

BEFORE THE NEW JERSEY BOARD OF PUBLIC UTILITIES

**IN THE MATTER OF ESTABLISHMENT OF A
UNIVERSAL SERVICE FUND PURSUANT TO SECTION 12 OF THE
ELECTRIC DISCOUNT AND ENERGY COMPETITION ACT OF 1999**

BPU Docket No. EX000200091

PREPARED DIRECT TESTIMONY AND

EXHIBITS OF

ROGER D. COLTON

REGARDING A 12-MONTH INTERIM UNIVERSAL SERVICE PROGRAM

SUBMITTED ON BEHALF OF

Division of Ratepayer Advocate
Newark, New Jersey

July 7, 2000

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. My name is Roger Colton. My address is 34 Warwick Road, Belmont, MA 02478.

3 **Q. FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?**

4 A. I am testifying on behalf of the New Jersey Division of Ratepayer Advocate.

5 **Q. ARE YOU THE SAME ROGER COLTON WHO HAS SUBMITTED PREFILED**
6 **DIRECT TESTIMONY IN THIS PROCEEDING REGARDING A PERMANENT**
7 **UNIVERSAL SERVICE PROGRAM IN NEW JERSEY?**

8 A. Yes. Simultaneously with the submission of this proposal for a 12-month interim program, I
9 have submitted prefiled testimony on behalf of the Ratepayer Advocate regarding a
10 permanent universal service program.

11 **Q. WHY DO YOU PROPOSE A 12-MONTH INTERIM PROGRAM RATHER THAN**
12 **SOME SHORTER PERIOD?**

13 A. I believe that even an interim program operates better on a program-year basis. As will be
14 described below, intake and eligibility, as well as the distribution of benefits, operates best on
15 a program year. This leads to the conclusion that an interim program be adopted for the first
16 program year of universal service operation.

1 **Q. IS THERE AN OVER ARCHING PRINCIPLE THAT SHOULD GOVERN THE**
2 **DEVELOPMENT AND IMPLEMENTATION OF AN INTERIM UNIVERSAL**
3 **SERVICE PROGRAM FOR NEW JERSEY?**

4 A. The interim program should assist in the development of the administrative mechanisms
5 necessary to make a full-scale program operational. The goal of getting a program "on the
6 streets" quickly should support the longer-term goal of implementing a full-scale program
7 consistent with the recommendations I make in my Direct Testimony and Exhibits.

8 **Q. HOW WOULD THIS PRINCIPLE BE OPERATIONALIZED?**

9 A. To advance the principle articulated immediately above, I recommend that the interim
10 program be operated as a geographically discrete ramp-up to a statewide program to be
11 operational for the 2001 - 2002 heating season.

12 **Q. WHAT GEOGRAPHICALLY DISCRETE AREAS DO YOU RECOMMEND FOR**
13 **THE INTERIM PROGRAM?**

14 A. The interim program should operate in discrete communities throughout the state. This set of
15 communities should involve each natural gas and electric company and a different set of
16 community-based organizations charged with taking applications in the absence of automatic
17 income certification. I recommend that the Board consider establishing interim programs in
18 Newark/Camden (PSE&G), Atlantic City (South Jersey Gas/Conectiv), Asbury Park/Long
19 Branch (NJNG/GPU), and Union City/Elizabeth (Elizabethtown Gas/PSE&G).

1 **Q. PLEASE DESCRIBE THE COMPONENTS OF AN INTERIM UNIVERSAL**
2 **SERVICE PROGRAM FOR NEW JERSEY?**

3 A. An interim universal service program should contain the following components:

- 4 • A rate assistance component; and
- 5 • An arrearage forgiveness component.

6 **Q. WHO SHOULD ADMINISTER AN INTERIM UNIVERSAL SERVICE PROGRAM**
7 **IN NEW JERSEY?**

8 A. The universal service interim program should be administered by the state's Low-Income
9 Home Energy Assistance Program ("LIHEAP") office.

10 **Q. WHAT ELIGIBILITY CRITERIA SHOULD BE USED FOR THE INTERIM**
11 **UNIVERSAL SERVICE PROGRAM?**

12 A. Eligibility criteria for the interim rate affordability program component should be set equal to
13 150 percent of the federal Poverty Level. In addition, a reasonable amount of rate
14 affordability assistance should be reserved for households with incomes up to 200% of
15 Poverty demonstrating special circumstances.

16 **Q. HOW SHOULD LOW-INCOME CUSTOMERS BE ENROLLED IN AN INTERIM**
17 **NEW JERSEY UNIVERSAL SERVICE PROGRAM?**

18 A. I recommend that enrollment occur in the same fashion as enrollment would occur in a fully
19 operational statewide program. Customers would enter the program through four doors.

1 Ë First, all LIHEAP participants should be enrolled in the interim universal service
2 program. LIHEAP targets households which should be among the first priorities to
3 serve through a universal service program: households with the lowest incomes and
4 highest energy bills, as well as households with handicapped, elderly, and children
5 under the age of six.

6 Ë Second, customers meeting specified indicia of "payment-troubled status" would be
7 referred by utilities to state agencies with whom the universal service program has
8 contracted to provide income certification. If the state agencies certify these
9 customers as income-eligible, the customers will automatically be placed into the
10 process through which an appropriate fixed credit will be calculated by the state
11 LIHEAP office. In addition to this targeted utility effort, utilities should provide
12 outreach and education on the universal service program as one component of their
13 overall natural gas and electric restructuring consumer education. Funding for this
14 education should be derived from the restructuring consumer education budget.
15 Education on the universal service aspect of restructuring is a valid activity of the
16 broader efforts to provide education on consumer choice generally.

17 Ë Third, customers for whom the state agencies cannot provide eligibility certification
18 will be provided with written notice from each utility of the availability of the
19 universal service program. These customers will be encouraged to apply for universal
20 service assistance through the state LIHEAP office if they believe they might be
21 eligible. If the state LIHEAP office certifies these customers as income-eligible, the

1 customers will then be placed into the process through which an appropriate fixed
2 credit will be calculated by the state LIHEAP office.

3 **E** Fourth, a network of community-based organizations (“CBOs”) will receive
4 authorization to solicit the enrollment of income-eligible households. These CBOs
5 will certify households as eligible for the universal service program upon the provision
6 of appropriate documentation of income and household size. Any documentation that
7 would be found to be adequate for supporting LIHEAP eligibility will be accepted as
8 appropriate for universal service program purposes. Households certified as eligible
9 will be placed into the process through which an appropriate fixed credit will be
10 calculated by the state LIHEAP office.

11 **Q. WHAT SIZE SHOULD EACH INTERIM PROGRAM BE?**

12 A. The interim program for each natural gas and electric company should target one percent
13 (1%) of its residential customer base.

14 **Q. HOW WOULD THE LEVEL OF FIXED CREDIT BE DETERMINED FOR**
15 **HOUSEHOLDS ELIGIBLE TO RECEIVE UNIVERSAL SERVICE BENEFITS?**

16 A. I refer above to the "process through which an appropriate fixed credit will be calculated by
17 the state LIHEAP office." Upon receipt by the state LIHEAP office of income certification
18 through one of the three mechanisms described above, the state LIHEAP office will request
19 the past twelve months of usage for the household from the household's natural gas and/or
20 electric utility. (If 12 months of usage is not available, surrogate usage and billing figures will

1 be applied.) Using that utility-supplied data, the state LIHEAP office will calculate the
2 annual fixed credit needed to reduce the customer's energy bill to the predetermined
3 affordable percentage of income.

4 **Q. WILL ALL INCOME ELIGIBLE CUSTOMERS RECEIVE A FIXED CREDIT?**

5 A. No. If the participant's bill is less than the affordable percentage of income, the fixed credit
6 will be \$0. These customers, however, may still be eligible for the arrearage forgiveness
7 credit described below.

8 **Q. HOW WOULD RATE ASSISTANCE DOLLARS BE DELIVERED THROUGH THE**
9 **INTERIM RATE AFFORDABILITY PROGRAM?**

10 A. Upon a determination of the appropriate annual fixed credit, the state LIHEAP office will
11 notify the utility of the authorized annual fixed credit. Upon receiving that notice from the
12 state LIHEAP office, the utility will place the customer on a 12-month levelized budget
13 billing plan. Setting the levelized budget billing payment will involve three steps:

- 14 (1) The utility will begin with the bill used to calculate the fixed credit;
15 (2) The utility will subtract the annual fixed credit from that bill;
16 (3) The utility will divide the resulting reduced bill into twelve equal billing installments.

1 **Q. DOES THE GRANT OF A FIXED CREDIT EACH MONTH DEPEND UPON A**
2 **TIMELY PAYMENT BY THE PROGRAM PARTICIPANT?**

3 A. No. The fixed credit was used in calculating the levelized monthly bill. The bill received by
4 the customer will have the fixed credit embedded in it. Corresponding to this approach,
5 universal service participants failing to make full and timely payments are subject to the same
6 credit and collection practices, including the same rights and responsibilities, as any other
7 residential ratepayer.

8 **Q. HOW DO BENEFITS FROM THE LIHEAP AND/OR THE LIFELINE**
9 **ASSISTANCE PROGRAM GET APPLIED TO THE CUSTOMER'S BILL?**

10 A. Application of LIHEAP and/or Lifeline Assistance benefits is transparent to both the utility
11 and the ratepayer. The ratepayer knows simply what he or she is called upon to pay each
12 month (*i.e.*, the levelized monthly payment). The utility knows simply what it is entitled to
13 receive in reimbursement from the universal service program (*i.e.*, the monthly fixed credit).
14 The underlying funds used as the source of reimbursement to the utility is subject to the
15 administrative discretion of the LIHEAP office.

16 **Q. IS IT APPROPRIATE TO CREDIT LIHEAP BENEFITS AGAINST THE**
17 **UNIVERSAL SERVICE BENEFITS TO BE PAID?**

18 A. As with a fully operational state program, since LIHEAP benefits are intended to be a space
19 heating program, it would be appropriate to credit LIHEAP benefits against universal service
20 benefits to be paid for natural gas or electric space heating bills. In addition, to the extent

1 that cooling benefits are provided through the New Jersey LIHEAP program, it would also
2 be appropriate to credit LIHEAP cooling benefits actually received against the electric base
3 load universal service credits. This should occur, however, only if the cooling benefits are
4 not provided in response to higher than average cooling needs.

5 **Q. WHY SHOULD SUPPLEMENTAL BENEFITS PROVIDED IN RESPONSE TO**
6 **EXTREME WEATHER NOT BE CREDITED AGAINST THE UNIVERSAL**
7 **SERVICE FUND?**

8 A. One of the explicit purposes of distributing universal service funds through a fixed credit is to
9 transfer the risk of increases in customer bills from the program to the customer. As a result,
10 the costs of the program do not incorporate the added costs attributable to extreme hot or
11 cold weather. The USF program participant pays those additional costs. In the event that
12 supplemental funding is made available to pay those costs, therefore, that supplemental
13 funding should be paid to the customers, not to the program.

14 **Q. HOW WOULD ARREARAGE FORGIVENESS CREDITS BE DETERMINED IN**
15 **THE INTERIM PROGRAM?**

16 A. At the time the utility provides billing information to the state LIHEAP office for purposes of
17 calculating the fixed credit, the utility will also notify the LIHEAP office of the arrearages
18 outstanding as of the date of the communication. The state LIHEAP office will subtract a
19 customer contribution to payment of the arrearages equal to 1% of the household income.
20 The utility will be notified that it is to provide a \$10 arrearage credit each month up to a

1 maximum of the difference between the preprogram arrearages and the customer
2 contribution. Since the interim program is only one year in length, the arrearage forgiveness
3 component may possibly retire, but cannot commit to retiring, the entire preprogram
4 arrearages of the customer.

5 Let me illustrate. Assume a household has preprogram arrearages of \$300 and an annual
6 income of \$8,000. The household will be required to pay 1% of its income toward its
7 preprogram arrearages ($\$8,000 \times .01 = \80). The utility will apply monthly \$10 credits
8 toward the remainder ($\$300 - \$80 = \$220$) for the interim program year. In this illustration,
9 the credits will not retire the entire outstanding preprogram arrearages ($\$10 \times 12 \text{ months} =$
10 $\$120$). The excess will be rolled over into the next program year.

11 In contrast, if the customer above had begun with a pre-program arrearages of \$200, the
12 utility would have applied monthly \$10 arrearage credits for twelve months and completely
13 retired the preprogram arrearages ($\$200 - \$80 \text{ customer payment} = \120).

14 **Q. WHY DO YOU PROPOSE A \$10 CREDIT TOWARD PREPROGRAM**
15 **ARREARAGES FOR THE INTERIM PROGRAM?**

16 A. The implementation of the New Hampshire Electric Assistance Program (“EAP”), which
17 involves a fixed credit program for that state's electric utilities, offers a \$10 credit toward
18 preprogram arrearages. The implementation committee, with whom I have been working,
19 decided -- and I concur -- that \$10 was a level of credit that would allow low-income

1 customers to experience a reduction in their preprogram arrearages as they participate in the
2 program. Since the interim program operates only for a single year, and thus cannot promise
3 to retire a low-income customer's entire preprogram arrearages, the need was to develop a
4 credit sufficient to send the signal that continuing program participation was in the customer's
5 best interests. I adopted the New Hampshire approach for this proposed New Jersey interim
6 program.

7 **Q. HOW DO YOU PROPOSE THAT INTERIM ARREARAGE FORGIVENESS**
8 **BENEFITS BE DELIVERED?**

9 A. Households should receive a \$10 credit toward preprogram arrearages for each month of
10 participation in the program. The utilities providing these credits will submit invoices, and
11 receive reimbursement from the state LIHEAP office, in the identical fashion as they will for
12 the fixed credits.

13 **Q. DOES THE GRANT OF AN ARREARAGE FORGIVENESS CREDIT DEPEND**
14 **UPON A TIMELY PAYMENT BY THE PROGRAM PARTICIPANT?**

15 A. No.

16 **Q. WHAT FUNCTIONS DOES THIS PROPOSED INTERIM PROGRAM FULFILL?**

17 A. The interim program allows the development of the underlying administrative processes and
18 structures necessary to implement a fully operational statewide program. In particular:

- 1 Ë It allow the development of the communication protocols for utilities to submit names
2 and other identifying information to the state for income certification;
- 3 Ë It allows the development of the CBO enrollment processes and procedures;
- 4 Ë It allows the development of the communication protocols through which utilities will
5 provide the universal service program with energy billing data to use in energy burden
6 calculations;
- 7 Ë It allows the development of the processes through which the state LIHEAP office
8 will calculate surrogate billing figures in the absence of historic energy billing data
9 from the utilities;
- 10 Ë It allows the development of the mechanisms through which the state LIHEAP office
11 will calculate the fixed credits and preprogram arrearage credits for each participant.
- 12 Ë It allows the development of the communication protocols through which the state
13 LIHEAP office will notify each utility of the authorized fixed credit.
- 14 Ë It allows the development of the utility mechanism for calculating the levelized
15 monthly bill, taking into account the fixed credit.
- 16 Ë It allows the development of the mechanisms for monthly billing and payment of fixed
17 credits and arrearage forgiveness credits delivered.
- 18 Ë It allows the development of the state LIHEAP office procedures for deciding and
19 implementing which fund sources will be used to provide reimbursement of utility
20 billings.
- 21 Ë It provides a "heads up" for the education of low-income consumers on the
22 availability of a state universal service fund as part of retail choice in New Jersey.

1 **Q. HOW SHOULD THE COSTS OF THE INTERIM PROGRAM BE RECOVERED?**

2 A. Schedule RDC-I-1 sets forth the estimated number of participants in the interim program.
3 This Schedule calculates one percent of each utility's residential customer base. Through this
4 process, I estimate that there will be 30,000 electric interim participants and 24,000 natural
5 gas interim participants. This represents 15.8 percent of a fully-operational electric program
6 and 17.8 percent of a fully-operational natural gas program.

7 Applying these percentages to the rate affordability costs (including administrative costs) and
8 arrearage forgiveness costs of the universal service program yields an annual cost to the
9 interim program as follows:

10	€	Electric interim program:	\$9.1 million
11	€	Natural gas interim program:	\$6.1 million

12 **Q. HOW SHOULD THESE COSTS BE COLLECTED IN RATES?**

13 A. These costs should be collected in rates through a mechanism identical to that which I
14 recommend for the fully-operational program. Dividing the costs by electric and natural gas
15 consumption figures yields a per unit Universal Service Charge as follows:

16	€	Electric interim USF charge:	\$0.000133.
17	€	Natural gas interim USF charge:	\$0.001062

18 The calculation of these charges is set forth in Schedule RDC-I-2.

1 **Q. DOES THIS CAPTURE AN OFFSET ATTRIBUTABLE TO LIHEAP AND**
2 **LIFELINE BENEFITS ON AN INTERIM BASIS?**

3 A. Yes.

4 **Q. HOW WOULD THIS CHARGE BE INCLUDED IN RATES?**

5 A. Beginning one month prior to the start of the interim program, the utilities should begin to
6 collect the interim USF charge and remit it to the State Treasurer. The distribution of funds
7 should occur as I recommend in my Direct Testimony regarding a fully-operational program.

8 **Q. CAN YOU SUMMARIZE YOUR INTERIM UNIVERSAL SERVICE PROGRAM?**

9 A. Yes. I propose that New Jersey operate a 12-month interim universal service program in
10 specific geographically discrete areas. The interim program would consist of: (1) a rate
11 affordability program; and (2) an arrearage forgiveness program administered by the state
12 LIHEAP office. Eligibility criteria would be set equal to 150% of the federal Poverty Level,
13 with a reasonable amount of funding set aside for customers at 150 to 200% of Poverty who
14 demonstrate special circumstances. Entry in the interim universal service program will occur
15 through the same "doors" proposed for the fully operational state program. An arrearage
16 forgiveness credit program would operate in much the same fashion as the fixed credits. At
17 the end of the 12-month interim program, the permanent program proposed in separately
18 filed testimony would be placed into operation.

1 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

2 **A. Yes it does.**

Schedule RDC-I-1

Number of Estimated Electric and Natural Gas Participants New Jersey Interim Universal Service Program		
Company	Number Residential Customers	Interim Program Participants
Electric Companies		
PSE&G	1,664,342	16,643
Conectiv	427,590	4,276
GPU (JCP&L)	866,787	8,668
Total Electric Interim Participants		29,587
Natural Gas Companies (estimated)		
PSE&G	1,410,000	14,100
New Jersey Natural Gas	370,000	3,700
South Jersey Gas	255,000	2,550
Elizabethtown Gas	350,000	3,500
Total Natural Gas Interim Participants:		23,850

Schedule RDC-I-2

Total Universal Service Interim Program Cost and Per Unit Universal Service Interim Program Charge		
	Electric	Natural Gas
Program participants: interim program	30,000	24,000
Program participants: full program	190,000	135,000
Interim Percent	15.8%	17.8%
Rate Costs (million \$s)	\$49.3	\$29.9
Administrative (million \$s)	\$4.9	\$3.0
Arrearage Forgiveness (million \$s)	\$3.4	\$1.4
Total Costs (million \$s)	\$57.6	\$34.3
Total Interim Costs (million \$s)	\$9.1	\$6.1
Total consumption	68,161,512,000	5,739,840,000
USF charge	\$0.000133	\$0.001062