923	261,228	9,835	1,350,916	719	126,466	20	3,390
16,001 - 17,000	1,814	209,034	9,390	1,069,414	626	97,172	16	2,029
17,001 - 18,000	1,664	159,998	7,530	791,205	502	75,226	16	1,941
18,001 - 19,000	1,381	120,363	4,764	631,689	373	63,118	14	1,821
19,001 - 20,000	1,385	82,943	4,253	474,916	333	49,447	20	1,803
Over 20,000	2,343	127,934	14,148	1,452,369	1,236	170,476	37	3,741
<b>Totals</b>	<b>77,342</b>	<b>\$12,970,036</b>	<b>283,615</b>	<b>\$56,854,371</b>	<b>31,384</b>	<b>\$5,754,759</b>	<b>393</b>	<b>\$65,558</b>
<b>Average Credit</b>		<b>\$167.70</b>		<b>\$200.46</b>		<b>\$183.37</b>		<b>\$166.81</b>

<sup>(1)</sup>Includes blind, blind/deaf, paraplegic, quadriplegic, and totally disabled persons.

Source: Tax Analysis Division, Bureau of Tax and Economic Policy, Michigan Department of Treasury.

**Distribution of Home Heating Credits by Household Income  
Individual Income Tax, 2006**

<u>Household Income</u>	<u>Senior Citizens</u>		<u>General</u>		<u>Disabled<sup>(1)</sup></u>		<u>Veterans</u>	
	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>	<u>Number of Returns</u>	<u>Home Heating Credit</u>
\$ 1,000 and below	1,024	\$650,294	13,162	\$6,380,720	258	\$143,117	4	\$1,167
1,001 - 2,000	210	96,492	5,017	1,661,218	97	39,926	0	0
2,001 - 3,000	335	139,971	6,568	2,007,706	157	62,278	3	633
3,001 - 4,000	550	220,371	8,842	2,576,335	276	91,036	3	820
4,001 - 5,000	959	355,544	10,691	3,016,199	416	129,525	9	2,301
5,001 - 6,000	1,721	576,869	13,220	3,542,554	695	206,730	6	2,161
6,001 - 7,000	3,153	950,553	16,614	4,089,662	2,080	501,136	11	4,540
7,001 - 8,000	8,752	2,136,253	31,082	7,070,179	10,449	2,056,762	40	11,058
8,001 - 9,000	5,782	1,348,470	22,640	4,742,951	2,817	577,107	21	3,671
9,001 - 10,000	7,012	1,436,008	22,599	4,277,551	2,998	584,240	29	5,309
10,001 - 11,000	7,606	1,331,849	21,611	4,002,885	2,771	493,372	31	4,183
11,001 - 12,000	8,119	1,196,408	18,672	3,890,304	2,468	451,741	24	4,536
12,001 - 13,000	7,461	881,989	16,654	2,975,693	1,950	309,538	21	3,466
13,001 - 14,000	6,991	660,823	16,053	2,516,807	1,715	233,779	26	3,401
14,001 - 15,000	4,118	420,311	13,454	2,138,334	1,296	213,435	17	2,311
15,001 - 16,000	1,926	309,665	10,399	1,663,638	816	154,097	17	2,748
16,001 - 17,000	1,788	243,661	10,002	1,338,738	766	124,748	12	2,263
17,001 - 18,000	1,765	195,091	9,316	1,067,934	663	92,796	21	3,242
18,001 - 19,000	1,390	138,846	5,946	787,598	495	80,898	23	2,868
19,001 - 20,000	1,371	110,468	4,871	607,331	387	61,067	14	2,260
Over 20,000	3,228	191,693	18,388	1,997,085	1,659	229,057	58	4,932
Totals	75,261	\$13,591,629	295,801	\$62,351,422	35,229	\$6,836,385	390	\$67,870
Average Credit		\$180.59		\$210.79		\$194.06		\$174.03

<sup>(1)</sup>Includes blind, blind/deaf, paraplegic, quadriplegic, and totally disabled persons.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Appendix D  
Sample Home Heating Credit Intake Form

**Notice to Customer:**

**Home Heating Credit.** *Even if you do not have to file a tax return, you may qualify for a Home Heating Credit.*

To determine if you qualify for a Home Heating Credit please respond to one of the following scenarios:

- ▶ If you are currently filing the 2009 Federal or Michigan Tax Return, please reference or bring with you to your tax preparer the perforated portion of this sheet with your tax documents for the completion of form MI-1040CR-7.
- ▶ If you have already filed your 2009 Federal or Michigan Tax return, have a your copy of the returns and the perforated portion of this sheet available and contact an agency representative at XXX-XXX-XXXX to assist you.

▶ If you do not file a tax return, complete the following questions and contact an agency representative at XXX-XXX-XXXX to assist you

Your legal name: \_\_\_\_\_ Social Security Number: \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_

Your spouse's legal name: \_\_\_\_\_ Social Security Number \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_

Your home address (No., Street, PO Box or Rural Route): \_\_\_\_\_  
 City \_\_\_\_\_, Michigan Zip \_\_\_\_\_ County \_\_\_\_\_

Are your heating costs currently included in your rent or in someone else's name? Yes \_\_\_ No \_\_\_

Do you want your name referred to government assistance programs for which you may qualify? Yes \_\_\_ No \_\_\_

Do you or your spouse now receive Supplemental Security Income (SSI)? Yes \_\_\_ No \_\_\_

Enter your age if you are age 60 or older. Your age \_\_\_\_\_ Spouse age \_\_\_\_\_

Did you live in a Substance Abuse Center, Nursing Home, Adult Foster Care Home, or Licensed Home for the Aged (not a senior apartment complex) during all of 2009? Yes \_\_\_ No \_\_\_

Wages, salaries, tips, sick, strike and SUB pay, etc. \$ \_\_\_\_\_

All interest and dividend income \$ \_\_\_\_\_

Net business, royalty, farm or rent income \$ \_\_\_\_\_

Capital (investment) gains or losses \$ \_\_\_\_\_

Child support, Alimony and other taxable income \$ \_\_\_\_\_

Social Security, Supplemental Security Income (SSI) and/or railroad retirement benefits \$ \_\_\_\_\_

Annuity, retirement pension and IRA belefits \$ \_\_\_\_\_

Unemployment compensation \$ \_\_\_\_\_

Any other nontaxable income \$ \_\_\_\_\_

Worker's compensation, veterans' disability compensation or pension benefits \$ \_\_\_\_\_

FIP and other DHS benefits (do not include Food Assistance Program benefits) \$ \_\_\_\_\_

Medical insurance or HMO premiums you paid in 2009 for yourself or your family \$ \_\_\_\_\_

Were you and your spouse full time residents in Michigan? Self: Yes \_\_\_ No \_\_\_ Spouse: Yes \_\_\_ No \_\_\_

If you were not full-year residents please complete the dates of Michigan Residency in 2009. (xx-xx-xxxx)

Yourself: from \_\_\_ - \_\_\_ -2009 to \_\_\_ - \_\_\_ -2009

Spouse: from \_\_\_ - \_\_\_ -2009 to \_\_\_ - \_\_\_ -2009

If spouse died after 12-31-2008, please enter the Date of Death.

\_\_\_ - \_\_\_ - \_\_\_

Enter information that applies to your household during 2009:

Did your spouse live in your household Yes \_\_\_ No \_\_\_

Number of children living with you whom you have legal custody of and are ages 2 and under.

\_\_\_\_\_

Number of children living with you whom you have legal custody of and are ages 3-5.

\_\_\_\_\_

Number of children living with you whom you have legal custody of and are ages 6-18.

\_\_\_\_\_

Number of dependent adults, other than your spouse, who live with you.

\_\_\_\_\_

Number of individuals living in your home who are deaf, disabled, blind, or a qualified disabled veteran

\_\_\_\_\_

Enter the name, relationship, social security number, and age of all dependents counted in the above section.

Name	Relationship to you	Social Security Number	Age(years)

**Retain for 2009 MICHIGAN Home Heating Credit Claim MI-1040CR-7**

Customer Name  
Customer Address  
Customer Address

Utility Vendor  
Name  
Utility Vendor Address  
Utility Vendor Address

**Home Heating Fuel Consumption Nov. 1, 2008 through Oct. 31, 2009**

\$ 0,000.00