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INDIANA UTILITY REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

VERIFIED PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY, PURSUANT TO IND. CODE § 8-1-2.5-1 ET. SEQ., FOR APPROVAL OF AN ALTERNATIVE REGULATORY PLAN THAT WOULD BECOME EFFECTIVE ON JANUARY 1, 2007 AND EXTEND NORTHERN INDIANA PUBLIC SERVICE COMPANY'S PREVIOUSLY APPROVED PILOT LOW-INCOME ENERGY ASSISTANCE PROGRAM IN CAUSE NOS. 42722 AND 42927, WHICH IS SET TO EXPIRE ON DECEMBER 31, 2006.	)	CAUSE NO. 43077
VERIFIED JOINT PETITION OF INDIANA GAS COMPANY, INC., SOUTHERN INDIANA GAS & ELECTRIC COMPANY AND THE BOARD OF DIRECTORS FOR UTILITIES OF THE DEPARTMENT OF PUBLIC UTILITIES OF THE CITY OF INDIANAPOLIS, AS SUCCESSOR TRUSTEE OF A PUBLIC CHARITABLE TRUST D/B/A/ CITIZENS GAS & COKE UTILITY, PURSUANT TO IND. CODE § 8-1-2.5-1 ET. SEQ. FOR APPROVAL OF ALTERNATIVE REGULATORY PLANS UNDER WHICH EACH PETITIONER WOULD CONTINUE THEIR RESPECTIVE UNIVERSAL SERVICE PROGRAM.	)	CAUSE NO. 43078

PREFILED TESTIMONY

OF

JAMES A. POLITO, PH.D. - PUBLIC'S EXHIBIT NO. JAP

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

August 15, 2007

TESTIMONY OF WITNESS JAMES A. POLITO, PH.D.
CAUSE NOS. 43077 AND 43078

NORTHERN INDIANA PUBLIC SERVICE COMPANY, SOUTHERN INDIANA GAS AND ELECTRIC COMPANY, CITIZENS GAS AND COKE UTILITY

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is James A. Polito and my business address is 115 W. Washington Street, Suite 1500 South, Indianapolis, Indiana 46204.

Q: Who employs you and in what capacity?

A: The Indiana Office of Utility Consumer Counselor ("OUCC") employs me as Director, Economic and Regulatory Analysis.

Q: Please describe your background and experience.

A: I graduated with a Bachelor's Degree in Economics from Rutgers, the State University of New Jersey, in 1984. I received from the State of New Jersey based on my undergraduate performance a full fellowship to attend graduate school in New Jersey and continued my studies at Rutgers University. I received a Masters of Arts in Economics in 1986 and a Ph.D. in Economics in 1990. My Ph.D. course work included courses in mathematical economics, statistics and theoretical and applied econometrics. During this time I was also a teaching assistant for undergraduate classes in econometrics and was awarded by Rutgers University additional fellowships and scholarships. I taught Economics courses

over a period of approximately ten years, including full-time employment as an Assistant Professor of Economics at DePauw University in Greencastle, Indiana, where I was elected a "Most Outstanding Professor" by a student honor society.

I joined the Indiana Utility Regulatory Commission ("IURC" or "Commission") in June 1993 as a Staff Economist. I joined the Indiana Office of Utility Consumer Counselor in June 1994 as a Principal Economist and published various articles on utility regulation during my term of employment. I was a Policy Advisor to the Public Utilities Commission of Nevada from January 1997 to June 1998 where my primary responsibilities included authoring commission decisions and orders in contested cases. I was Deputy Director, State of Nevada, Department of Health and Human Services from June 1998 to January 1999 and Deputy Director, State of Nevada, Department of Information Technology from January 1999 to August 2000. I was the Senior Economist with the State of Nevada, Office of Attorney General, Bureau of Consumer Protection from August 2000 through March 2007. I re-joined the Indiana Office of Utility Consumer Counselor in June of 2007.

Q: Have you ever testified before?

A: Yes. I have previously testified before the Indiana Utility Regulatory Commission and the Public Utilities Commission of Nevada. I have also testified before various legislative committees of the State of Nevada.

Q: What is this testimony's purpose?

A: This testimony presents the OUCC's concerns regarding the method Petitioners use to evaluate whether or not their Gas Utility Low Income Energy

Assistance ("low-income") programs generate financial benefits to all ratepayers.[1] This testimony also sets forth the principles to which the OUCC believes future low-income programs should adhere if the Commission decides these programs are in the public interest. Importantly, the purpose of this testimony is not an endorsement of Petitioners' low-income programs nor is it a recommendation that Indiana gas utilities implement low-income programs. Rather, this testimony recommends certain minimum conditions the Commission might consider in order to help ensure that low-income programs are in the public interest.

Q: Please summarize your primary findings and recommendations.

A: The method Petitioners use to determine whether discounted rates or bills improve or change payment behavior exhibits a certain flaw; namely, while Petitioners find a correlation between positive or improved bill-paying behaviors and participation in low-income programs, they do not necessarily establish that participating in low-income programs actually *causes* positive or improved bill-paying behaviors. This flaw undermines the extent to which Petitioners' analysis provides the Commission with sufficient evidence to conclude that the Petitioners' low-income programs generate positive financial benefits to *all* ratepayers.

Further, Petitioners' program evaluation method is not consistent with the low-income program impact evaluation method the National Regulatory Research Institute ("NRRI") recently (July 2007) outlines. This evaluation method specifically addresses the inference problem noted above by using data on an

[1] Petitioners include Citizens Gas and Coke Utility ("Citizens"); Indiana Gas Company, Inc., d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren North") and Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South"), collectively, "Vectren"; and Northern Indiana Public Service Company ("NIPSCO").

individual's behavior both *before* and *after* the implementation of low-income programs and by controlling for factors *other than* program participation that may influence individual bill-paying behavior. Petitioners' method of analysis neither follows individual behavior over time nor controls for the influence of factors other than program participation on bill-paying behavior.

Additionally, the OUCC recommends that should the Commission approve Petitioners' request to continue offering low-income programs, it should seek to implement these programs in a manner that is both consistent and equitable. "Consistent" in this context means the Commission implements low-income programs in a manner that is consistent with standard ratemaking practices and in a manner that is consistent across all utilities. "Equitable" in this context means requiring that the utility and its customers participate equally with its customers in the program and that implementing the programs does not place undue hardship on any utility customer class.

Finally, I suggest that should the Commission find that implementing low-income programs to be more a matter of income redistribution than a matter of minimizing the cost to serve utility customers, it could allow Petitioners to continue offering their low-income programs but require that ratepayers fund these programs on a voluntary basis.

Q: How do you organize the remainder of your testimony?

A: Section II presents the OUCC's concerns regarding the method Petitioners use to conclude Indiana low-income programs generate financial benefits to all ratepayers. Section II also compares Petitioners' method of low-income program impact evaluation method to the evaluation method the NRRI outlines.

Section III sets forth the principles to which the OUCC believes future low-income programs should adhere if the Commission decides to implement such programs and outlines an implementation method that incorporates these principles.

Section IV addresses questions related to implementing utility low-income programs in the event the Commission finds insufficient evidence to support a finding that these low-income programs generate financial benefits to *all* ratepayers. This section also outlines alternatives the Commission may consider if it finds implementing low-income programs to be more a matter of income redistribution.

Section V offers a summary and conclusion.

II. PETITIONERS' PROGRAM OUTCOME EVALUATION

Q: What method of program evaluation do Petitioners outline?

A: Petitioners outline a method of program evaluation that seeks to determine the extent to which the programs achieve each of nine (9) objectives (Petitioners' Exhibit RDC-II, pp. 5-6):

- Objective #1: To generate positive financial benefits to all ratepayers by addressing the payment troubles of low-income customers based on the lack of affordability;
- Objective #2: To improve the ability of the companies to interrupt the arrears-to-disconnect cycle of low-income customers;
- Objective #3: To improve the ability of low-income customers to sustain their bill payments through the high cost winter heating months (i.e., sustain bill payments on a seasonal basis);

- Objective #4: To improve the targeting of collection efforts to "can-pay-but won't" customers rather than directing collection efforts to "can't pay" customers;
- Objective #5: To improve the ability of low-income customers to sustain their annual bill payments;
- Objective #6: To minimize the impact of income on all aspects of bill payment, including whether bill payments are timely, complete and regular;
- Objective #7: To improve the ability of low-income customers to rehabilitate their bill payment practices when/if they fall into arrears;
- Objective #8: To maximize the integration of company-provided and publicly-provided bill payment assistance; and
- Objective #9: To improve the capacity of existing bill payment processes to be effective with all customers at all income levels.

Q: Do Petitioners assign primacy to any one of these objectives?

A: Yes. Petitioners' Witness Roger D. Colton on July 24, 2007 in a workshop in this proceeding indicated Objective #1, "Generating positive financial benefit to all ratepayers," is the "overarching objective" of the low-income programs. A transcript of this workshop is not available. Petitioners' Witness Carey B. Lykins indicates whether low-income programs are in the public interest depends on whether these programs both provide benefit to participating low-income customers and non-participating customers -- in other words, low-income programs are in the public interest if they provide benefit to *all* ratepayers. (Verified Direct Testimony of Carey B. Lykins, p. 7, lines 8-14). Similarly, Petitioners' Witness Mark T. Maassel indicates NIPSCO asks its non-participating customers to fund a portion of its low-income program because the program is designed to produce results that will ultimately accrue to the benefit of

all customers -- in other words, the purpose of the low-income program is to provide benefit to *all* ratepayers. (Verified Direct Testimony of Mark T. Maassel, p. 9, lines 18-21).

Q: Did the Commission ever indicate as a primary concern the financial impact of low-income programs?

A: Yes. The Commission in its January 31, 2006 Order in Cause No. 42927 directed NIPSCO to conduct a comprehensive fiscal analysis that demonstrates, among other things, the customer/recipient impact of NIPSCO's low-income program. Petitioners' Witness Colton subsequently indicates he was asked to consider how a "business case" analysis could be conducted and extended to include all Petitioners' programs. (Verified Supplemental Direct Testimony of Roger D. Colton, October 23, 2006, p. 4, lines 12-19).

Generally, if the Commission can find that implementing low-income programs provides financial benefits to all ratepayers, then implementing low-income programs is based on sound regulatory policy. Alternatively, if the Commission cannot find that implementing low-income programs provides financial benefits to all ratepayers, then implementing low-income programs may be more of a matter of income redistribution.[2]

Q: Did the Commission ever provide additional guidance on the method to use to evaluate the effectiveness of Petitioners' low-income programs?

A: Yes. The Commission in its December 6, 2006 Interim Order in this proceeding urged Petitioners " ... to work with Mr. Colton to design a separate

[2] See, also, Section IV, below, "Income Redistribution and Sound Regulatory Policy."

study involving a subset of each Petitioner's participant population, in order to conduct an analysis of the behavioral changes of customers participating in Petitioners' Programs and to track the success of individuals receiving benefits under the Programs." The Commission anticipated this data would "... be a significant component of its analysis and consideration of potential modifications of such programs in the future." (Petitioner's Exhibit GAS-II-1, p. 9).

Q: Do Petitioners provide the Commission with sufficient evidence upon which it may conclude implementing low-income programs actually changes participant behavior?

A: No. The OUCC believes that while Petitioners' analysis may establish a correlation between positive or improved bill paying behavior and participation in low-income programs, the analysis does not necessarily establish causality. In other words, while Petitioners' analysis shows that those who participate in low-income programs also tend to have positive or improved bill-paying behavior, this analysis does not necessarily establish that participating in low-income programs actually *causes* these positive bill-paying behaviors. This flaw undermines the extent to which the Petitioners' analysis provides the Commission with sufficient evidence to conclude that the Petitioners' low-income programs generate positive financial benefits to *all* ratepayers.

Q: Please explain one weakness of Petitioners' evaluation method that contributes to the overall failure of Petitioners' evaluation.

A: Generally, Petitioners seek to determine whether program participation (e.g., discounted rates) improves payment behavior (e.g., percentage of bill paid)

1 by comparing participant behavior to non-participant behavior.[3] In other words,
2 Petitioners seek to determine whether differences in payment behavior across
3 participants and non-participants actually are a function of, or significantly result
4 from, implementing low-income programs. Unfortunately, answering this
5 question with a significant degree of confidence may require a more robust
6 method of analysis. The need for a more refined analysis stems from the fact that
7 it is likely that many variables in addition to the presence of low-income
8 programs influence payment behavior. For example, positive bill paying behavior
9 (e.g., percentage of bill paid) may be explained by participation in low-income
10 programs as well as by the overall level of participant income (e.g., the greater a
11 person's income, the more likely the person is to pay a greater percentage of their
12 bill) and overall level of utility bill (e.g., the lower the utility bill, the greater the
13 percentage paid of the bill). The influence of these factors must be considered
14 and controlled in the analysis in order to determine whether implementing low-
15 income programs significantly affected payment behaviors. Failing to consider
16 and control for such factors may result in overstating the degree to which
17 participation in low-income programs influences bill-paying behavior (by
18 attributing improved bill paying to participation in low-income programs when
19 other "missing variables" may cause the behavior).

[3] For example, Mr. Colton uses micro-data for individual customers (Petitioners' Exhibit RD-II, p.7, lines 21-22) and examines for Citizens and Vectren two different low-income populations: (1) the population of customers who participated in the low-income programs for both 2006 and 2007, and (2) the population of low-income customers who entered the low-income programs in April or May of 2007. Mr. Colton indicates the first group of customers provides a population of customers that participate in the program and that the second group of customers provides a population of customers, known to be low-income (because they are subsequently found eligible for low-income programs), who did not participate in low-income programs in the months studied. Mr. Colton then compares the bill-paying behavior of these two groups of customers. Mr. Colton uses a similar method to analyze NIPSCO's low-income programs.

Q: Please explain another weakness of Petitioners' evaluation method that contributes to the overall failure of Petitioners' evaluation.

A: The OUCC believes a certain "selection bias" problem also contributes to the overall failure of Petitioner's evaluation method. For example, Mr. Colton notes that low-income program participants make greater payments than non-participating eligible customers make (or pay a greater percentage of current bills using customer funds than eligible non-participants) and, in part based on this, concludes low-income programs meet their objectives. Again, answering this question with a significant degree of confidence may require a more robust method of analysis. Quite simply, it may be that the inherently more "responsible" a customer is, the greater the likelihood the customer both is: (1) inclined to seek assistance by enrolling in a low-income program and (2) inclined to pay a larger percentage of their bill (or a larger portion of their bill using their own funds). In this case, it is the same inherent (and unobserved) characteristic of the *customer* that explains and determines both the customer's bill payment behavior and the customer's participation in the low-income program. If this were the case, then we would naturally expect to see a correlation between participation in low-income programs and positive bill paying behavior; however, this correlation does not establish causality – because in this instance the primary cause of positive bill paying behavior is the unobserved characteristic of the individual *customer.*

Q: Do Petitioners' consistently find a correlation between low-income program participation and positive bill paying behavior?

A: Yes. Petitioners consistently find this correlation, both across years for which Petitioners' conduct program evaluation and across program objectives. Petitioners cite this consistency as evidence supporting the effectiveness of their programs. However, the consistency of Petitioners' findings is not related to the overall success of Petitioners' programs; but, rather, to the consistent flaws in Petitioners' evaluation method.

Q: Do standard methods of analysis exist that help address the OUCC's concerns?

A: Yes. For example, the National Regulatory Research Institute in its July 2007 Report ("Methods for Low-Income Program Evaluation"; hereafter, "NRRI study") outlines how to use social research study techniques to evaluate the impact of low-income programs.

Q: Please explain in more detail the low-income program impact evaluation method the NRRI study outlines.

A: The NRRI study indicates impact evaluations are typically conducted using social research study techniques developed in an effort to support statements about causality. Importantly, this evaluation method requires both: (1) an experimental (participant) group and control (non-participant) group, and (2) data on an individual's behavior both *before* and *after* the implementation of low-income programs (observations over time, or pre-test and post-test observations). Additionally, the NRRI study indicates that participants may also be divided into

various subsets to help control for the effects of various factors thought to influence payment behavior (e.g., income level or depth of poverty). Finally, the NRRI study provides an example of a low-income program impact evaluation that relies on individual (participant and non-participant) observations over time and that attempts to control for the impact of individual income on payment behavior.

Q: Did Petitioners' ever indicate they evaluated their low-income programs in the manner the NRRI study outlines?

A: Yes. Petitioners' Witness Roger D. Colton on July 24, 2007 in a technical workshop in this proceeding indicated Petitioners' evaluated their low-income programs in the manner the NRRI study outlines. A transcript of this workshop is not available.

Q: Do Petitioners employ a method of analysis that is consistent with the method of evaluation the NRRI outlines?

A: No. The Petitioners' method of analysis is not consistent with the method of analysis the NRRI outlines. The Petitioners' method of analysis neither follows individual behavior over time nor controls for the influence of income on bill-paying behavior. These flaws render the Petitioners' analysis susceptible to the problems of inference to which I previously referred and undermine the extent to which Petitioners' analysis provides the Commission with sufficient evidence upon which it may conclude Petitioners' low-income programs provide positive benefits to all ratepayers.

Q: Please explain how the method of evaluation the NRRI study outlines addresses the OUCC's concerns.

A: Observing the behavior of the same individual over time helps reduce the problem of "selection bias" to which this testimony previously refers (because no longer do we simply note that at one point in time those individuals who have positive bill-paying behaviors also are more likely to enroll in low-income programs). Subdividing participants into various subsets helps reduce, but not eliminate, the "missing variable" problem to which this testimony previously refers by controlling for the effect of variables in addition to the presence of low-income programs that influence bill-paying behavior.

Q: Do Petitioners' present any additional evidence or fiscal analysis that is susceptible to these same problems of inference?

A: Yes. Petitioners' attempt to demonstrate the effectiveness of low-income programs by showing program participants experience reductions in the level of certain cost categories over time. For example, Citizens estimates that its bad debt write-offs associated with participating customers decreased by approximately $608,000 during the 2005 calendar year. (Verified Direct Testimony of Gregory Sawyers, p. 11, lines 3-9). However, simply following the level of a particular participating customer cost category over time and showing a reduction in this cost does not demonstrate that program participation actually causes decreasing costs. It simply shows that, for some reason, certain participant costs are decreasing over time. Again, a more robust method of evaluation would examine data on an individual's behavior before and after the implementation of

low-income programs and demonstrate that implementing the low-income program actually caused the reduction in cost.

Q: Do Petitioners' acknowledge the limitations of using aggregate data to address questions of causality?

A: Yes. For example, Petitioners' Witness Colton notes that aggregate data such as this does not allow for the tracking of specific individual customers to determine what impact, if any, the participation of such customers has on their individual payment patterns. (Verified Supplement Testimony of Roger D. Colton, October 23, 2006, Petitioners' Exhibit RDC-S, p. 11, lines 18-23 and p. 12, lines 1-5).

Q: Have Petitioners' ever presented any other type of fiscal analysis that attempts to demonstrate the effectiveness of low-income programs?

A: Yes. For example, the Commission in its December 2006 Interim Order in this proceeding notes that NIPSCO demonstrated that its Winter Warmth Program provided social benefits estimated at five million, three-hundred thousand dollars ($5.3 million). (Petitioners Exhibit GAS-II-1, p. 11). Notably, however, Petitioners' estimate that approximately sixty-three percent (63%) of this societal benefit is in the form of a reduced funding burden to family, friends, trustees and religious organizations.[4] Unfortunately, benefits such as this do not represent societal benefits because the reduced benefit of one member of society is offset by

[4] (Verified Supplement Testimony of Cynthia C. Jackson, October 23, 2006, Petitioners' Exhibit, CCJ-S-1, NIPSCO's August 2006 Winter Warmth Submission in IURC Cause No. 41338-GCA7, Schedule A-5).

the increased burden of low-income program funding imposed upon another member of society.

III. OUCC RECOMMENDED ACTIONS

A. Introduction

Q: How do you organize this section of your testimony?

A: Section III.B presents the principles to which the OUCC believes future low-income programs should adhere and outlines an implementation method that incorporates these principles. Section III.C discusses some of the benefits and limitations of implementing low-income programs in the manner the OUCC describes.

B. Recommended Principles for Low-Income Programs

Q: To what principles does the OUCC believe future low-income programs should adhere if the Commission finds such programs to be in the public interest?

A: Generally, the OUCC believes future low-income programs should adhere to the principles of consistency and equity. "Consistent" in this context means the Commission implements low-income programs in a manner that is consistent across all utilities and that is consistent with standard ratemaking practices. "Equitable" in this context means requiring that the utility participates equally in

1 the program with its customers and that implementing the programs does not
2 place undue hardship on any utility customer class.
3
4 **Q: How would the Commission implement a low-income program in a manner**
5 **that is consistent with standard ratemaking practices?**
6 A: In order to implement low-income programs in a manner that is consistent
7 with standard ratemaking practices, the Commission could require that the
8 utilities develop a "residential affordability class" based on the differing costs to
9 serve this class and apportion costs "to and away from" this class in a manner
10 similar to the way costs are apportioned "to and away from" all other classes. In
11 order to implement low-income programs in a manner that is consistent across all
12 utilities, the Commission could require that each of the three Petitioners develop a
13 residential affordability tariff for a new residential affordability class.
14
15 **Q: In what expense categories might differences in costs to serve this class exist?**
16 A: Difference in costs to serve this class may result from differences in
17 working capital requirements, bad debt expense, credit and collections expenses,
18 and lost revenues associated with disconnections.[5] Presumably, costs such as
19 these are the very same costs the Petitioners seek to minimize by implementing
20 low-income programs and the presence of these cost differences justifies creating
21 a separate residential affordability class. In this way, establishing a residential
22 affordability class based on differences in costs to serve is entirely similar to

[5] See, for example, Petitioners' Exhibit RDC-S, Verified Supplemental Direct Testimony of Roger Colton, pp. 4-5 (October 23, 2006), discussing the cost categories upon which a business case analysis of low-income programs could be constructed. See, also, Verified Direct Testimony of Gregory Sawyers, p. 12, lines 3 – 11, "Are any other utility costs reduced as a result of the USP?"

1 establishing commercial and industrial customer classes based on differences in
2 costs to serve those classes.
3
4 **Q: How would the Commission implement a low-income program in an**
5 **equitable manner?**
6 A: In order to implement low-income programs in an equitable manner, the
7 Commission could require that utilities contribute to their proposed low-income
8 programs an amount at least equal to the amount the utilities propose their
9 customer classes contribute to the utility proposed low-income programs.[6]
10 Additionally, in order to implement low-income programs in an equitable manner,
11 the Commission could limit the level of costs that are apportioned "away from"
12 the residential affordability class to some level that would result in a
13 predetermined bill impact on the other classes of utility customers.
14
15 **Q: Please describe the actual steps the Commission could take if it were**
16 **interested in implementing low-income programs in the manner you outline.**
17 A: The Commission's first step in implementing low-income programs could
18 be to ensure that low-income programs for the Winter 2007-2008 heating season
19 are equitable and require that Petitioners contribute to these programs at least as

[6] Citizens currently funds low-income programs pursuant to Article VII of the Settlement Agreement in Cause No. 42973. This Article provides a contribution to the low-income programs by ProLiance on Citizen's behalf (contingent upon ProLiance's continued administration of gas supply for the utility). If the Commission finds this source of funding is no longer appropriate, or if Citizens is unable to increase to an equitable level funding from this source, then the Commission could limit the overall magnitude of Citizens' program to the level of savings to which Citizens purports these programs give rise. See Verified Direct Testimony of Gregory A. Sawyers, p. 11, lines 3-19 for an estimate of these savings.

much as Petitioners ask their customers to contribute.[7] The next step the Commission could take would be to require the Petitioners file with the Commission a residential affordability tariff as outlined above. These tariffs would be based upon Petitioners' most recently authorized revenue requirements and certain parameters such as total non-participant bill impact and total utility level of contribution as specified by the Commission. The tariffs should be supported by a cost allocation and rate design study that is benchmarked to current rates (i.e., pre-residential affordability class) as well as an update to this study creating the residential affordability class and associated rates. The filing should include information detailing the exact manner in which the residential affordability class was created as well as all information that may be required in order to determine whether the residential affordability rates satisfy all conditions (e.g., bill impact, utility financial participation) imposed by the Commission.[8]

Q: What could the Commission do if it did not believe it could complete before the Winter 2007-2008 heating season the work required to implement low-income programs in the manner you describe?

A: If the Commission believes such work cannot be completed before the Winter 2007 – 2008 heating season, then the Commission could allow Petitioners to continue their existing programs in their existing form for the Winter 2007 – 2008 heating season (with increased utility contribution levels as described above)

[7] Requiring increased utility participation also helps ensure the Petitioners' low-income programs provide positive financial benefits to ratepayers. See Section III.C, below.

[8] The Commission may also wish to consider holding a series of technical conferences to explore any issues associated with developing and implementing such tariffs.

and require that the Petitioners make any subsequent program offerings (Winter 2008 – 2009 and beyond) based upon a tariff developed as described above.

Q: Does your testimony recommend any changes to the way Indiana administers Federal Low Income Home Energy Assistance Programs ("LIHEAP")?

A: No, this testimony does not recommend any changes to the way Indiana administers LIHEAP programs.

C. Benefits and Limitations of the OUCC Approach

Q: What benefits arise from implementing low-income programs in the consistent manner you describe?

A: Implementing low-income programs in a consistent manner across all utilities realizes the benefit of regulatory efficiency that is associated with a uniform and standardized method of implementation.

Implementing low-income programs in a manner that is consistent with standard ratemaking practices helps ensure the Commission's approval of such programs remains within its authority. For example, the Commission regularly recognizes that utilities provide service to different customers under different conditions and under different circumstances and creates distinct classes with different rates based on these differences. This helps avoid differential treatment of any one segment of customers within any one particular customer class (i.e.,

avoids charging different rates to customers within the same customer class for like and contemporaneous service).[9]

Implementing low-income programs avoids additional problems. For example, it makes little sense for a utility to request, in the context of a general rate case, a reduction in the interclass subsidy that allegedly is paid by the commercial and industrial classes to the residential class and subsequently request approval of a low-income program and alternative regulatory plan that increases this very same subsidy. Developing low-income affordability rates and tariffs within the context of the ratemaking process and in consideration of all other subsidies helps avoid this situation. Finally, developing low-income rates in consideration of all alleged subsidies that may exist within the ratemaking process helps minimize the overall level of these subsidies and helps eliminate duplicative flows (i.e., eliminates one of either alleged subsidies implicit in current rates or current funding of low-income programs through surcharges).

Q: Will implementing low-income programs in the manner you describe necessarily result in increasing costs to non-participating customers?

A: No. Implementing low-income programs in the manner I describe simply recovers through base rates rather than surcharges low-income program funding. Table 1, following page, provides a stylized example. The first column of Table 1 shows a total customer bill of one-hundred and three dollars ($103.00) that includes a five dollar ($5.00) low-income program surcharge. The second column of Table 1 also shows the same total customer bill of $103.00. However, this column shows an additional five dollars collected through base rates and no

[9] See, also, Section IV, below: "Income Redistribution and Sound Regulatory Policy."

low-income surcharge. This represents a revenue neutral funding of low-income programs through base rates rather than program surcharges. Whether or not non-participating customers experience increased costs depends on the overall level of non-participant funding the Commission authorizes.[10]

Table 1: Low-income Program Funding through Base Rates

	Funding Through Surcharge		Funding Through Base Rates	
Customer Charge		**$ 10.00**		**$ 10.00**
Variable Charge				
Usage	**8**		**8**	
Rate	**$ 3.00**	**$ 24.00**	**$ 3.63**	**$ 29.00**
Commodity Cost				
Usage	**8**		**8**	
Rate	**$ 8.00**	**$ 64.00**	**$ 8.00**	**$ 64.00**
Low-Income Surcharge		**$ 5.00**		**$ -**
Total Bill		**$103.00**		**$103.00**

Q: What are some of the limitations of implementing low-income programs in the consistent manner you describe?

A: One limitation of this approach may be the degree to which a utility may need to modify its billing system in order to implement this method. Another limitation of this approach may be the time and effort associated with developing a cost allocation and rate design study benchmarked to current rates and then subsequently modifying this study in order to develop the residential affordability class. This limitation, however, is a one-time implementation cost and will not arise on a going forward basis because utilities will include in future applications

[10] Table 1 provides a stylized example of program implementation and, for some utilities, the low-income surcharge is a usage-based rider. Additionally, the Commission could actually implement and fund the program by increasing any of the charges such as those in Table 1.

for increases in general rates a cost allocation and rate design study that proposes rates for all classes, including the residential affordability class. The Commission also may view modifying recently approved cost allocation and rate design studies as seemingly duplicative work.[11] Finally, while establishing one residential affordability class with a fixed and uniform discount may be most easily administered, this approach does provide the same level of benefits to all participants in the class regardless of income, and participants who require less support may receive the same benefit as participants requiring more support.

Q: Can utilities prepare and submit a cost allocation and rate design study outside the context of a base rate case or application for approval of an increase in general rates.

A: Yes. Since the benchmarked cost allocation and rate design study would be based on existing rates and revenue requirements, this proposal simply requires that utilities provide cost allocation and rate design studies supporting their current rates. This requires neither a general rate case nor a review of utility revenue requirements.

Q: What benefits arise from implementing low-income programs in the equitable manner you describe?

A: Implementing low-income programs in an equitable manner helps ensure resulting rates are just. Additionally, requiring utilities to contribute to their

[11] For example, the Commission on June 27, 2007 in Cause No. 43298 issued a Prehearing Conference Order adopting a procedural schedule that sets May 7, 2008 as the deadline for a Commission Order on the Vectren North petition for approval of new rates. Under the OUCC's proposal in this proceeding, Vectren North would then need to modify its cost allocation and rate design study to develop the residential affordability tariff for the Winter 2008-2009 season.

1 proposed low-income programs an amount at least equal to the amount the
2 utilities propose their customer classes contribute helps strengthen the utility
3 contention that the low-income programs provide positive financial benefit to all
4 ratepayers. This is especially important given the flaws in Petitioners' method
5 that limits the extent to which the Petitioners' analysis provides the Commission
6 with sufficient evidence to conclude that the Petitioners' low-income programs
7 generate positive financial benefits to all ratepayers.

8 Furthermore, increasing utility participation in low-income programs to a
9 more equitable level may help better recognize the significant goodwill and
10 public relations benefits that accrue to the utilities because of implementing these
11 programs. For example, Petitioners' Exhibit CCJ-II-2 includes letters from
12 various Community Service providers thanking NIPSCO for its Winter Warmth
13 Program (e.g., "We would like to take this opportunity to thank you for the
14 Winter Warmth Program," "Thank you again for this wonderful program," "I
15 want to express our sincere appreciation ... for the Winter Warmth program
16 offered ... by NIPSCO."). Notably, the Community Service providers do not
17 thank the ratepayers of NIPSCO who are actually the primary source of funding
18 for the NIPSCO Winter Warmth program.[12] Equity suggests increasing utility
19 financial participation in recognition of the goodwill and public relations benefit,
20 which is largely funded by ratepayer contribution but which the utility largely
21 enjoys.

[12] Program funding consists of $14,517,867 in customer contributions versus a $1,225,317 contribution by NIPSCO. Petitioners' Exhibits MTM-II, p.9, lines 11-16 and CCJ-II-1.

IV. INCOME REDISTRIBUTION AND SOUND REGULATORY POLICY

A. Introduction

Q: How do you organize this section of testimony?

A: Section IV.B addresses questions related to low-income programs and sound regulatory policy. Section IV.C outlines alternatives the Commission may consider if it finds implementing Petitioners' low-income programs to be more of a matter of income redistribution.

B. Low-income Programs and Sound Regulatory Policy

Q: Has the Commission previously addressed its authority to implement low-income programs that involve income redistribution?

A: Yes. The Commission in Cause No. 35780-S8 considered offering to a targeted subset of ratepayers within the overall residential class Lifeline Rates that were below the cost of providing service for residential electric consumers. Generally, the Commission found such targeted rates involve income redistribution policy decisions, and indicated such policy decisions should be made in the social and political forum; namely the Legislature. The Commission further found that establishing targeted Lifeline Rate structures improperly imposes the Commission as a surrogate for the Legislature in making social and political policy decisions in regard to income redistribution. The Court of Appeals of Indiana, Fourth District, concurred with the Commission and noted that the Commission by stating income redistribution was a legislative issue merely

indicated that any decision to implement an assistance program not based on sound regulatory principles must be made by the Legislature.

Q: When would offering below cost rates to the residential affordability class help a utility minimize its cost to serve and provide financial benefits to all ratepayers?

A: Offering to the residential affordability class a below cost, discounted rate that ratepayers of other classes fund can help a utility minimize its cost to serve and provide positive financial benefit to all ratepayers if contributing ratepayers experience reduced or avoided costs that exceed the level of funding they provide. In order for this to occur, the cost reduction or avoidance of cost must occur in some cost category other than one uniquely attributable and solely allocated to the residential affordability class. For example, if ten million dollars ($10 million) in funding to the residential affordability class reduces residential affordability class collection costs by fifteen million dollars ($15 million), the low-income program provides positive financial benefit but does not provide positive financial benefit to all ratepayers because the residential affordability class is the only class that experiences the cost reduction. However, if the $10 million in funding to the residential affordability class avoids a certain level of customer disconnections, and if these avoided disconnections result in a $15 million contribution to fixed costs that otherwise would be recovered from remaining ratepayers, then the low-income program would provide positive financial benefit to all ratepayers.

Q: Should the Commission consider as a subsidy offering below cost rates to the residential affordability class if doing so helps a utility minimize its cost to serve and provides financial benefits to all ratepayers?

A: No. If offering to the residential affordability class a below cost, discounted rate that ratepayers of other classes fund can help a utility minimize its cost to serve and provide positive financial benefit to all ratepayers, then offering these discounted rates is better viewed as a matter of sound regulatory policy than a matter of subsidy and income redistribution.

C. Commission Alternatives

Q: Are options available to the Commission if it finds implementing low-income programs to be more of a matter of income redistribution than a matter of minimizing utility cost to serve?

A: Yes. The Commission could allow Petitioners to continue offering their low-income programs but require that ratepayers fund such programs on a voluntary basis. If the Commission were to pursue this option, it might consider a series of technical conferences or workshops comparing past utility efforts in this regard to industry best practices and exploring ways to maximize ratepayer participation in such voluntary programs.

Q: Has the Indiana Legislature ever acted to create low-income programs?

A: Yes. IC 8-1-36-8 establishes the Indiana Lifeline assistance program and directs the Commission by July 1, 2008 to adopt rules establishing the program.

1 This program offers reduced charges for basic telecommunications service to
2 eligible customers. IC 8-1-36-9 indicates a customer is eligible to receive reduced
3 rates for basic telecommunications service under the program if: (1) the
4 customer's income does not exceed one hundred fifty percent (150%) of the
5 federal poverty guidelines; or (2) any person in the customer's household receives
6 or has a child who receives any of the following: (A) Medicaid, (B) Food stamps,
7 (C) Supplemental Security Income, (D) Federal public housing assistance, (E)
8 Home energy assistance under a program administered by the lieutenant
9 governor, (F) Assistance under the federal Temporary Assistance to Needy
10 Families (TANF) program, or (G) Free lunches under the national school lunch
11 program.
12
13 **Q: Have any other state legislatures acted to create low-income programs?**
14 A: Yes. Petitioners' Exhibit BAS-II-1 includes results from a national study
15 of ratepayer funded low-income energy assistance programs performed by the
16 Applied Public Policy Research Institute for Study and Evaluation ("APPRISE
17 Study").[13] The APPRISE study notes that states frequently mandate by statute the
18 creation of low-income affordability programs thus rendering moot the question

[13] The results of this study were also presented in summary form by Mr. David Corrall of APPRISE during the Technical Conference on June 14, 2007 held in this proceeding.

whether sufficient regulatory authority exists to pursue such programs under the traditional regulatory authority of a state utility commission.[14]

Q: Do you believe implementing low-income programs in the manner you describe is based on sound regulatory principles.

A: Yes. Developing rates and rate classes based on differing costs to serve helps ensure low-income programs are based on sound regulatory principles. Additionally, as noted above, offering to the residential affordability class below cost, discounted rates is a matter of sound regulatory policy if this helps a utility minimize its cost to serve and provides positive financial benefit to *all* ratepayers. However, as I previously noted, Petitioners' method of analysis exhibits certain flaws that limit the extent to which the Petitioners' analysis provides the Commission with sufficient evidence to reach this conclusion.

V. SUMMARY AND CONCLUSION

Q: Please summarize your findings.

A: (1) The method Petitioners use to determine whether discounted rates or bills improve or change payment behavior exhibits a certain flaw; namely, while

[14] The APPRISE Study also specifically focuses on the low-income programs of thirteen states (California, Colorado, Indiana, Maine, Maryland, Missouri, Nevada, New Jersey, Ohio, Oregon, Pennsylvania, Washington, and Wisconsin) and notes in the Executive Summary and accompanying handout that utility commissions in six of these states (Maryland, California, Maine, Nevada, New Jersey and Washington) acted after the legislature enacted a statute directing the implementation of low-income programs. State Legislatures in at least an additional four of these thirteen states (Ohio, Oregon, Pennsylvania and Wisconsin) have also acted to create low-income programs of some form.

1 Petitioners find a correlation between positive or improved bill paying behaviors and
2 participation in low-income programs, they do not necessarily establish that
3 participation in low-income programs actually causes positive or improved bill-
4 paying behaviors. This flaw undermines the extent to which the Petitioners' analysis
5 provides the Commission with sufficient evidence to conclude that the Petitioners'
6 low-income programs generate positive financial benefits to all ratepayers.
7 (2) Petitioners' method of analysis is not consistent with low-income program
8 impact evaluation methods developed in an effort to support statements about
9 causality and as the National Regulatory Research Institute recently outlines.
10 (3) Should the Commission approve Petitioners' request to continue offering
11 low-income programs, then the Commission should seek to implement these
12 programs in a manner that is both consistent and equitable. "Consistent" in this
13 context means the Commission implements low-income programs in a manner that is
14 consistent with standard ratemaking practices and in a manner that is consistent
15 across all utilities. "Equitable" in this context means requiring that the utility
16 participate equally with its customers in the program and that implementing the
17 programs do not place undue hardship on any utility customer class.
18 (4) Should the Commission find implementing low-income programs to be
19 more a matter of income redistribution than a matter of minimizing utility cost to
20 serve, the Commission could allow these low-income programs to continue provided
21 that ratepayers fund such programs on a voluntary basis.
22
23 **Q: Does this conclude your testimony at this time?**
24 A: Yes, it does.

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing has been served upon the following parties of record in the captioned proceeding by electronic mail and/or by depositing a copy of same in the United States mail, first class postage prepaid on August 15, 2007.

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