

State Report – Indiana

This Appendix furnishes detailed information for Indiana, including:

- Statistical Overview – Key characteristics for Indiana households and housing units.
- Needs Assessment – Statistics for Indiana low-income households and estimates of the need for energy affordability and energy efficiency programs.
- Legal and Regulatory Framework – A description of the legal and regulatory framework for low-income programs and identification of any legal or regulatory barriers to program design enhancements.
- Low-Income Affordability Programs – Information on Indiana’s publicly funded affordability programs, the ratepayer-funded affordability programs targeted by this study, and an assessment of the share of need currently being met.
- Affordability Program Evaluation – A summary of the available evaluation findings regarding the performance of Indiana’s affordability programs.
- Energy Efficiency Programs – Information on Indiana’s publicly funded energy efficiency programs and the ratepayer-funded energy efficiency programs targeted by this study.
- Energy Efficiency Program Evaluation – A summary of the available evaluation findings regarding the performance of Indiana’s energy efficiency programs.

This report was developed from a number of publicly available sources. We gratefully acknowledge the information received and contributions from Cindy Jackson, Energy Assistance Program Manager, NIPSCO; Breck Sparks, Director of Customer Service, Vectren Utility Holdings, Inc.; and Greg Sawyers, Citizens Gas and Coke Utility. This report was developed by APPRISE and Fisher, Sheehan, and Colton. The statements, findings, conclusions, and recommendations are solely those of analysts from APPRISE and Fisher, Sheehan, and Colton. They do not necessarily reflect the views of any individual consulted regarding Indiana programs.

I. Statistical Overview

Indiana is the 15th largest state in terms of population. It is about average in terms of income (27th in median family income in 2005) and poverty rates (28th in individuals below poverty). In 2005, the median housing value was \$114,400 and the median rent was \$615.

Most housing units (87%) in Indiana are heated with regulated fuels, predominantly natural gas (64%). Energy prices are lower than average, with electricity 21% below the national average, natural gas 6% below the national average, and fuel oil 9% below the national average. The weather is cold in the winter (5,894 heating degree days compared to the national average of 4,524) and moderate in the summer (894 cooling degree days compared to the national average of 1,242). Households are most at risk from the cold during the months of November through March, and are most at risk from the heat during the months of June through August.

The following population and housing statistics were developed using data from the 2005 American Community Survey (ACS).

Population Profile

| | |
|---|-----------------------------------|
| Total Population..... | 6.1 million |
| Individuals 65 and Over..... | 0.7 million (11%) |
| Individuals Under 18..... | 1.6 million (26%) |
| Individuals 5 & Over Who Speak a Language Other than English at Home..... | 0.4 million (7%) |
| Individuals Below Poverty..... | 12% (28 th nationally) |

Household Profile

| | |
|------------------------------|---|
| Total Households..... | 2.4 million |
| Median Household Income..... | \$43,993 (27 th nationally) |
| <i>Homeowners</i> | |
| Total Homeowners..... | 1.8 million (72%) |
| Median Value..... | \$114,400 (36 th nationally) |
| Median Housing Burden..... | 19% |
| <i>Renters</i> | |
| Total Renters..... | 0.7 million (28%) |
| Median Rent..... | \$615 |
| Median Rental Burden..... | 27% |

The following energy statistics were derived from a number of sources, including the 2005 American Community Survey (ACS), the Energy Information Administration's (EIA) supplier data collection, and NOAA's National Climatic Data Center (NCDC).

Energy Profile

Home Heating Fuel (Source: 2005 ACS)

| | |
|------------------|-----|
| Utility gas..... | 64% |
| Electricity..... | 23% |
| Fuel Oil..... | 2% |
| Other..... | 11% |

2005 Energy Prices (Source: EIA)

| | |
|---------------------------|----------|
| Natural gas, per ccf..... | \$1.211 |
| Electricity, per kWh..... | \$0.0750 |
| Fuel oil, per gallon..... | \$1.865 |

Weather (Source: NCDC)

| | |
|---|-------|
| Heating Degree Days..... | 5,894 |
| Months of Winter (i.e., average temperature below 50°)..... | 5 |
| Cooling Degree Days..... | 894 |
| Months of Summer (i.e., average temperature above 70°)..... | 3 |
| Days with Temperatures Over 90°..... | 18 |

[Note: Updates are available for energy prices and weather for 2006. Population statistics updates for 2006 will be available in August 2007.]

II. Profile of Low Income Households

Indiana policymakers have chosen to target the publicly funded and ratepayer-funded low income programs at households with incomes at or below 150% of the HHS Poverty Guideline. For 2005, the income standard for a one-person household was about \$14,355 and the income standard for a four-person household was \$29,025. For the analysis of low-income households in Indiana, we will focus on households with incomes at or below 150% of the HHS Poverty Guideline.

Table 1 furnishes information on the number of Indiana households with incomes that qualify them for the LIHEAP program and the ratepayer-funded programs. About 20% of Indiana households are income-eligible for these programs.

Table 1
Eligibility for Ratepayer Programs (2005)

| Poverty Group | Number of Households | Percent of Households |
|-------------------------|----------------------|-----------------------|
| Income at or below 150% | 485,725 | 20% |
| Income above 150% | 1,950,323 | 80% |
| ALL HOUSEHOLDS | 2,436,048 | 100% |

Source: 2005 ACS

Tables 2A and 2B furnish information on main heating fuels and housing unit type for Indiana low-income households. Table 2A shows that about 61% of low-income households use natural gas as their main heating fuel, slightly less than the 64% for all Indiana households. Low-income households are more likely to heat with electricity than the Indiana average. Table 2B shows that one of the reasons for the higher rate of electric main heat is that 23% of low-income households are in buildings with 5 or more units. Many multiunit buildings use electric space heating rather than natural gas or fuel oil. About 56% of low-income households live in single family homes, while 12% live in buildings with 2-4 units. Nine percent live in mobile homes.

Table 2A
Main Heating Fuel for Low-Income Households (2005)

| Main Heating Fuel | Number of Households | Percent of Households |
|-------------------|----------------------|-----------------------|
| Electricity | 137,091 | 28% |
| Fuel Oil | 10,397 | 2% |
| No fuel used | 1,281 | 0% |
| Other Fuels | 40,950 | 8% |
| Utility Gas | 296,006 | 61% |
| ALL LOW INCOME | 485,725 | 100% |

Source: 2005 ACS

**Table 2B
Housing Unit Type for Low-Income Households (2005)**

| Housing Unit Type | Number of Households | Percent of Households |
|--------------------------|-----------------------------|------------------------------|
| Boat, RV, Van, etc | 321 | 0% |
| Building with 2-4 units | 58,534 | 12% |
| Building with 5+ | 111,147 | 23% |
| Mobile Home | 45,172 | 9% |
| Single Family | 270,551 | 56% |
| ALL LOW INCOME | 485,725 | 100% |

Source: 2005 ACS

About 486,000 Indiana households are categorized as low-income. However, only those households that directly pay an electric bill or a gas bill are eligible for the Indiana ratepayer-funded programs. Table 2C shows that about 89% of low-income households directly pay an electric bill and that about 55% of low-income households directly pay a gas bill.

**Table 2C
Low-Income Households
Direct Payment for Electric and/or Gas Bill (2005)**

| Poverty Group | Number of Households | Percent of Households |
|--------------------------------|-----------------------------|------------------------------|
| Electric Bill - Direct Payment | 432,887 | 89% |
| Gas Bill - Direct Payment | 269,371 | 55% |
| ALL INCOME ELIGIBLE | 485,725 | 100% |

Source: 2005 ACS

Tables 3A and 3B show the distribution of electric bills and burden for low-income households that do not heat with electricity and reported electric expenditures separately from gas expenditures.¹ Table 3A shows the distribution of electric expenditures and Table 3B shows the electric burden.² Among these households, about 65% have electric bill that is less than \$1,000 per year while about 15% have an annual electric bill of \$1,500 or more. Burden is less than 5% of income for about 30% of these households; it is greater than 15% of income for 21%.³

¹The ACS allows respondents who have a combined electric and gas bill from one utility to report the total for both fuels. Those households are not included in these tables.

² Electric energy burden is defined as the household's annual electric bill divided by the household's annual income.

³ About 13% of households have their electric usage included in their rent. These households have a nonzero electric energy burden, since part of their rent is used to pay the electric bill. However, since there is no way to measure the share of rent that is used to pay the electric bill, electric energy burden is unknown for these households.

Table 3A
Electric Bills for Low-Income Households without Electric Heat (2005)

| Electric Bill | Number of Households | Percent of Households |
|------------------------------|-----------------------------|------------------------------|
| \$1 to less than \$500 | 60,569 | 20% |
| \$500 to less than \$1,000 | 134,477 | 45% |
| \$1,000 to less than \$1,500 | 58,968 | 20% |
| \$1,500 or more | 45,421 | 15% |
| TOTAL | 299,435 | 100% |

Source: 2005 ACS

Table 3B
Electric Burden for Low-Income Households without Electric Heat (2005)

| Electric Burden | Number of Households | Percent of Households |
|------------------------|-----------------------------|------------------------------|
| 0% to less than 5% | 90,371 | 30% |
| 5% to less than 10% | 108,006 | 36% |
| 10% to less than 15% | 39,001 | 13% |
| 15% or more | 62,057 | 21% |
| TOTAL | 299,435 | 100% |

Source: 2005 ACS

Tables 4A and 4B show the distribution of electric bills and burden for low-income households that heat with electricity. Table 4A shows the distribution of electric expenditures and Table 4B shows the electric energy burden. Among these households, just over half have an electric bill that is less than \$1,000 per year while about 25% have an annual electric bill of \$1,500 or more. Electric energy burden is less than 5% of income for about 13% of these households, while it is greater than 15% of income for 32%.

Table 4A
Electric Bills for Low-Income Households with Electric Heat (2005)

| Electric Bill | Number of Households | Percent of Households |
|------------------------------|-----------------------------|------------------------------|
| \$1 to less than \$500 | 12,914 | 12% |
| \$500 to less than \$1,000 | 43,616 | 39% |
| \$1,000 to less than \$1,500 | 27,408 | 25% |
| \$1,500 or more | 27,446 | 25% |
| TOTAL | 111,384 | 100% |

Source: 2005 ACS

Table 4B
Electric Burden for Low-Income Households with Electric Heat (2005)

| Electric Burden | Number of Households | Percent of Households |
|------------------------|-----------------------------|------------------------------|
| 0% to less than 5% | 14,999 | 13% |
| 5% to less than 10% | 38,681 | 35% |
| 10% to less than 15% | 21,868 | 20% |
| 15% or more | 35,836 | 32% |
| TOTAL | 111,384 | 100% |

Source: 2005 ACS

Tables 5A and 5B show the distribution of gas bills and burden for low-income households that heat with gas and report their gas bills separately from their electric bills. Table 5A shows the distribution of gas expenditures and Table 5B shows the gas energy burden. Among these households, about 53% have a gas bill that is less than \$1,000 per year while about 27% have an annual gas bill of \$1,500 or more. Gas energy burden is less than 5% of income for about 32% of these households, while it is greater than 15% of income for 29%.

Table 5A
Gas Bills for Low-Income Households (2005)

| Gas Bill | Number of Households | Percent of Households |
|------------------------------|-----------------------------|------------------------------|
| \$1 to less than \$500 | 71,213 | 29% |
| \$500 to less than \$1,000 | 59,690 | 24% |
| \$1,000 to less than \$1,500 | 48,912 | 20% |
| \$1,500 or more | 67,391 | 27% |
| TOTAL | 247,206 | 100% |

Source: 2005 ACS

Table 5B
Gas Burden for Low-Income Households (2005)

| Gas Burden | Number of Households | Percent of Households |
|----------------------|-----------------------------|------------------------------|
| 0% to less than 5% | 78,064 | 32% |
| 5% to less than 10% | 61,739 | 25% |
| 10% to less than 15% | 35,965 | 15% |
| 15% or more | 71,438 | 29% |
| TOTAL | 247,206 | 100% |

Source: 2005 ACS

Tables 6A and 6B show the distribution of total electric and gas expenditures for low-income households that pay bills directly to a utility company. Table 6A shows the distribution of electric and gas expenditures and Table 6B shows the electric and gas energy burden. About 90% of households have an electric bill, a gas bill, or both. Just over one-fourth of low-income households have a total electric and gas bill that is less than \$1,000 per year, while almost one-

fifth have an annual bill of \$2,500 or more. Electric and gas energy burden is less than 5% of income for 9% of low-income households, while it is greater than 25% of income for more than one in five low income households.

Table 6A
Electric and Gas Bills for Low-Income Households (2005)

| Electric and Gas Bill | Number of Households | Percent of Households |
|------------------------------|-----------------------------|------------------------------|
| \$1 to less than \$500 | 29,302 | 6% |
| \$500 to less than \$1,000 | 95,791 | 20% |
| \$1,000 to less than \$1,500 | 94,195 | 19% |
| \$1,500 to less than \$2,000 | 71,626 | 15% |
| \$2,000 to less than \$2,500 | 59,048 | 12% |
| \$2,500 or more | 85,009 | 18% |
| No Bill | 50,754 | 10% |
| ALL INCOME ELIGIBLE | 485,725 | 100% |

Source: 2005 ACS

Table 6B
Electric and Gas Burden for Low-Income Households (2005)

| Electric and Gas Bill | Number of Households | Percent of Households |
|------------------------------|-----------------------------|------------------------------|
| 0% to less than 5% | 41,310 | 9% |
| 5% to less than 10% | 118,640 | 24% |
| 10% to less than 15% | 84,719 | 17% |
| 15% to less than 20% | 52,710 | 11% |
| 20% to less than 25% | 33,264 | 7% |
| 25% or more | 104,328 | 21% |
| No Bill | 50,754 | 10% |
| ALL Income Eligible | 485,725 | 100% |

Source: 2005 ACS

We have developed a series of demographic tables for households that pay an electric or gas bill. Table 7 furnishes information on the presence of vulnerable members in the household and illustrates what share of the population might be particularly susceptible to energy-related health risks. Table 8 shows the household structure for these households, and Table 9 presents statistics on the language spoken at home by these households.

Over one-fourth of the low-income households with utility bills are elderly; 28% do not have any vulnerable household members. Some programs choose to target vulnerable households with outreach procedures and may offer priority to these households.

Table 7
Vulnerability Status for Low-Income Households with Utility Bills (2005)

| Vulnerability Type | Number of Households | Percent of Households |
|---------------------------|-----------------------------|------------------------------|
| Disabled | 95,081 | 22% |
| Elderly | 119,441 | 27% |
| No Vulnerable | 123,025 | 28% |
| Young Child | 97,424 | 22% |
| Total | 434,971 | 100% |

Source: 2005 ACS

Over one-third of low-income households have children, just over one-fourth are headed by a person 65 or older, and 37% are other household types. Single parent families with children represent almost one-fourth of low-income households with utility bills.

Table 8
Household Type for Low-Income Households with Utility Bills (2005)

| Household Type | Number of Households | Percent of Households |
|--------------------------|-----------------------------|------------------------------|
| Married with Children | 60,889 | 14% |
| Other | 161,016 | 37% |
| Senior Head of Household | 114,176 | 26% |
| Single with Children | 98,890 | 23% |
| TOTAL | 434,971 | 100% |

Source: 2005 ACS

Seven percent of low income households speak Spanish and 2% speak an Indo-European language (e.g., Russian, Polish). In total, program managers might find that one out of ten eligible households speak a language other than English at home.

Table 9
Language Spoken at Home by Low-Income Households with Utility Bills (2005)

| Language Spoken | Number of Households | Percent of Households |
|------------------------|-----------------------------|------------------------------|
| English | 390,734 | 90% |
| Spanish | 28,341 | 7% |
| Indo-European | 10,234 | 2% |
| Other | 5,662 | 1% |
| TOTAL | 434,971 | 100% |

Source: 2005 ACS

III. Legal and Regulatory Framework for Affordability Programs

Three major Indiana utilities have low-income rate affordability programs. While still considered to be “pilot” in nature, the three programs reach tens of thousands of low-income Indiana residents each year, distributing millions of dollars of benefits. The three major Indiana utilities grounded their low-income programs in the flexible regulation provided by statute to the Indiana Utility Regulatory Commission (IURC).⁴ The flexible regulation allowed under this Indiana statute, permits the Indiana commission to set aside traditional regulation for all or part of a utility’s rates or services.

A. Utility Program Designs

In response to the statute allowing utilities to propose alternative regulatory plans, three Indiana utilities (Citizens Gas & Coke Utility; Vectren Energy; Northern Indiana Public Service Company—NIPSCO) submitted proposals for low-income rate affordability programs. Two of the utilities (Citizens & Vectren) submitted a joint proposal with a common design for a “universal service program.” NIPSCO’s proposed Winter Warmth program substantively differed in both purpose and design.

CGCU/Vectren

The Citizens/Vectren program design offers income-eligible customers a discount off of the natural gas bill they would otherwise receive from the respective companies. Both companies divide their low-income customer population into three tiers. Customers are placed in each tier based on the “State Benefit Matrix” used in the distribution of federal fuel assistance through the federal Low-Income Home Energy Assistance Program (LIHEAP). Low-income customers must participate in LIHEAP in order to receive the utility discounts. Enrollment in LIHEAP automatically places the customer into the respective utility discount program.

Citizens provides a discount of either 9%, 18% or 24%; Vectren provides a discount of 15%, 26% or 32% applied to their residential gas service bill. When combined with LIHEAP benefits, the combined benefit of the discount tiers and LIHEAP will represent an approximate reduction of 27%, 40% or 50% reduction in the overall heating costs to Citizens eligible low-income customers. Vectren’s low-income customers will experience a reduction of approximately 35%, 50% or 60%. The highest benefits go to the households with the lowest income. The discount tiers are designed to approximate an affordable home energy burden under average incomes and usage levels.

In addition to the rate discounts, Citizens proposed to increase its annual weatherization program funding to a minimum of \$500,000 annually so long as the affordability program existed. Vectren designated \$200,000 annually for use in weatherization projects.

NIPSCO

NIPSCO’s Winter Warmth program offered not only a different design, but also a substantively different approach. Winter Warmth is a low-income energy assistance program directed toward assisting income-eligible households avoid the disconnection of service, achieve the reconnection of service, and avoid unaffordable winter heating bills. Customers may become eligible for Winter Warmth in either of two ways. First, customers who meet the State of Indiana’s Energy Assistance Program (“EAP”) guideline are automatically qualified. Second, customers who are classified as “hardship” by local Gift of Warmth agencies, the local community-based organizations that administer the program, are also qualified to receive

⁴ Indiana Code, §§ 8-1-2.5-1, et seq. (2007).

benefits under the Winter Warmth Program. These local agencies have the sole discretion for developing criteria for determining whether a customer qualifies as hardship.

Through Winter Warmth, program participants receive benefits up to \$450 per customer per heating season. The local agencies administering the program may utilize the customer's program benefits to pay deposit requirements.

In addition to the direct cash assistance provided under Winter Warmth, disconnected EAP qualified customers will be required to pay a maximum security deposit of 1/12th of the average annual gas costs and "hardship" qualified customers will be required to pay a maximum deposit of 1/6th of the average annual gas costs. All customers under the Program will be required to pay a minimum before receiving any benefits. The program, however, provides Gift of Warmth agencies with complete discretion to determine whether an eligible customer can afford to pay the minimum payment.

B. Application of the Statutory Standards

The three Indiana utilities proposed their respective low-income programs pursuant to the Indiana statute allowing an Indiana energy utility to submit a plan to the state utility commission⁵ seeking state regulatory approval of a plan for alternative regulation.⁶ In setting forth the framework for flexible regulation, the Indiana legislature "declared" that "the provision of safe, adequate, efficient and economical retail energy services is a continuing goal of the commission in the exercise of its jurisdiction."⁷ Moreover, the Indiana legislature said, "the public interest requires the commission to be authorized to issue orders and to formulate and adopt rules and policies. . .giving due regard to the interest of consumers and the public, and to the continued availability of safe, adequate, efficient, and economical energy service."⁸

According to the Indiana courts, the state Alternative Utility Regulation (AUR) Act was intended to expand,⁹ not restrict, the authority that the state utility commission could exercise under its traditional regulatory authority.¹⁰ The statute allows the state commission to issue regulatory decisions that would not have been available to the commission under the traditional regulatory statute.¹¹

When an Indiana utility requests approval of its decision to elect to operate under a plan of alternative regulation, the state utility commission must commence a proceeding to determine whether to approve the utility election. The issue in this proceeding is whether the commission should "decline to exercise, in whole or in part, its jurisdiction over either the energy utility or the retail energy service of the energy utility, or both." In deciding that question, the commission is required to consider four factors, including in relevant part:

- Whether. . .operating conditions. . .render the exercise, in whole or part, of jurisdiction by the commission unnecessary or wasteful;
- Whether the commission's declining to exercise, in whole or in part, its jurisdiction will be beneficial for the energy utility, the energy utility's customers, or the state;

⁵ The Indiana statute provides that the statutory sections on alternative regulation "do not apply to an energy utility unless the energy utility voluntarily submits a verified petition to the commission stating the energy utility's election to become subject to such section or sections." Indiana Code, §8-1-2.5-4 (2007); see also, Indiana Code, §8-1-2.5-8 (2007).

⁶ Indiana Code, §8-1-2.5-4 (2007).

⁷ Indiana Code, §8-1-2.5-1(1) (2007).

⁸ Indiana Code, §8-1-2.5-1(6) (2007).

⁹ The court speaks of "supplementing" the existing Commission regulatory authority.

¹⁰ United States Gypsum, Inc. v. Indiana Gas Company, 735 N.E.2d 790 (Ind. 2000).

¹¹ Id., at 800.

- Whether the commission’s declining to exercise, in whole or in part, its jurisdiction will promote energy utility efficiency; and
- Whether the exercise of commission jurisdiction inhibits an energy utility from competing with other providers of functionally similar energy services or equipment.¹²

Under the statute, when a utility elects to petition for an alternative regulatory plan, the state utility commission is explicitly authorized to “establish rates and charges that are in the public interest as determined by consideration of the [statutorily-prescribed] factors. . .”¹³ The “public interest” under the alternative regulation statute, the Indiana supreme court held, “encompasses a wide range of considerations,” and “is not confined to customer interests.”¹⁴ The Commission is to consider far more than “just the cost effect to consumers.”¹⁵

Once the state commission has approved an alternative regulatory plan for an Indiana utility, the commission may subsequently re-impose full regulation on the utility. However, if the plan was approved for a “fixed term of years,” all or part of the plan may be terminated before the expiration of the term “*only* if material and irreparable harm to the energy utility, the energy utility’s customers, the state, or the safety of the energy utility’s workforce has been established.”¹⁶

The three Indiana utilities electing to proceed with an alternative regulatory plan for their low-income customers noted a variety of circumstances that justified their proposals under the statute. Primarily, however, according to their petition, the plan was developed “in recognition of the concerns over price volatility resulting from imbalances between gas supply and demand, as well as weather-related price spikes often occurring during the heating season, and the resulting increased financial needs of the[...] low-income customers.”¹⁷

An Alternative to Unnecessary and Wasteful Regulation of Collections

NIPSCO, too, observed that the need for the program was warranted by the operating conditions facing the company, including “the impact of increased and volatile natural gas prices on low income customers.”¹⁸ NIPSCO specifically argued that its Winter Warmth Program satisfied the statutory standards under the law authorizing alternative regulatory plans. It said that its program would “promote efficiency in the rendering of retail energy services” and would “timely address and ease the impact of volatile natural gas prices on low-income customers.”¹⁹

The three companies then discussed the statutory criteria underlying their proposed alternative regulatory plans. First, they noted, the collection responses allowed (or required) by IURC regulation simply don’t work for the companies’ low-income customers under the identified

¹² Indiana Code, §8-1-2.5-5 (2007).

¹³ Indiana Code, §8-1-2.5-6(a)(1) (2007).

¹⁴ United States Gypsum, at 804.

¹⁵ Id.

¹⁶ Indiana Code, §8-1-2.5-7 (2007). (emphasis added).

¹⁷ Verified Joint Petition of Indiana Gas Company, Inc., Southern Indiana Gas and 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, et seq. For Approval of an Alternative Regulatory Plan Which Would Establish a Pilot Universal Service Program, Case No. 42590, Verified Joint Petition, at 4, March 4, 2004. (hereafter 2004 ARP Petition).

¹⁸ Verified Petition of Northern Indiana Public Service Company, Pursuant to Ind. Code § 8-1-2.5 et seq. for Approval of Alternative Regulatory Plan which would Establish a Pilot low Income Energy Assistance Program, Docket No. 42722, Verified Petition, at 5 (hereafter NIPSCO I Petition).

¹⁹ Verified Petition of Northern Indiana Public Service Company, Pursuant to Ind. Code §8-1-2.5 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, Docket No. 43077, Verified Petition, at 6 (June 26, 2006) (hereafter NIPSCO II Petition).

operating circumstances involving high and volatile natural gas prices. The existing state regulatory regime mandating a series of notices leading up to the disconnection of service, and the offer of payment plans that do not address the underlying affordability of current bills, is ineffective and wasteful. The existing regulatory regime, according to the companies, resulted in continuing to disconnect low-income customers, and writing-off low-income accounts as bad debt, while spending considerable utility money in the pursuit of collection actions that cannot be expected to succeed.

In contrast, the companies said, the alternative regulatory plans proposed by each company would improve collections and reduced unpaid bills. Citizens Gas/Vectren both noted that the proposed alternative regulatory plan would increase the efficiency of their respective utilities by reducing the number of utility terminations and decreasing payment defaults and untimely payments, all of which contribute to higher collection and uncollectible costs to the Company.²⁰ Similarly, NIPSCO noted, its proposed Winter Warmth program would improve the efficient operation of the utility by crafting a low-income program that would “reduce the number of service terminations attributed to low-income customers’ inability to pay for gas service.” The Winter Warmth program also would help decrease “the number of defaults and untimely payments which ultimately result in higher uncollectible costs. . .”²¹

Benefits to the Utility, to Customers or to the State

The proposed rate affordability programs offered by Indiana’s three utilities would generate benefits to the utility, to its customers and to the state under the alternative regulatory plan statute. One attribute of the public interest that Indiana regulators are required by statute to consider in administering public utility regulation involves public health and safety. Citizens Gas and Vectren both noted that there were public safety issues involved with providing affordable rates to their low-income customers. Reporting that more than 11,000 of their customers receiving LIHEAP assistance “still failed to meet one or more payment obligations for gas service during a twelve month period,” these two companies asserted that one goal of their program was “to protect the health and safety of Petitioners’ low income customers by helping them to maintain affordable natural gas service.”²² Northern Indiana Public Service Company (NIPSCO) also noted that its proposed Winter Warmth program would “protect the health and safety of [the utility’s] low income customers by helping them maintain affordable natural gas service. . .”²³ The health and safety of its customers would further be advanced, NIPSCO noted, by “helping low-income customers conserve energy and reduce residential heating bills.”²⁴

Aside from these positive health and safety impacts of the proposed low-income affordability programs, the Indiana utilities argued that the low-income programs would improve the competitiveness of Indiana’s business and industry.

Efficient Utility Operations

Finally, the proposed alternative regulatory plans, according to Indiana’s three utilities, would not only promote the efficient operation of the utility, as described above, but would also promote the efficient use of energy by low-income customers. When a customer has no hope of being able to pay for their bill in the first place, the utilities posited, that customer loses much of their incentive to control their home energy use. In contrast, when a low-income affordability program makes possible the complete payment of bills, the customer can be expected to manage their bills to stay within a payable range. According to whom “Because the Program

²⁰ 2004 ARP Petition, at 7 – 8.

²¹ NIPSCO I Petition, at 5.

²² 2004 ARP Petition, at 3 – 4.

²³ NIPSCO I Petition, at 2.

²⁴ Id.

envisions participating customers to continue to be responsible for the payment of a significant portion of their gas usage, customers will continue to have an incentive to monitor and control usage, if possible, and better to manage their monthly gas bills.”²⁵

C. The Regulatory Program Approvals

In a series of orders from 2004 through 2006, the IURC approved the initiation and continuation of the three Indiana low-income rate affordability programs. The approvals were limited, however, allowing the continuation of the rate affordability efforts on a pilot basis for a discrete period of time.

The Statutory Standards

Nonetheless, the IURC accepted testimony documenting that the statutory criteria set forth for alternative regulatory plans had been met. The IURC held with respect to NIPSCO’s initial proposal for Winter Warmth that “the record reflects that the Program satisfies the statutory standards.” For example, the Commission said, “the Program will reduce the number of service terminations attributable to low-income customers’ inability to pay for gas service. Fewer terminations, and the reduced need to dispatch personnel to effectuate those terminations of service, will result in more efficient utility operation.”²⁶

In addition to the efficiency of utility operations, the Commission observed how the low-income programs of the Indiana utilities would enhance the value of the utility service, consistent with the alternative regulatory statute. NIPSCO’s Winter Warmth program, the Commission said, “will be beneficial for [NIPSCO], its low income natural gas customers, and all other customers, while promoting energy utility efficiency and maintaining, if not enhancing, the value of NIPSCO’s utility retail energy service.”²⁷ With natural gas utilities in particular, the primary use of the natural gas service is in the provision of home heating. The problems faced by the low-income customers of the Indiana utilities, however, are most likely to occur in the heating months. These months are not only when bills are highest, but bills are the most volatile as well. When the utilities’ low-income customers face unaffordable bills under these circumstances, they tend to pay even less than they are capable of paying.

Addressing the unaffordability of the underlying bill thus has the following impacts.

- First, it helps improve the efficiency of the utility collection efforts. As the IURC found with respect to NIPSCO’s Winter Warmth program, “these discounts are intended to make winter heating bills more manageable for Petitioners’ low-income gas customers and provide them with an opportunity to break the cycle of disconnection and reconnection. This break in the cycle is expected to reduce service termination, costs related to collections, customer arrearages and Petitioners’ outstanding accounts receivable.”²⁸
- Second, it creates an incentive for the customers, themselves, to manage their bills more closely. The closer a customer gets to facing an affordable bill that can be paid in full, the utilities argued, the more likely the customer will manage their consumption to reach that level of affordability. The IURC noted that the utilities had urged in support of their affordability program that “the Program will further promote energy efficiency by requiring participants to be responsible for a manageable

²⁵ 2004 ARP Petition, at 8.

²⁶ Cause No. 42722, Order, at 7, Approved December 15, 2004.

²⁷ Id., at 7.

²⁸ 2004 Order, Cause No. 42590, at 7.

portion of their natural gas bill, thereby giving them an incentive to monitor and reduce usage, and if possible, to lower their monthly gas bills.”²⁹

- Third, the program helps “focus assistance.”³⁰ Rather than spreading rate relief “across all customers and hav[ing] a minimal incremental impact on rates, given the current high cost of gas,” the Company noted that the proposed program “will help provide more timely relief to those customers most in need and least able to afford the dramatic price spikes that have occurred this winter.”³¹

The IURC conclusion that “the program has demonstrated benefits,” was a fact-specific finding for the specific program presented to it. According to the IURC’s 2006 decision approving extension of the Winter Warmth (WW) program for another year:

In reviewing the specific proposal presented in this matter, the Commission notes that the testimony presented demonstrates a number of benefits from the existing program, which lead us to conclude that the program should be extended for an additional year. In reaching this conclusion, we note specific testimony regarding evidence of increased payment records by WW participants, as well as indications that WW participants had a higher rate of payment than other [energy assistance] eligible customers simply by virtue of being in the program. As a direct result of enrollment of customers faced with disconnection into the WW program, additional funds were made available to these rates which allowed them to remain connected.³²

The Regulatory Cautions: Adequate Documentation

The Commission cautioned, however, that NIPSCO “must provide additional data.” One set of data the Commission specifically requested included “a comprehensive fiscal analysis that demonstrates [among other things] the customer/recipient impact of the program and reporting or protecting the business impact of (a) decreased need for disconnection/reconnection and accompanying fees; (b) reduction in uncollectibles; and (c) reduction in bad debt.”³³ In ordering NIPSCO to periodically file a “Program Schedule” documenting the costs and benefits of the program, the Commission said that it “recognizes that any future approval will depend on the presentation of significant data that demonstrates the justification for such a program.”³⁴

The Commission finally concluded that the approval of the extension of the NIPSCO Winter Warmth program should not bring the development of program alternatives to a halt. “In reaching these specific findings, the Commission recognizes that low-income heating assistance is too great an issue to be dealt with in a piecemeal fashion or without a careful and thorough evaluation of any proposed program. It is our expectation that the utilization and continued development of pilot programs of this type should allow us to identify best practices.”³⁵

D. Summary and Conclusions

While Indiana does not have a single statewide rate affordability program, three of Indiana’s largest utilities have implemented a series of rate affordability programs for their individual service territories. Rather than seeking regulatory approval of these low-income programs

²⁹ Id., at 7.

³⁰ Cause No. 42590, Order, at 4, January 4 2006 (hereafter 2006 Order).

³¹ Id., at 4.

³² Cause No. 42927, Order, at 10, January 31, 2006.

³³ Id., at 10.

³⁴ Id., at 11.

³⁵ Id.; see also, Cause No. 43077 and Cause No. 43078 (consolidated), Order, at 11 – 12 (December 6, 2006).

under the traditional regulatory statutory framework, however, the three Indiana companies invoked the state statute authorizing the implementation of an “alternative regulatory plan.” Whether such a plan should be approved is governed by prescribed statutory criteria, including whether utilization of traditional regulation is unnecessary or wasteful; whether the commission declining to exercise its regulatory jurisdiction over some part of the company’s rates and services would generate benefits to the utility, its customers, or the state as a whole; or whether the plan would promote efficiency in utility operations.

The Indiana utilities argued, and the Indiana commission approved, that the universal service programs advanced by Citizens Gas & Coke Utility and Vectren Energy complied with the statutory criteria underlying an alternative regulatory plan. Similarly, the Indiana Commission approved the Winter Warmth program proffered by Northern Indiana Public Service Company (NIPSCO). The companies noted that the current conditions under which they operate – including high and volatile natural gas prices—create the need for the plans. They noted that continuing the traditional collection processes contemplated by the existing regulatory regime is ineffective, inefficient and wasteful. They noted how their respective programs would improve not only the efficiency of their operations, but the efficient use of energy by low-income customers. They documented how the proposed alternative plans would generate health and safety benefits for their customers (and the population as a whole), and would improve the competitive posture of the business and industry in their respective service territories.

While approving each low-income program for the period requested by the three utilities, the Indiana commission warned the companies that approval should not be assumed. Continuing approval will be predicated upon adequate documentation.

IV. Low-Income Affordability Programs

The four major affordability programs available to low-income households in Indiana are the LIHEAP Program, the CGCU Universal Service Program (USP), the Vectren Universal Service Program (USP), and the NIPSCO Winter Warmth Program.

- LIHEAP Program – In 2005, the Indiana LIHEAP program received about \$53.9 million in funding from the Federal government.³⁶ Since about 89% of low-income households use natural gas or electricity for their home heating fuel, we will estimate that about \$48 million was made available to gas and electric customers for LIHEAP benefits.
- CGCU Universal Service Program (USP) – In 2005, the CGCU USP furnished about \$3 million in gas benefits to low-income households.³⁷
- Vectren Universal Service Program (USP) – In 2005, the Vectren USP furnished about \$5 million in gas benefits to low-income households.³⁸
- NIPSCO Winter Warmth Program - In 2005, the NIPSCO Winter Warmth program furnished about \$6.7 million in electric benefits to low-income households.³⁹

In total, about \$62.7 million was available to help pay the electric and gas bills for low-income households. Using the ACS data, we estimated the following statistics regarding the aggregate electric and gas bills for low-income households in Indiana.

³⁶ Source: LIHEAP Clearinghouse

³⁷ Source: LIHEAP Clearinghouse

³⁸ Source: LIHEAP Clearinghouse

³⁹ Source: LIHEAP Clearinghouse

- Aggregate Electric and Gas Bill – The total electric and gas bill paid directly by low-income households is estimated to be about \$738 million. The available funding of \$62.7 million in benefits would cover about 8% of the total bill for low-income households.
- 5% Need Standard – Some analysts suggest that 5% of income is an affordable amount for low-income households to pay for the energy needs. The aggregate value of electric and gas bills that exceeds 5% of income is estimated to be about \$496 million. The available funding of \$62.7 million in benefits could cover about 13% of the unaffordable amount for low-income households. [Note: If benefits from any of the three programs are allocated to households with an energy burden less than 5% of income, the program would not cover 13% of the estimated need.]
- 15% Need Standard – Some analysts suggest that 15% of income is an affordable amount for low-income households to pay for the energy needs. The aggregate value of electric and gas bills that exceeds 15% of income is estimated to be about \$215 million. The available funding of \$62.7 million in benefits could cover about 29% of the unaffordable amount for low-income households if it were targeted to only those households with energy bills greater than 15% of income.
- 25% Need Standard – Many low-income households pay more than 25% of income for energy service. Among the ratepayer-funded low-income programs that have used a percent-of-income guideline in their benefit determination process, none have been as high as 25% of income for combined use of electric and gas. The aggregate value of electric and gas bills that exceeds 25% of income is estimated to be about \$125 million. The available funding of \$62.7 million in benefits could cover about 50% of the unaffordable amount for low-income households if it were targeted to households with energy bills greater than 25% of income.

These statistics demonstrate that, while the Indiana programs offer significant benefits to a large number of low-income households, there are still many of low-income households in Indiana who are receiving benefits that do not reduce their energy burden to an affordable level, and that there are a considerable number of low-income households in Indiana that are not receiving benefits at all.

There are about 435,000 low-income households in Indiana with an electric and/or gas bill. The average household pays about \$1,500 for their electric and gas service. About 190,000 households have an electric and gas energy burden that exceeds 15% of income. In a typical year, the LIHEAP program serves about 130,000 households. With the additional funding available in 2006, the program served almost 160,000 households. The average LIHEAP benefit was about \$225. The ratepayer-funded low-income programs are targeted to LIHEAP recipient households and served almost 60,000 households in 2006 with average benefits of about \$230. The programs are serving about 30% (130,000 / 435,000) of the eligible households, and could serve about 68% of the highest burden households if benefits were targeted to those households. The benefits are significant – about \$450 for a household receiving both LIHEAP and a ratepayer-funded program grant – but cover only about 30% of the average low-income customer's bill (\$450 of \$1,500).

The Indiana ratepayer-funded programs share some common features, including:

- Utility Program Administration – Each utility is responsible for the funding, design, and management of the program for their customers.
- Local Agency Enrollment – All of the utilities use the local LIHEAP office to qualify households for the program and determine the benefit amount.

Each utility has a unique program design.

Some important features of the CGCU USP program include:

- Commission Oversight – Oversight by the IURC is focused on review of the program plans.
- Program Operations – CGCU is responsible for operation of the program, including the development of systems for program intake, benefit determination, and financial reporting.
- Program Funding/Participation – Program funding for 2006 was about \$3.0 million and served about 17,700 customers with bill payment assistance and weatherization.
- Targeting – Through the use of the benefit matrix, the program is targeted to deliver higher benefits to lower income households and at-risk populations.
- Benefit Type – The program is a rate discount program, with discounts ranging from 24% for the lowest income customers to 9% for the highest income eligible group.

The following table furnishes detailed information on the CGCU USP program.

| Program State | Indiana | | | | | | | | |
|---|---|-----------------------|--|------|---------------|-----------------------|---|------|----|
| Program Name | Universal Service Program (USP) | | | | | | | | |
| Utility Company (If Applicable) | CGCU | | | | | | | | |
| Program Goals | Encourage low-income customers to conserve energy, but also provide assistance in the form of an affordable method to pay their bill in addition to ensuring continued gas service during the coldest months of the year. | | | | | | | | |
| Funding Source (SBC or Rates) | Utility Contributions – Utility Contributions provides 56% of the funding for bill payment assistance and 100% of the funding for weatherization. Rates: Residential customers are charged an average of \$.25 per month (Customer Benefit Distribution: The CBD lowers the bill of all Citizens Gas customers and is funded from unregulated operations of the utility.) Rates provides 44% of the funding for bill payment assistance. | | | | | | | | |
| Annual Program Funds – Allocated (2006) | Total: \$3,030,000 Bill Payment Assistance: \$2,530,000 Weatherization: \$500,000 | | | | | | | | |
| Annual Program Funds – Expended (2006) | Bill Discounts: \$2,138,000 Weatherization: \$500,000 | | | | | | | | |
| # of Households Served (2006) | 2005-2006 Heating Season: 17,700 | | | | | | | | |
| Participation Limit (Maximum # of Enrollees) | None. | | | | | | | | |
| Eligibility – % of Poverty Level | 150% of the FPL | | | | | | | | |
| Eligibility – Other Criteria | The customer must enroll in and qualify for assistance from LIHEAP. | | | | | | | | |
| Targeted Groups | The LIHEAP Benefit Matrix point system awards points based on percent of poverty, income status, dwelling type, housing status, at-risk populations (elderly, disabled, and/or the presence of children 0-5 years), and fuel source. | | | | | | | | |
| Benefit Calculation Type (% of Income, Benefit Matrix, etc.) | Benefit Matrix | | | | | | | | |
| Benefit Calculation (Document Formula) | <table border="1"> <thead> <tr> <th>Tier</th> <th>Matrix Points</th> <th>Citizens Gas Discount</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>1-12</td> <td>9%</td> </tr> </tbody> </table> | | | Tier | Matrix Points | Citizens Gas Discount | 1 | 1-12 | 9% |
| Tier | Matrix Points | Citizens Gas Discount | | | | | | | |
| 1 | 1-12 | 9% | | | | | | | |

| | | | |
|---|---|--------------|-----|
| | 3 | 16-20 | 24% |
| | The amount of discount is based on the LIHEAP Benefit Matrix. | | |
| Benefit Amount (Mean Subsidy) | \$121 (Total Bill Payment Assistance Dollars Expended/17,700 participants). | | |
| Benefit Limit | None. | | |
| % of Program Dollars Spent on Administrative Costs | 0% | | |
| Benefit Distribution (Fixed Payment, Fixed Payment with a Limit, Fixed Credit, Fixed Credit with Budget Billing, etc.) | Discount | | |
| Arrearage Forgiveness Plan – Y/N | No. | | |
| Amount Eligible for Forgiveness (Dollars, %, or Unlimited) | N/A | | |
| Forgiveness Requirement (Payments, On-Time Payments) | N/A | | |
| Forgiveness Period (One-Time, 12 months, 24 months, etc.) | N/A | | |
| Program Manager (PUC, State, Utility) | Utility | | |
| Data Manager (PUC, State, Utility, Other) | Utility | | |
| Enrollment Responsibility (Utility, CAP, etc.) | Community Action Agencies. | | |
| Application Method (Mail, In-Person, Phone) | Clients qualify for the USP through their enrollment in LIHEAP. Clients might enroll in LIHEAP through the mail or in-person at a Community Action Agency. | | |
| Joint Application | Eligible customers who have applied for LIHEAP through Community Action Agencies are automatically enrolled in the USP. | | |
| Recertification Required – Y/N | Customers must qualify for and enroll in LIHEAP in order to continue receiving the benefit. | | |
| Recertification Frequency | Annually | | |
| Recertification Method (Agency, Automatic Enrollment, Self-Certification) | Community Action Agencies | | |
| Recertification Procedures | Qualify and enroll in LIHEAP. | | |
| Removal Reasons | The customer is not removed from the program during the calendar year but they only receive the benefit if they have an active account (i.e., if a customer's service is shutoff, they cannot receive the benefit again until they resume service). | | |
| Other Communications | CGCU sends the client a letter to acknowledge their receipt of the benefit and to inform them what percentage discount they will receive. This letter of acknowledgement also includes a USP brochure. | | |
| Budget Counseling | CGCU offers budget counseling to all customers, but there are no budget counseling components specific to the USP. | | |
| Evaluation Frequency | The program was evaluated annually for the first two years of the pilot program (2005 and 2006). Another evaluation will be completed in summer 2007. | | |
| Coordination with LIHEAP | Eligible customers who have applied for LIHEAP through Community Action Agencies are automatically enrolled in the USP. The USP benefit determination is based off of the LIHEAP benefit matrix. | | |
| Coordination with WAP | In the first year of the program, the Weatherization funds were distributed to CAGI. The Program expects to allocate \$600,000 (2006 and 2007 funds) to the Indiana Housing and Community Development Authority (the current WAP administrator). | | |
| | Citizens Gas allocates a portion of USP funds each program year to Weatherization. Both home | | |

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| | owners and rental properties are eligible and they have to be households with gas consumption greater than 120% average annual gas usage. |
| Coordination with Energy Efficiency Programs | The Program coordinates with any program that is completing low-income home repair work (usually local CDCs). If the organization plans to perform repairs on a USP-recipient's home, the Program will agree to weatherize the home after they complete the repairs. |
| Coordination with Other Energy Affordability Programs | No. |

Some important features of the NIPSCO Winter Warmth program include:

- Commission Oversight – Oversight by the IURC is focused on review of the program plans.
- Program Operations – NIPSCO is responsible for operation of the program, including the development of systems for program intake, benefit determination, and financial reporting.
- Program Funding/Participation – Program funding for 2006 was about \$5.6 million and served about 15,000 customers with bill payment assistance and weatherization.
- Targeting – Through the use of the benefit matrix, the program is targeted to deliver higher benefits to lower income households and at-risk populations.
- Benefit Type – The program is an annual fixed credit of up to \$450. The size of the benefit is determined by a benefit matrix.

The following table furnishes detailed information on the NIPSCO Winter Warmth program.

| | |
|---|---|
| Program State | Indiana |
| Program Name | Winter Warmth Program |
| Utility Company (If Applicable) | NIPSCO |
| Program Goals | Assist income-eligible households avoid the disconnection of service, achieve the reconnection of service, and avoid unaffordable winter heating bills. |
| Funding Source (SBC or Rates) | NIPSCO Contribution Rates: The average NIPSCO residential natural gas customer paid approximately \$.63 per month for the program. |
| Annual Program Funds – Allocated (2006) | The program projected that in 2006, there would be \$6,700,000 available for the Winter Warmth Program. However, the program does not allocate all of the program funds per the projection. The program releases funding as the projection becomes refined through comparison with customers' actual usage, and the resulting program funding, over time. |
| Annual Program Funds – Expended (2006) | \$5,589,528 |
| # of Households Served (2006) | 14,916 |
| Participation Limit (Maximum # of Enrollees) | None. When all available funding is utilized the program ends. |
| Eligibility – % of Poverty Level | 150% of the FPL. |
| Eligibility – Other Criteria | <ul style="list-style-type: none"> o Customers who meet the State of Indiana's Energy Assistance Program (EAP) (LIHEAP) guideline are automatically qualified. o Customers who are qualified as "hardship" by local Winter Warmth agencies are also qualified to receive benefits under the Program. o NIPSCO account must be in the Winter Warmth recipient's name. o Customer must be financially-troubled (as indicated by a disconnect notice.) |
| Targeted Groups | Payment Troubled Customers. |

| | |
|---|---|
| Benefit Calculation Type (% of Income, Benefit Matrix, etc.) | Benefit Matrix |
| Benefit Calculation (Document Formula) | <i>Bill Payment Assistance:</i> Customers can receive benefits up to \$450 per customer per heating season. <i>Discounted Security Deposits:</i> The program allows participants to pay discounted security deposits. Disconnected EAP qualified customers are required to pay a maximum security deposit of 1/12 the average annual gas cost and "hardship" qualified customers are required to pay a maximum deposit of 1/6 the average annual gas cost. The Winter Warmth agencies may utilize the customer's program benefits to pay deposit requirements. |
| Benefit Amount (Mean Subsidy) | \$368.03 |
| Benefit Limit | \$450 per heating season (includes security deposits) |
| % of Program Dollars Spent on Administrative Costs | 1.7% |
| Benefit Distribution (Fixed Payment, Fixed Payment with a Limit, Fixed Credit, Fixed Credit with Budget Billing, etc.) | Fixed Annual Credit with Budget Billing |
| Arrearage Forgiveness Plan – Y/N | No. However, the Winter Warmth benefit can be applied to a delinquency up to 4 years old. |
| Amount Eligible for Forgiveness (Dollars, %, or Unlimited) | \$450 |
| Forgiveness Requirement (Payments, On-Time Payments) | N/A |
| Forgiveness Period (One-Time, 12 months, 24 months, etc.) | One time per heating season |
| Program Manager (PUC, State, Utility) | NIPSCO |
| Data Manager (PUC, State, Utility, Other) | NIPSCO |
| Enrollment Responsibility (Utility, CAP, etc.) | Winter Warmth Agencies (local community-based organizations that administer the program) |
| Application Method (Mail, In-Person, Phone) | <ul style="list-style-type: none"> o EAP recipients are automatically qualified for the Program if they have a disconnect notice. They must visit the agency in-person. o Customers who are qualified as "hardship" by local Winter Warmth agencies must visit the agency in-person. |
| Joint Application | None. |
| Recertification Required – Y/N | Yes. |
| Recertification Frequency | Once per heating season. |
| Recertification Method (Agency, Automatic Enrollment, Self-Certification) | Agency. |
| Recertification Procedures | <ul style="list-style-type: none"> o Customer must be financially-troubled as indicated by a disconnect notice. o Customer must be EAP-eligible or deemed "hardship" by Winter Warmth agency. o Customer must visit agency in person. |
| Removal Reasons | N/A. |
| Other Communications | N/A. |
| Budget Counseling | Some Winter Warmth agencies provide this service. |
| Evaluation Frequency | An impact evaluation was conducted in 2005. The program is currently being evaluated. |
| Coordination with LIHEAP | Many of the Winter Warmth Agencies serve as EAP intake sites. This minimizes the need for customers to make visits to multiple agencies to obtain their energy assistance. |

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|--|---|
| Coordination with WAP | None. |
| Coordination with Energy Efficiency Programs | The program allocates up to \$750,000 in weatherization for low-income customers each program year. |
| Coordination with Other Energy Affordability Programs | None. |

Some important features of the Vectren USP program include:

- Commission Oversight – Oversight by the IURC is focused on review of the program plans.
- Program Operations – Vectren is responsible for operation of the program, including the development of systems for program intake, benefit determination, and financial reporting.
- Program Funding/Participation – Program funding for 2006 was about \$5.0 million and served 25,868 customers with bill payment assistance and weatherization.
- Targeting – Through the use of the benefit matrix, the program is targeted to deliver higher benefits to lower income households and at-risk populations.
- Benefit Type – The program is a rate discount program, with discounts ranging from 32% for the lowest income customers to 15% for the highest income eligible group.

The following table furnishes detailed information on the Vectren USP program.

| | |
|---|---|
| Program State | Indiana |
| Program Name | Universal Service Program (USP) |
| Utility Company (If Applicable) | Vectren |
| Program Goals | Encourage low-income customers to conserve energy, but also provide assistance in the form of an affordable method to pay their bill in addition to ensuring continued gas service during the coldest months of the year. |
| Funding Source (SBC or Rates) | Vectren Contribution. Rates. Vectren funds the USP on an annual basis. The difference between Vectren's contribution and the funds expended is recovered through a rider in the rate structures for all classes of customers. In 2006, the average annual charge per residential customer was \$4.18. |
| Annual Program Funds – Allocated (2006) | \$5,000,000 |
| Annual Program Funds – Expended (2006) | \$5,938,743.62 |
| # of Households Served (2006) | 25,868 |
| Participation Limit (Maximum # of Enrollees) | None. |
| Eligibility – % of Poverty Level | 150% of the FPL |
| Eligibility – Other Criteria | The customer must enroll in and qualify for assistance from LIHEAP and have active natural gas service from Vectren Energy Delivery of Indiana. |
| Targeted Groups | The LIHEAP Benefit Matrix point system awards points based on percent of poverty, income status, dwelling type, housing status, at-risk populations (elderly, disabled, and/or the presence of children 0-5 years), and fuel source. Customers must have active gas service. |

| Benefit Calculation Type (% of Income, Benefit Matrix, etc.) | Benefit Matrix | | | | | | | | | | | | |
|---|---|------------------|---------------|------------------|---|------|-----|---|-------|-----|---|-------|-----|
| Benefit Calculation (Document Formula) | <table border="1"> <thead> <tr> <th>Tier</th> <th>Matrix Points</th> <th>Vectren Discount</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>1-12</td> <td>15%</td> </tr> <tr> <td>2</td> <td>13-15</td> <td>26%</td> </tr> <tr> <td>3</td> <td>16-20</td> <td>32%</td> </tr> </tbody> </table> <p>The amount of discount is based on the LIHEAP Benefit Matrix (the LIHEAP Benefit Matrix).</p> | Tier | Matrix Points | Vectren Discount | 1 | 1-12 | 15% | 2 | 13-15 | 26% | 3 | 16-20 | 32% |
| Tier | Matrix Points | Vectren Discount | | | | | | | | | | | |
| 1 | 1-12 | 15% | | | | | | | | | | | |
| 2 | 13-15 | 26% | | | | | | | | | | | |
| 3 | 16-20 | 32% | | | | | | | | | | | |
| Benefit Amount (Mean Subsidy) | <p>Combined Average: \$229.58 (\$5,938,743.62 / 25,868)</p> <p>Tier 1 average discount = \$139.44 (7,650 customers) Tier 2 average discount = \$253.34 (15,079 customers) Tier 3 average discount = \$335.10 (3,139 customers)</p> | | | | | | | | | | | | |
| Benefit Limit | None. | | | | | | | | | | | | |
| % of Program Dollars Spent on Administrative Costs | 0% | | | | | | | | | | | | |
| Benefit Distribution (Fixed Payment, Fixed Payment with a Limit, Fixed Credit, Fixed Credit with Budget Billing, etc.) | Discount | | | | | | | | | | | | |
| Arrearage Forgiveness Plan – Y/N | No. | | | | | | | | | | | | |
| Amount Eligible for Forgiveness (Dollars, %, or Unlimited) | N/A | | | | | | | | | | | | |
| Forgiveness Requirement (Payments, On-Time Payments) | N/A | | | | | | | | | | | | |
| Forgiveness Period (One-Time, 12 months, 24 months, etc.) | N/A | | | | | | | | | | | | |
| Program Manager (PUC, State, Utility) | Utility | | | | | | | | | | | | |
| Data Manager (PUC, State, Utility, Other) | Utility | | | | | | | | | | | | |
| Enrollment Responsibility (Utility, CAP, etc.) | Community Action Agencies | | | | | | | | | | | | |
| Application Method (Mail, In-Person, Phone) | Clients qualify for the USP through their enrollment in LIHEAP. Clients might enroll in LIHEAP through the mail or in-person at a Community Action Agency. | | | | | | | | | | | | |
| Joint Application | Eligible customers who have applied for LIHEAP through Community Action Agencies are automatically enrolled in the USP. | | | | | | | | | | | | |
| Recertification Required – Y/N | Customers must qualify for and enroll in LIHEAP in order to continue receiving the benefit. | | | | | | | | | | | | |
| Recertification Frequency | Annually | | | | | | | | | | | | |
| Recertification Method (Agency, Automatic Enrollment, Self-Certification) | Community Action Agencies | | | | | | | | | | | | |
| Recertification Procedures | Qualify and enroll in LIHEAP | | | | | | | | | | | | |
| Removal Reasons | The customer is not removed from the program during the calendar year but they only receive the benefit if they have an active account (i.e., if a customer's service is shutoff, they cannot receive the benefit again until they resume service). | | | | | | | | | | | | |
| Other Communications | News release, letters, bill inserts, program pamphlets, at time of LIHEAP enrollment, informational pamphlets at Community Action Agencies | | | | | | | | | | | | |
| Budget Counseling | None | | | | | | | | | | | | |
| Evaluation Frequency | The original Vectren USP was a 2 year pilot program that began on January 1, 2005 and was | | | | | | | | | | | | |

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| | scheduled to end on December 31, 2006. A 5 month extension was granted to prevent customers from losing the discount during the heating season. An evaluation of the program will be completed by August 2007. |
| Coordination with LIHEAP | Eligible customers who have applied for LIHEAP through Community Action Agencies are automatically enrolled in the USP. The USP benefit determination is based off of the LIHEAP benefit matrix. |
| Coordination with WAP | Vectren allocates \$200,000 of the USP funds for Weatherization. The Indiana Community Action Association (INCAA) coordinates program funding and data collection for participating community action agencies throughout the state. Eligible households must: consume 30% more energy than the average customer; own and reside in the dwelling; have received LIHEAP assistance in the previous year; have income within 150% of federal poverty guidelines. |
| Coordination with Energy Efficiency Programs | None. |
| Coordination with Other Energy Affordability Programs | None. |

VI. Affordability Program Evaluation Findings

Fisher Sheehan & Colton was hired by Northern Indiana Public Service Company to conduct an evaluation of NIPSCO's Winter Warmth Program.⁴⁰ The evaluation analyzed the performance of the program relative to the objectives that were established at the time of the program's inception. Program participants were analyzed between November 2004 and June 2005.

Winter Warmth provides benefits of up to \$400 each heating season for customers who are in arrears. The program also limits the maximum security deposits that customers can be charged.

The evaluation studied customers who received Winter Warmth benefits. The evaluation had the following findings.

- The Winter Warmth program provided approximately \$2.9 million in benefits to 8,382 participants, as of April 2005.
- The Winter Warmth program provided security deposit assistance to 2,427 low-income customers. The average benefit was \$202 per participant.
- Approximately 90 percent of participants who had service terminations were reconnected during the same month or the following month. Approximately 60 percent of these customers were required to make a deposit in order to have their service restored. The Winter Warmth program helped meet these deposit requirements, especially for customers with larger deposit requirements. In about 25 percent of the cases, the Winter Warmth program paid the entire deposit.
- Few of the participants reduce their arrears after service restoration.

VII. Low-Income Energy Efficiency Programs

The two major sources of funding for energy efficiency programs available to low-income households in Indiana are the DOE Weatherization Assistance Program (WAP) and the LIHEAP Program. In addition, the ratepayer-funded programs contribute some funds to weatherization.

⁴⁰ Impact Evaluation of NIPSCO Winter Warmth Program, Roger D. Colton, August 2005.

- DOE WAP Program – In 2005, Indiana received about \$6.6 million in funding for the Weatherization Program. These funds were distributed to local agencies to deliver weatherization services to low-income households.⁴¹
- LIHEAP Program – In 2005, Indiana elected to use \$4.7 million (9%) of its LIHEAP funding for weatherization.⁴²
- Ratepayer Funded Programs – In 2006, the three ratepayer-funded programs contributed about \$1.5 million to weatherization.

In total, about \$12.8 million was available to help furnish energy efficiency services to low income households in Indiana.

It is a little more challenging to estimate the need for energy efficiency programs. In general, we would suggest that energy efficiency programs should be used in place of affordability programs when the energy efficiency programs result in cost-effective savings to the household. The literature on energy efficiency programs demonstrates that programs that target high users achieve the highest savings levels and are the most-effective. For electric baseload, programs that target households that use 8,000 kWh or more are most cost-effective. For electric heating, programs that target households that use 16,000 or more kWh are most cost-effective. For gas heating, programs that target households that use 1,200 or more therms are most cost-effective.

Our primary state-level data source, the ACS, does not ask respondents to report on the amount of electricity or natural gas that they use. However, we can develop a proxy for usage based on the respondent’s estimate of the household’s electric and gas bill. [Note: kWh price = 7.50 cents, therm price = 1.211].

Using the ACS data, we developed estimates of the number of households that would be eligible for energy efficiency programs using the cost-effectiveness targets. Table 10 shows that 80% of households could be targeted for high baseload bills, 42% could be targeted for high electric heat bills, and 26% could be target for high gas usage.

**Table 10
Need for Energy Efficiency Programs for Low-Income Households (2005)**

| Group | Number of Households with Bills | Number of Households with High Bills | Percent of Households with High Bills |
|--|--|---|--|
| Electric Baseload Services ⁴³ | 317,795 | 252,965 | 80% |
| Electric Heating Services | 111,384 | 46,467 | 42% |
| Gas Heating Services | 247,856 | 64,978 | 26% |

Source: 2005 ACS

In general, low-income weatherization programs spend about \$3,000 per unit including all costs for administration and service delivery. With the available funds, Indiana could serve about 4,250 households, or about 4% of the high usage homes needing weatherization assistance, and 2% of the homes needing electric baseload services. Longer-term efforts to reduce the energy usage for the best targets in Indiana would required significantly more funding.

⁴¹ Source: LIHEAP Clearinghouse

⁴² Source: LIHEAP Clearinghouse

⁴³ For households that report electric and natural gas expenditures as one bill, we allocated half of the cost to electricity and half of the cost to natural gas.

VIII. Energy Efficiency Program Evaluation Findings

We did not find any evaluations of the energy efficiency program component of the Indiana ratepayer-funded low-income programs.