



# Affordable Energy Plan



Prepared By:

Illinois Affordable  
Energy Campaign

September 2004

# Call To Action

Dear Friends:

Over the last several years, natural gas prices have risen dramatically. Weather and volatile markets have caused erratic and drastic price spikes, leaving consumers unable to predict or to reliably plan for their families' energy bills. Instability is most worrisome for low-income families, whose tight budgets allow for little flexibility in spending. One cold winter like the one Illinois faced in the winter of 2000/2001 can easily push low-income households into a cycle of increasing debt and/or service disconnections. For example, according to the Illinois Department of Natural Resources, the cost of heating fuels during November of 2000 went up by 15 percent and in December 2000 by 38 percent.<sup>1</sup> This type of dramatic price spike can be disastrous for those households that can barely afford to pay for the cost of energy.

A warm home is a basic human right. In 21<sup>st</sup> century America, we should not have children who are unable to study and suffer because of the cold; the elderly losing their homes due to high heating bills; and people perishing in fires brought on by having to improvise heating sources. There is a better way.

Due to rising concerns of unaffordable energy for low-income Illinoisans, a group of advocates gathered in Chicago in January of 2003 to see if they could develop a better approach to energy assistance. As a result of that meeting, a working group of low-income advocates, energy policy advisors, researchers, and community leaders met and established the Illinois Affordable Energy Campaign (IAEC) to identify and recommend policy changes to the current Low Income Home Energy Assistance Program (LIHEAP). The Illinois LIHEAP program gives

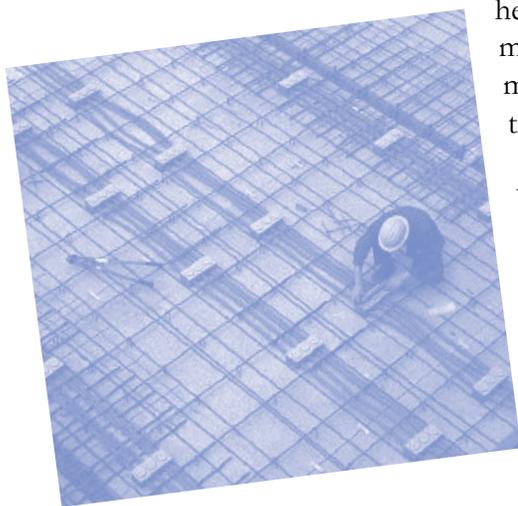
heating assistance to approximately 316,000 families across the state each year. This document, the Affordable Energy Plan, is the result of this collaborative process.

While the current LIHEAP program provides valuable and essential assistance to low-income families, the Affordable Energy Plan (AEP) improves the program design through a set of common sense reform measures that better address today's volatile energy environment. Restructuring LIHEAP will make the program more efficient and effective; it will make energy more affordable for more LIHEAP customers; Illinois



*"I ask you, what am I going to do when my winter gas bill comes in? Will I not be able to eat, go to the doctor or even be able to pay for those other necessities in life, nothing extra, just necessities."*

-Lucinda Ware aged 88 is a resident of the Austin community on the West Side of Chicago.



<sup>1</sup>Home Energy Costs and Assistance in Illinois: 2003 Annual Report, Department of Natural Resources, One Resource Way, Springfield, IL, page 2.

will see fewer homes disconnected from their utility service; and participants will be able to better understand and plan for their heating expenses.

## What You Can Do

Please help us with this initiative. The Illinois Affordable Energy Campaign (IAEC) seeks changes in state law to implement the Affordable Energy Plan. IAEC invites all stakeholder groups, including Illinois elected officials, utilities, advocates, low-income people and community organizations to join this collaborative effort to address energy affordability.

- 1.** **Taxpayers** will benefit by making the Federal and State funded LIHEAP program more streamlined and fiscally efficient.
- 2.** **Utilities** will benefit by reducing the number of customers who get behind on their payments and fall into a cycle of costly disconnection and reconnection.
- 3.** **LIHEAP recipients** will benefit by making energy more affordable, especially for those customers who need assistance the most.

IAEC is building a broad coalition of stakeholders to come together and endorse this campaign. If your organization wishes to endorse this plan or if you have questions you can contact any of the IAEC members that are listed at the end of this document.

Consensus is achievable. Utilities recognize the need to provide affordable energy for low-income households. Peoples Energy published a white paper in March 2004 titled "Improving Energy Assistance in Illinois" describing the challenges low-income households encounter when gas prices climb upward, and they share the goal of making household energy affordable for LIHEAP recipients. The recommendations in this Affordable Energy Plan meet many of Peoples Energy's broad goals. This document explains these recommendations and highlights specific issues and goals.

Thank you,

Affordable Energy Campaign  
September 2004

Illinois Affordable Energy Plan



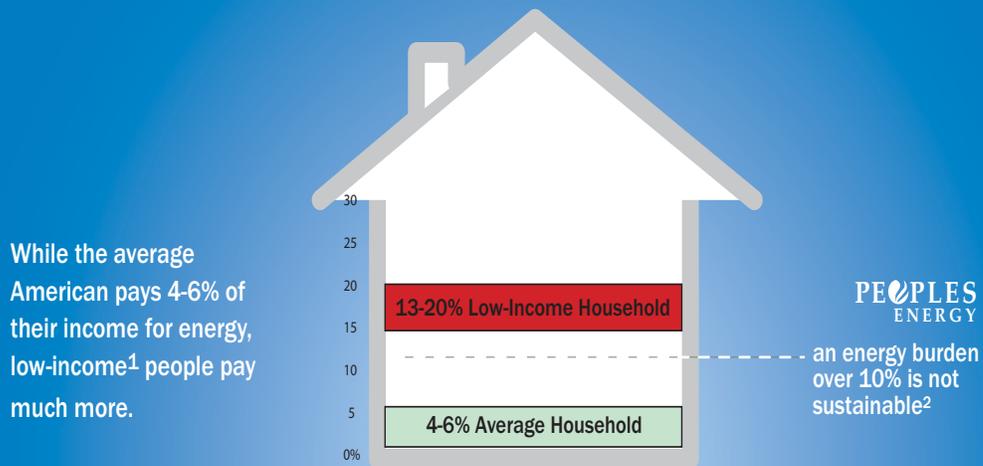
# Energy Problem

## Energy Is Not Affordable

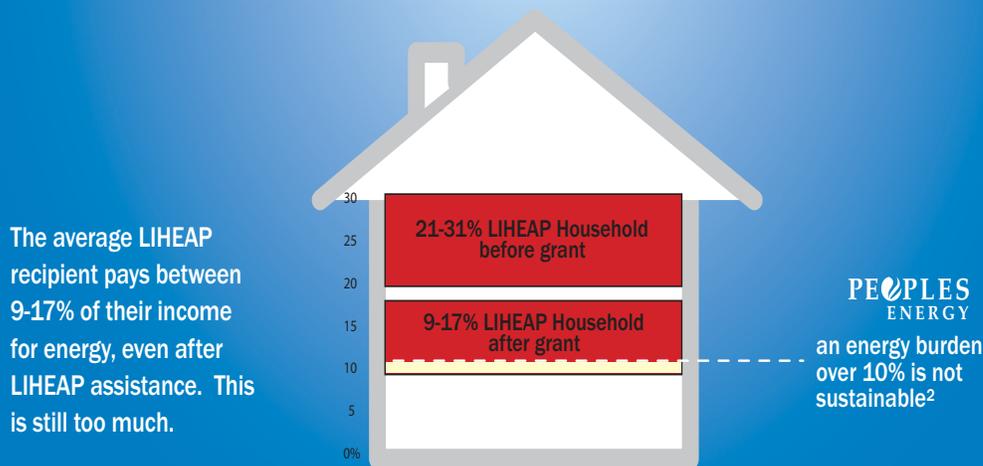
Energy costs are severe and a continuing source of stress for many Illinois households. In some instances, families must make painful decisions regarding which bills to pay and which necessities they simply cannot afford. While the average American family spends 4 to 6 percent of household income on energy, low-income households spend far more. The chart below shows the disparities between households, even with the current LIHEAP program.

### Energy is Not Affordable for Low-Income Households

percentage of income for natural gas heat



### LIHEAP Helps, but Not Enough

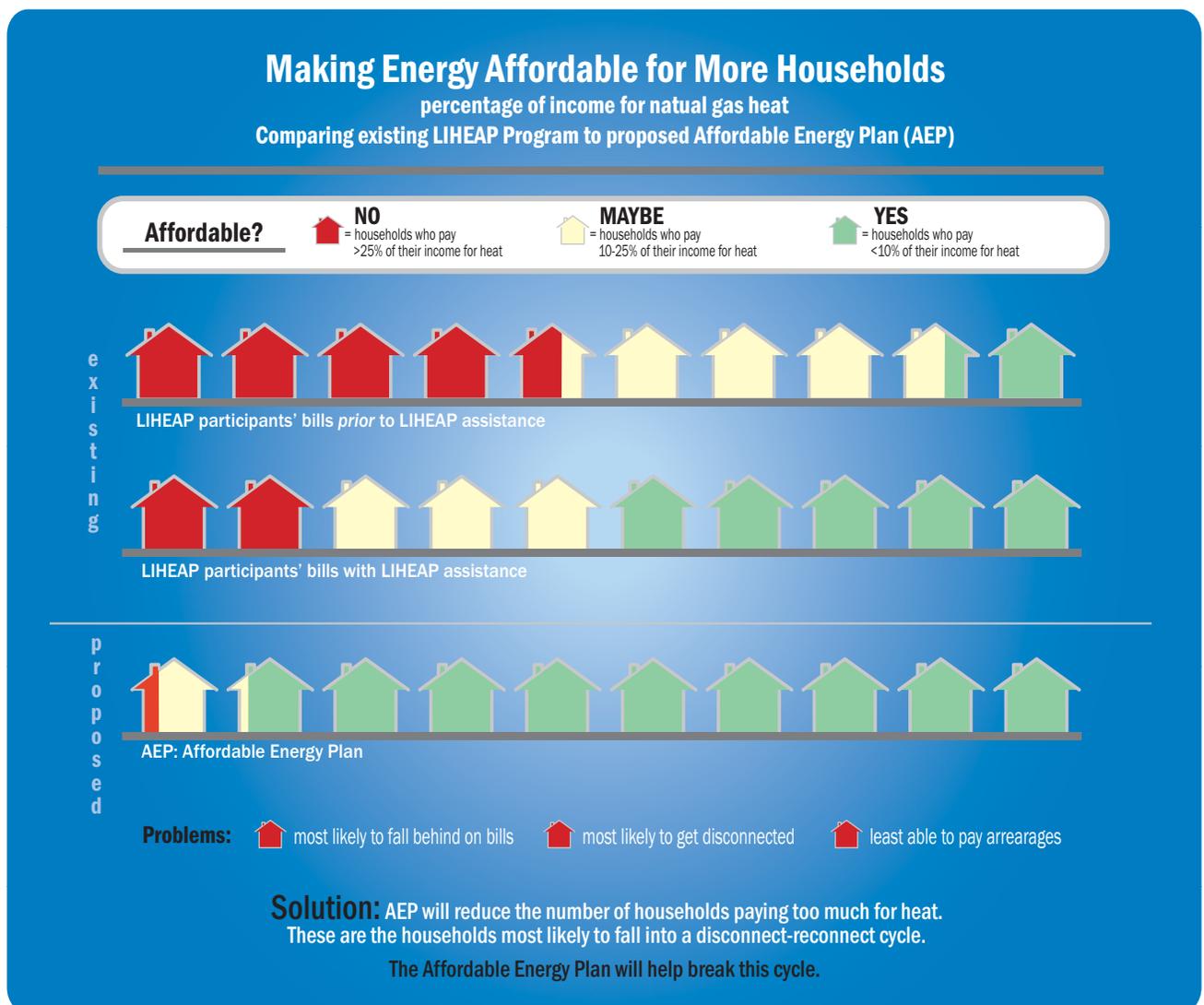


<sup>1</sup> Low-income as defined by 150% of poverty level. (All low-income households, including LIHEAP.)  
<sup>2</sup> From People's Energy white paper "Improving Energy Assistance in Illinois" p.8, March 2004

# Energy Solution

While the existing LIHEAP program is vital and essential for low-income households, the program can be greatly improved through the Affordable Energy Plan. Specifically, **the plan will:**

1. Make energy more affordable for a much higher percentage of LIHEAP program participants.
2. Fund program changes through targeting existing program resources and suggesting additional resource solutions.
3. Improve Illinois' capacity to manage the cost of providing energy services to low-income consumers.



# Energy Solution Continued

The Goals of the Affordable Energy Plan (AEP) are:

1. To make energy more affordable for more LIHEAP consumers by implementing an affordable payment plan that breaks the disconnection-reconnection cycle.
2. To reduce the number of households unable to afford monthly energy payments and avoid arrearage collection expenses.
3. To develop a program that maximizes program resources, controls the costs of LIHEAP to the state, and reduces bad debt for utilities.

The Strategies to Achieve the Affordable Energy Plan (AEP) Goals are:

1. Propose a portfolio of cost containment and revenue enhancing mechanisms needed to serve the LIHEAP eligible population.
2. Simplify program regulations and distribute program resources more effectively.
3. Utilize market-based mechanisms to stabilize the cost of natural gas.

The Illinois Affordable Energy Campaign has developed this plan using conservative estimates of available program funding in Illinois. While this plan improves the use of those resources, some constraints remain. If additional revenue sources are secured, the scope of these goals could be expanded, the level of benefits further improved, or more households could be served.





# Existing Program Continued

## Funding

The federal funding provides approximately \$75 million per year for energy assistance and the state program provides approximately \$65 million. The Illinois LIHEAP program is funded through a monthly meter (gas & electric) surcharge ranging from 40 cents per month per account for residential services to \$4 per month for small commercial and industrial customers, and \$300 per month for very large commercial and industrial facilities.

When the federal and state LIHEAP programs are combined, the program distributed a total of approximately \$140 million to 316,000 households in 2003. Approximately 40 percent of eligible households are served by the program. Applications are accepted until funding runs out, at which time the application period ends.

## Program Eligibility

A household may be eligible to receive assistance under LIHEAP if the household's combined income is at or below 150 percent of poverty. For a single person, this is an annual income of \$13,470; for a family of four it is \$27,600. Households that rent and have their heat and/or electricity included in the rent can receive assistance if rent accounts for more than 30 percent of the household income.

## Services Offered

**Energy Assistance:** These once-a-year grants are known as Direct Vendor Payments because the payment goes directly to the utility. Payments are indexed by income level and household size. The average LIHEAP grant for 2003/2004 – including Emergency Services (ES) was \$496.71.

**Weatherization:** Fifteen percent of federal funds and 10 percent of state funds are used to weatherize homes (adding insulation, etc.). Approximately 7,000 homes per year are served. Unfortunately, the waiting list is very long, and this means that many homes continue to use energy inefficiently. The average amount spent per home is \$3,800. According to the results of a 1990 US Department of Energy and Oak Ridge National Laboratory evaluation, the program is clearly cost effective with a benefit-to-cost ratio finding of as much as 1.72.<sup>1</sup>

**Emergency Assistance:** Emergency Services grants help get service reconnected. The average grant is approximately \$436, but can be as much as \$750. There are also emergency grants available for furnace replacements and repairs which average \$2,040.88.

**Cooling Programs:** When federal funds are available, summer cooling programs are offered. This does not happen every year.

<sup>1</sup> Home Energy Magazine Online, Weatherization Assistance: The Single-Family Study, Marilyn Brown and Linda Berry, September/October 1993.

# The Affordable Energy Plan

The Affordable Energy Plan has the following seven components.

1. **A Percentage of Income Payment Plan.** This will stabilize the bills for participants.
2. **New Reconnection Rules.** These will update and formalize the December 2003 agreement between Lt. Governor Patrick Quinn and the utilities.
3. **Reprioritization of Weatherization and a new emphasis on energy efficiency.** LIHEAP funds will go further if participants use less energy.
4. **Strategic Hedging.** Hedging the price of natural gas will create the equivalent of insurance for Illinois. It will use no more than 15% of funds to cap the price of natural gas.
5. **Arrearage Reduction for Regular Payments.** Many LIHEAP participants struggle with both their current bills and debts from past bills. This proposal will help participants relieve their past debts by giving them credit for making regular payments. Utilities will also be asked to make changes in how they account for debt reduction and how they write off bad debt.
6. **Increased Reporting Requirements.** To help assess the effectiveness of LIHEAP, utilities will be asked to report additional data.
7. **Explore Additional Funding Sources.** While Illinois has significant LIHEAP resources, they do not meet the needs of all low-income households. This plan proposes methods to secure new sources of revenue to increase program funding.



## Percentage of Income Payment Plan (PIPP):



Under the Affordable Energy Plan, Illinois LIHEAP consumers will have the option to participate in a Percentage of Income Payment Plan (PIPP) or continue to receive a Direct Vendor Payment.

# The Affordable Energy Plan

For those who choose the PIPP, it will offer the following key set of benefits:

- The PIPP requires a **commitment from participants** to pay 7 percent of their income for primary heat and 3 percent for secondary energy for a total of 10 percent of their income. If a home is all electric, the household would pay all 10 percent for their electric bill.
- During the winter heating season, the balance of what is owed to the utility would be paid by the LIHEAP program subject to certain usage limitations. During the summer, participants would pay the greater of their PIPP commitment or their actual bill. However, if PIPP payments exceed the current summer bill, the excess amount will go towards **paying off default amounts and arrearages**, if any.
- When customers apply for assistance, they will be counseled concerning their program choices including the possible benefits of the PIPP program. The Local Area Agency (LAA) will also work with the individual consumer to **develop an energy self-sufficiency plan** (an energy payment plan).

## What Does Peoples Energy Say?

*“Most researchers have observed that an energy burden of over 10% is not sustainable by a low-income household, and will lead to payment arrearage difficulties.” p. 6 of Improving Energy Assistance in Illinois*

## Notes on the PIPP:

1. As one means of controlling the costs of the PIPP program, the PIPP will have a maximum benefit level for households whose energy use is consistently high.<sup>1</sup>
2. Households who have utility costs included as an undesignated portion of their rent and households that have home delivered fuel will continue to be served under the current direct vendor payment program (DVP). Consumers who have heat included in their rent but pay for electricity can be placed in a 3 percent PIPP for their electric bill. Consumers who have electricity included in their rent but pay a gas bill can be placed in a 7 percent PIPP for their gas bill.
3. Other eligible LIHEAP consumers who choose not to participate in the PIPP will receive a basic flat grant. The flat grant amount will be set annually by the Illinois Department of Public Aid in consultation with the LIHEAP Policy Advisory Council (PAC). The flat grant amount will be determined by taking into consideration the amount of available program resources and should be set at a level to encourage participation in the PIPP.

<sup>1</sup> The maximum benefit level is defined as usage that is greater than one standard deviation above average usage as determined annually by the Illinois Department of Natural Resources (DNR).

## 2 Automatic Reconnection:

A Chicago Tribune story in November 2003 estimated that 40,000 to 50,000 homes were disconnected from utilities due to large unpaid balances. This creates a health and safety crisis. Due to organizing efforts of service providers and advocates, the Illinois Commerce Commission and the Lt. Governor negotiated with utilities for an affordable reconnection plan (\$250 payment or a payment of 20 percent of the outstanding bill, whichever is less). This was a one year agreement and was put into effect on December 11, 2003.

This reconnection agreement should be made permanent for several basic reasons:

**First**, the current Emergency Services (ES) provision of LIHEAP is using approximately 15 percent of all LIHEAP resources. This amounts to millions of dollars of LIHEAP resources being utilized for reconnection and arrearage reduction. This is not the most efficient use of resources because, as described below, the primary purpose of LIHEAP is to pay current energy bills for eligible households.

**Second**, currently LIHEAP allows an eligible household to receive up to \$750 of LIHEAP resources for Emergency Services grants. This is in addition to a maximum Direct Vendor Payment (DVP) of \$450. The high amount of the allowed ES payment is viewed as a disincentive for LIHEAP households to make regular payments in the warm weather months, and represents an amount of resources that could be applied to assist the current unpaid balance of persons participating in the PIPP. For example, every time a person is reconnected at \$250 rather than \$750, \$500 will be made available for redistribution within the program and could be used to help pay for the costs of the PIPP. This reconnection agreement

should not preclude a possible lower reconnection payment plan negotiated by the Local Area Agency (LAA). This agreement does not address the costs associated with ES furnace repairs and replacements.

**Third**, the driving principle behind the Affordable Energy Plan is to make energy affordable. Currently, within very broad general rules, each utility is currently allowed to prescribe its own payment plan as a condition for reconnection.<sup>1</sup> These payment plans require that the customer pay their current bill as well as, over time, what they owe in arrears. Usually, the repayment period does not exceed 12 months. This is the customer's only option regardless of the amount of arrears owed or the income of the LIHEAP customer. This is a barrier to participation in a payment plan because in many cases it is not affordable (i.e. the larger the amount owed, the less affordable the monthly payment will be).

**Fourth**, the Affordable Energy Plan is designed to reinforce the habit of making an affordable payment on a regular basis. When payments are made routinely on a regular basis: 1) the consumer will be rewarded by

<sup>1</sup> ICC, Admin Code. Section 280, Chapter 1, 280.138. Reconnection of residential utility customers for the heating season.

# The Affordable Energy Plan

building good credit; 2) the utilities will collect a larger share of what is owed to them; and 3) the vicious cycle of disconnection and reconnection can be broken.

And finally, the AEP makes it clear that the utility cannot impose any conditions on the customer other than those mentioned here (a payment of \$250 or 20 percent of the total whichever is the least amount).

## **What Does Peoples Energy Say?**

*“The costs of disconnection and reconnection are high for utilities and its customers. It is very much in the financial interest of both utilities and its customers and in the best interest of society in general, to pursue cost-effective strategies for assisting low-income customers, in lieu of resorting to disconnection.” p. 6*

## **3 Energy Efficiency:**

Energy efficiency is an important component of any future LIHEAP plan because of its ability to help control the state’s cost by lowering the participants’ heating bills. The Department of Public Aid in consultation with the LIHEAP Policy Advisory Council, shall establish an energy efficiency and weatherization curriculum. Participation in this curriculum shall be a condition for the eligibility of any such customer to participate in the Percentage of Income Payment Plan. Participation in this program curriculum will reduce the energy bills of the PIPP participants and the costs of the program. Households whose benefits reach the maximum benefit level should also be targeted and receive priority for weatherization services.

There are two main goals for the energy efficiency component of the Affordable Energy Plan:

1. Targeting the highest cost households for weatherization.
2. Providing no-cost, low-cost efficiency strategies for all participants.

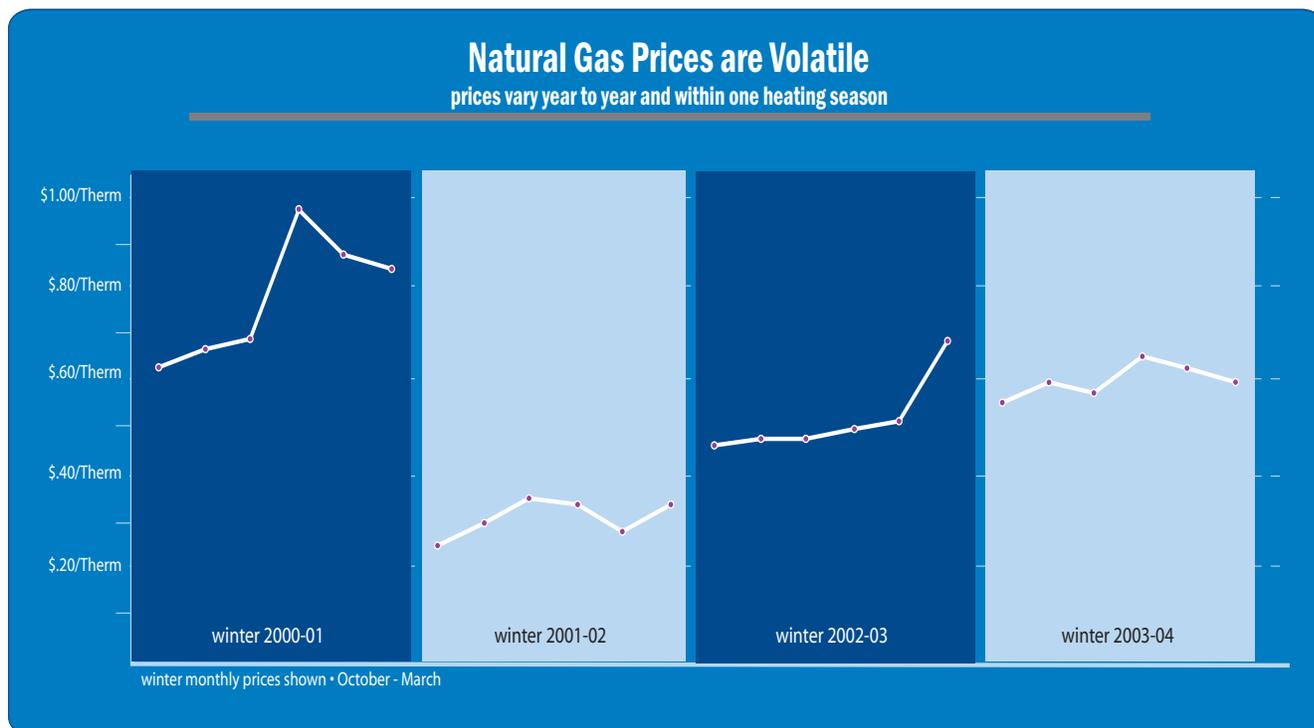
As a guideline, the Illinois Department of Public Aid and the PAC should consider information provided by participants such as data about the size, heating systems, and building characteristics of their homes. The program should also analyze participants’ gas bills and target the top energy users for further weatherization services. These services would be in line with those currently offered by the state weatherization program, including home repairs, replacement windows, and furnaces. The resources would also come from the current state and federal LIHEAP weatherization funds.

## **What Does Peoples Energy Say?**

*“Given the one-time nature of fuel assistance benefits and the scarce resources relative to need, the program should more fully integrate weatherization and fuel assistance.” p. 8*

## 4 Hedging on Natural Gas:

As everyone who pays a natural gas heating bill is painfully aware, prices have been extremely volatile for the past several years. This is not surprising considering that demand for natural gas is very high, while supply has been decreasing, creating a market force that drives up prices. Natural gas is expensive, and is likely to remain so for the foreseeable future. The prices vary year to year and even dramatically within one heating season. This makes the increasingly common price spikes even more difficult for consumers to afford.



To protect the LIHEAP program from having to pay very high gas bills during a time when prices are very high (e.g. the winter of 2000-2001), the Affordable Energy Plan proposes to use financial hedging tools. The Illinois Department of Public Aid and the PAC will predetermine the amount of funding allocated for this purpose each year, not to exceed 15 percent of the state program funding. The amount should be based upon projections in the price of natural gas, and the consumption of gas by program participants. If hedging results in the accrual of program resources in excess of what is needed for the program, these resources should be carried over to the next year for hedging costs for the next program year.

### What Does Peoples Energy Say?

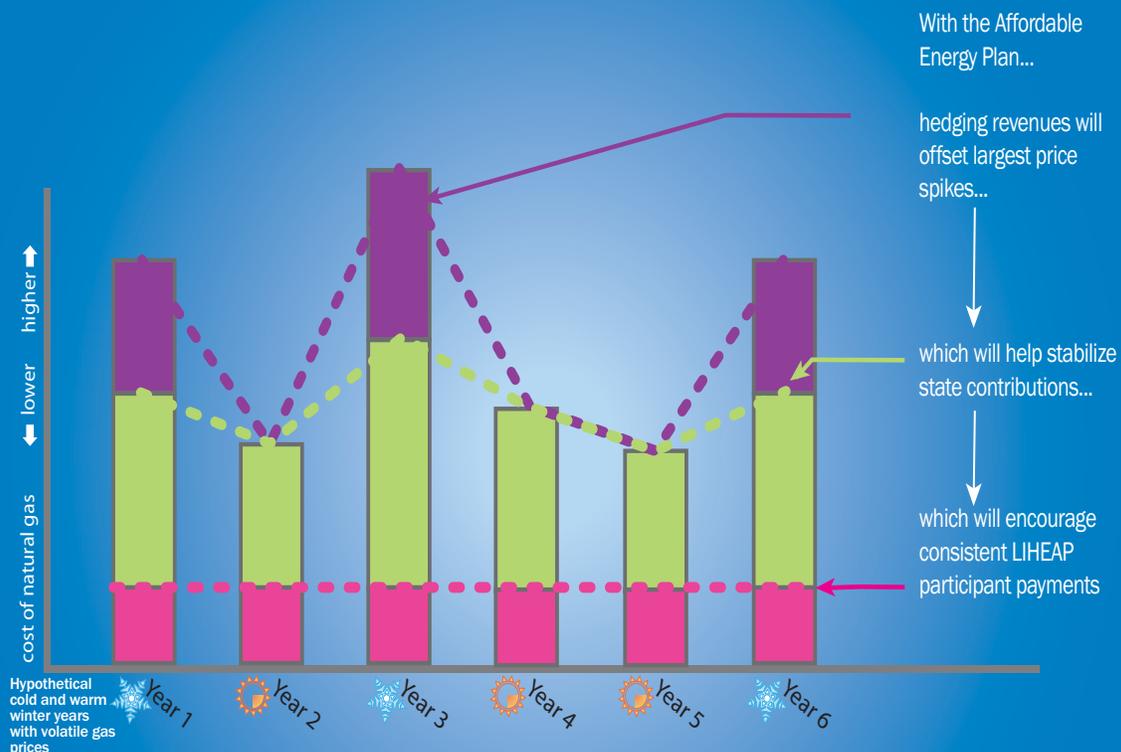
*“Expand price protection programs to include the use of financial markets to lock in prices (also called hedging) months before gas is needed.” p. 7*

# The Affordable Energy Plan

The current Illinois LIHEAP design simply allows higher natural gas costs to be passed on to the LIHEAP consumers. Hedging will correct that flaw by providing a protection for LIHEAP resources at minimal cost to the program. The most practical way of understanding hedging is to view it as purchasing insurance that natural gas prices will not exceed a certain amount. If the price of natural gas exceeds projections, the hedging options will add resources during a colder winter. In contrast, the current system increases the cost burden on consumers. During a warmer than average heating season, the hedging will be a cost to the program much as car insurance is a cost even when there are no accidents or repairs that can be claimed against the insurance. With hedging, program planning will be simpler due to the ability to project program costs outside the parameters of market fluctuations.

## Keeping Program Costs Under Control When Energy Prices Aren't!

Revenue for the Affordable Energy Plan



**Problem:** Weather and the price of natural gas affect the affordability of household energy. Under LIHEAP now, recipients shoulder the additional costs. LIHEAP recipients and the state need cost stability.

**Solution:** The Affordable Energy Plan proposes that, through strategic use of price hedging, the state can spend up to 15% of state LIHEAP funds to cap the price of gas. This will eliminate the largest price spikes and will lead to a program that can function within the existing funding parameters.

The volume of natural gas consumed by the participants in the PIPP program will be estimated and the Illinois Department of Public Aid (in consultation with the LIHEAP PAC) will put out to bid the development and implementation of the hedging strategy for that volume.

An Illinois Department of Natural Resources analysis of the PIPP proposed in this plan demonstrates that the Affordable Energy Plan could cost less during a warm winter and \$10-\$20 million more during a cold winter. Covering the cost of the program during a colder winter will require the ability to carry over revenues saved during warmer winters. Over a multiple year period, the net cost of the plan will not exceed the funding available.

## 5 Arrearage Reductions for Regular Payments:

This is also a key component of the overall program because it helps achieve two program goals. It will make the plan more affordable for consumers, and it will help create better customers by encouraging regular payments. Each time a customer with arrearages makes three on-time regular monthly payments, the utility will give them credit for a 10% reduction of what the consumer owes in default or arrears.

Any money provided to the jurisdictional utility should first be applied to the customer's current monthly payment obligation as determined in accordance with the federal LIHEAP program. The federal program places the primary emphasis of the LIHEAP program on meeting the immediate home energy needs of those with low-incomes and high relative energy burdens, with a secondary emphasis on reducing the energy needs and costs of such households. Any money in excess of the amount necessary to satisfy the current monthly payment obligation should be applied to either the amount the customer is in default on an extended payment plan, or if no such default exists, then to the customer's arrearages.

Advocates and service providers agree that even after utilities write off the amounts of uncollected payments and arrears, they still continue to try and collect these balances from individuals. This practice should be prohibited by law. Once the arrears are written off by a utility as a bad debt, the arrearage should be forgiven to the customer.

### **What Does Peoples Energy Say?**

*"Provide financial rewards for LIHEAP recipients who successfully complete a certain number of consecutive bill payments." p. 3*

# The Affordable Energy Plan

## 6 Increase Reporting Requirements for Utilities:

Amend the Public Utilities Act, Article V, 220 ILCS 5/, by requiring every public utility that provides gas or electric service to residential customers as primary or secondary sources of heating or cooling to report in writing to the Illinois Commerce Commission the following information: (1) the number of accounts that are past due each month, (2) the aggregate amount of past due balances each month, (3) the number of disconnection notices issued to residential customers each month, (4) the number of residential customers disconnected each month, (5) the number of residential customers eligible for emergency services under the Energy Assistance Act each year, and (6) the aggregate amount of arrears that are written off as business bad debt each year.

## 7 Explore Increased Funding:

In addition to the cost containment and revenue enhancements already mentioned in this paper, the Illinois Affordable Energy Campaign (IAEC) has discussed three additional alternatives to increase funding for energy assistance in Illinois. While the IAEC does not, at this time, propose that Illinois adopt any of the proposals below, they are presented here as a demonstration of possible alternatives for maintaining or increasing revenue in the future.

### Energy/utility taxes

An alternative source of funding for the natural gas hedging could be the state's Gas Revenue Tax. In Illinois, natural gas consumers pay a 5% tax (or 2.4 cents per therm if the price rises above 48 cents) on their gas bill. During the past three fiscal years, LIHEAP customers have paid between \$3.5 and \$6.7 million annually for the tax, depending on the severity of the winter and the number of households receiving assistance. If this amount of money were rolled back into LIHEAP, it could be used to pay for the cost of the hedging proposed in this plan. In addition, if there are local taxes on natural gas sales to LIHEAP customers, these resources should also be considered in this context.

### Riders

Ohio has a Percentage of Income Payment Plan (PIPP) that may provide a model for Illinois. This plan has an electric program operated by the Ohio Department of Development and a natural gas program operated by the major local distribution companies (LDCs).

- The natural gas portion of the program: The LDCs collect the cost of the natural gas portion of the program through a PIPP Rider, which is a component of distribution rates; it is not broken out as a separate line item on customer bills. With minor

exceptions, the rider is paid by all customers. LDCs can adjust the PIPP Rider quarterly through a simple filing with the Public Utilities Commission of Ohio, similar to a gas cost recovery proceeding, to ensure adequate recovery.

- The electric portion of the program: In the electric program, the cost of PIPP is collected via the Universal Service Fund (USF) Rider. The Rider is a part of distribution rates but is not broken out separately on the bill. The rider is adjusted annually based on need.

### **Increase existing meter charge**

The Illinois LIHEAP program could achieve increased revenue through adjustments to the meter charge outlined under Funding on page 7 of this document. At a minimum, the Illinois Affordable Energy Campaign believes that Illinois must continue to fund the Illinois portion of the program at the same level.

#### ***What Does Peoples Energy Say?***

*“The program recognizes that while current energy assistance programs in Illinois provide a sound foundation, they are inadequately funded to meet the needs of low-income customers.” p.7*

## **Conclusion:**

As described in this document, the Affordable Energy Plan will provide a better way for the low-income residents of Illinois to manage their energy costs. When the plan is implemented, it will help thousands of households break the cycle of disconnection and reconnection. It will put them on the path to becoming responsible bill payers and reducing their debt burden. It will also help prevent the tragic fires that claim lives each year of those disconnected utility customers who resort to desperate measures to stay warm.

The participants are not the only ones who will benefit. The environment will benefit through improved energy efficiency. Utilities will find relief as disconnections are reduced and the costs incurred by those disconnections and through the failure to collect unpaid bills are reduced. The state will benefit by having a new and improved program and fewer residents trapped in dire circumstances by their energy costs.

Peoples Energy concludes their white paper with the call that, “The consequence of our failure to act will be borne by those least able to shoulder the burden. Low- and fixed- income families will face mounting utility debts and service interruptions.” The Illinois Affordable Energy Campaign agrees. As a way out of this problem, we call on policy makers to adopt the Affordable Energy Plan.

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