

Electric lifeline policy in Maine

Maine Policy Review (1993). Volume 2, Number 2

Concern about the impact of high energy costs on the low-income and elderly citizens underlies Maine's so-called "electric lifeline" programs, which modify rates to assist qualified customers with their electric bills. Recently, researchers at the Smith Policy Center conducted an evaluation of Central Maine Power Company's electric lifeline policy. The following article, based on the findings of that evaluation, examines the many regulatory and social issues that have surfaced during Maine's lifeline experience.

*by Steven Ballard, James Faulkner, Charles Morris, Barbara Jean Nicoletti and Ralph Townsend
Smith Policy Center, University of Maine¹*

Introduction

In 1991, the Maine Legislature directed the Maine Public Utilities Commission to consider rate-payer funded programs to help low-income customers with their electric bills. All three major electric utilities in Maine now have "electric lifeline" programs. While these programs are officially "experimental," it would seem that electric lifeline programs will be a feature of Maine electric utility regulation for the foreseeable future.

Lifeline programs modify rate structures to provide cheaper electricity to eligible customers. Most electric lifeline programs now provide assistance that is targeted at low-income, elderly low-income, or elderly households. (Some early lifeline programs provided a discount for a "lifeline block" of usage to all customers.) Energy conservation goals may be incorporated into lifeline programs by charging higher rates for increased consumption. A number of different forms of lifeline rate structures have proposed or adopted nationally, including: flat rates or inverted rate structures (as opposed to declining block rates that offer cheaper electricity at higher rates of usage); rate freezes, usually for the first block of electricity usage; waiver of minimum service charges or installation fees; rate discounts; and percentage-of-income-payment programs, which limit a customer's electric bill to some specified percent of income.

Electric lifeline programs essentially define a social welfare program that is administered by electric utilities and their regulators. The creation of a welfare function within the traditional, cost-based regulatory structure raises both fundamental philosophical issues and difficult practical concerns. This article examines the forces that have driven the development of electric lifeline policy as well as the issues that are likely to surface as Maine's experience generates more information and perspectives.

National perspective on lifeline rates

Maine is not alone in its current interest in electric lifeline rates. Low-income energy assistance has received nationwide attention beginning in 1973-74, when the price of oil more than doubled due to the Arab oil embargo and the subsequent exercise of monopoly power by the Organization

of Petroleum Exporting Countries (OPEC). In 1978-79, the Iraq-Iran war also contributed to a sharp increase in oil prices.

Electric prices during this period were influenced by both these oil price changes and also by other factors. The initial oil price increases did push up electric rates, but not proportionately. Electric rates were initially buffered by the effect of the low embedded costs of non-petroleum sources, such as hydro and nuclear. For that reason, public concern tended to focus on escalation of home heating oil and gasoline prices, rather than electric rates. The availability of the federal Low-income Home Energy Assistance Program (LIHEAP) also served to offset the impact of increases in space heating or air conditioning costs to low income consumers.

In 1975, California enacted the first large-scale electric lifeline program in the United States, the Miller-Warren Act. Rates on the lowest blocks of use were effectively frozen, with rate increases added only to the high-use block. Lost revenues were therefore recovered from residential customers whose usage exceeded the lifeline amounts and from all other classes of customers.

In 1978, the federal Public Utilities Regulation Policies Act (PURPA) required state regulatory agencies to investigate lifeline programs. The broad purposes of PURPA were to encourage conservation of energy supplied by electric utilities, to optimize the efficient use of resources by electric utilities, and to provide equitable rates to electricity consumers. The law explicitly did not prohibit any utility from establishing a lower rate of electricity to meet essential needs of consumers. By 1982, five states had adopted electric lifeline programs, while 14 states were considering such programs. The number of states adopting lifeline programs increased to 13 over the following eight years. These early lifeline proposals usually involved rate structure changes, such as flat rates, rate freezes or inverted rate structures. (See Edison Electric Institute [1990] and U. S. Department of Energy [1980].)

Utilities and their regulators responded to the higher oil prices by seeking new non-petroleum generating sources, such as independent power producers and co-generators. The costs of environmental compliance, particularly clean air requirements, also put pressure on electric rates. Consequently, the oil price declines created by a world-wide recession and a decrease in world energy demand did not translate into lower electric prices in the late 1980s.

These seemingly aberrant increases in electric rates occurred just as budget pressures on all levels of government were squeezing many social welfare programs. In the early 1990s, several lifeline programs were implemented in other states. In general, these recent programs have attempted to provide more significant and permanent benefit structures than earlier lifeline programs.

As of 1990, lifeline programs were in place in nine states and under consideration in another seven (Edison Electric Institute 1990). Percentage of income payment plans have been implemented by twelve utilities in Illinois and Ohio. Flat percentage discount programs have been offered by thirteen utilities in California, West Virginia and Massachusetts. A graduated rate discount schedule was used in Arizona by two utilities. Low-income assistance programs that reduce or eliminate the monthly customer fee were implemented in Alabama, New Hampshire and Georgia by three utilities. In addition, a wide variety of lifeline programs targeted to low-income customers are also under consideration in a number of other states.

Maine's lifeline experiences

In 1975, Maine instituted a one-year demonstration assistance program to help the elderly pay for their electricity needs. In the fifteen years following the demonstration program, several unsuccessful attempts were made to provide electric rate relief for low-income households. In 1990, the Maine Legislature enacted a law that required the Maine Public Utilities Commission (PUC) to consider low-income assistance programs.

In 1975, the Legislature enacted the Older Citizens Lifeline Electrical Service Law, which created the "Maine Demonstration Program." The program was limited to low-income elderly (62 years of age or older with income below \$4,500 for single individuals or income below \$5,000 for households with two or more members). The law established an initial "lifeline" block of discounted electricity at \$.03 per kilowatt-hour for the first 500 kilowatt-hours of electricity per month. The rate could not be increased by any type of charge, such as a monthly minimum charge, a service charge or a connection charge. Any usage in excess of the 500 kilowatt-hour block was subject to the individual utility's standard rate.

The Demonstration Program was conducted in six municipalities, one medium and one large municipality in the service territories of Bangor Hydro-Electric, Central Maine Power (CMP) and Maine Public Service (MPS). The three large municipalities were Portland, Bangor and Caribou; the three smaller municipalities were Rockland, Ellsworth and Fort Kent. Revenues were recovered through a surcharge on the bills of other customers in the targeted municipalities. Thus, only customers in these six municipalities were subject to the surcharge. The program reached 2,700 of the 5,000 estimated eligible participants.

In its 1977 report to the Legislature entitled "Lifeline Demonstration Program," the PUC concluded that the lifeline demonstration program provided assistance to low-income elderly without imposing a significant financial burden on other users of electricity. The PUC also concluded that the subsidized rate did not increase the participants' electricity usage. However, the PUC stated that the lifeline rate was a subsidy rate and was therefore contrary to the Commission's efforts to base rates on costs. The PUC noted that the surcharge imposed on all other users was unpopular, as evidenced by public reaction received through letters to the Commission, public hearings and a telephone survey. The Maine Demonstration Program was not renewed by the Legislature. Public opposition to the program, and especially to the surcharge on the bill, seemed to be an important factor in the failure to renew the legislation.

Subsequently, the Maine Legislature enacted the Electric Rate Reform Act of 1977, which required the PUC to "relate electric rates more closely to the costs of providing electric service." The law authorized the PUC to require utilities to design rates that would encourage conservation, to minimize the need for new electrical generating capacity and to minimize the costs of electricity to consumers. Thereafter, the PUC tended to interpret the Electric Rate Reform Act as reinforcing its position that rates should be cost-based.

Following the passage of the Electric Rate Reform Act, a series of lifeline proposals were presented to the Legislature and the PUC. In 1977, the Legislature considered and failed to enact a number of lifeline proposals. In 1978, Central Maine Power proposed a 20 percent discount for the first 500 kilowatt-hours used by elderly customers who receive Supplemental Security

Income. In rejecting the proposal, the PUC cited the Legislature's rejection of the proposed lifeline rate bills of 1977. In 1979, the Legislature again considered and failed to enact several lifeline measures.

The political attitudes of the late 1970s were influenced by the availability of federal, state and local energy assistance in Maine. LIHEAP has been the primary source of federal assistance to meet heating costs. LIHEAP programs include the Maine Home Energy Assistance Program (HEAP), the Energy Crisis Assistance Program, Weatherization Assistance, and the Central Heating Improvement Program. The HEAP benefit is based on income, family size, geographic region, housing type and fuel type. A participant receives an annual HEAP benefit of \$100 to \$550. Energy Crisis Assistance benefits provide up to \$200 per household in emergency funds for fuel, prevention of disconnection, or heating system repairs.

State funding for energy assistance has been available through the Federal Oil Overcharge Funds and the Family Crisis Assistance program. Maine allocated part of its Federal Oil Overcharge (awarded as the result of a federal suit to recover overcharges by national oil companies during energy price controls) to the Department of Community Services and the Central Heating Improvement Program. The Family Crisis Assistance program, funded by state and federal matching funds, can provide a once-per-year benefit of up to \$300 to meet emergencies, such as avoiding electricity disconnection. Municipalities administer a state and locally funded General Assistance program for those whose income does not cover basic necessities or for those who are facing threats to life, health or safety.

All of these sources of energy assistance faced budget pressures in the late 1980s and 1990s. The federal government reduced LIHEAP funding from \$2 billion per year to \$1.4 billion. Moreover, funding of LIHEAP was often subject to budgetary delays that made planning by agencies and by recipients very difficult. The state oil overcharge funds are expected to run out in 1994. Pressures on state and local budgets resulted in substantial reductions in General Assistance. Increasingly, energy assistance programs provide only emergency relief and do not address the real problem of helping low-income households meet energy needs. Low-income customers are thus encouraged to accrue large bills to demonstrate an emergency need for assistance.

In 1990, as part of a proposed settlement for a pending docket, CMP proposed a percentage of income payment plan for low income customers, which was called the "Affordable Payment Arrangement." In October, 1990, the PUC rejected the Affordable Payment Arrangement on the basis of the fundamental principles of ratemaking: rates charged to all customers should be based on costs.

In November, 1990, a month after that decision, the final report of the Governor's Blue Ribbon Commission on Energy Policy for Maine's Low-Income Citizens, *Ready For Winter?*, confirmed both the continuing need for energy assistance and the declining federal resources. Shortly thereafter, in April 1991, the Legislature enacted L.D. 1428, "An Act to Require Electric Utilities to Develop Proposals for Affordable Pricing for Low-income Residential Customers and for Financing Conversions from Electric Space Heat." This legislation required the Public Utilities Commission to consider assistance programs for electric utility customers who are eligible for state or federal fuel assistance. L. D. 1428 was basically a legislative reaction to the PUC's rejection of CMP's Affordable Payment Arrangement. The Legislature essentially stated that the

Commission did indeed have the authority to enact such low-income rates and that, furthermore, the Legislature had some sympathy for such rates.

The Public Utilities Commission responded to L.D. 1428 by ordering Maine's three largest electric utilities each to submit proposals for pilot low-income electrical energy assistance programs for the 1991-92 winter period. All three utilities had low-income assistance programs in place for part of the 1991-92 heating season. For the first year, customers of CMP and Bangor Hydro at or below 75 percent of poverty and customers of MPS at or below 100 percent of poverty were eligible. All three plans were amended prior to the 1992-93 heating season to expand eligibility to all HEAP-eligible households. (The HEAP criteria is 125 percent of federal poverty guidelines, or 150 percent of poverty if children age two or younger, elders, or disabled individuals live in the household.)

The three utilities proposed and implemented three very different proposals. Bangor Hydro proposed a flat discount program for all eligible customers. Maine Public Service proposed a flat annual benefit that essentially rewarded low-income customers for paying their bills. Central Maine Power proposed a percentage of income program.

Bangor Hydro-Electric's "Low-Income Rate" discount plan for 1991-92 provided a 25 percent discount for usage in excess of 250 kilowatt-hours per month to customers whose income was less than 75 percent of poverty. (Because recipients of Supplemental Security Income, which is the Social Security program targeted at the very low-income elderly, receive 76 percent of the poverty level, the cut-off was 76 percent for this group.) Customers receiving subsidized housing were ineligible to receive the Low-Income Rate discount. (Because federally-subsidized rent calculations would reduce the rent subsidy dollar-for-dollar for any lifeline subsidy, lifeline benefits for these renters would simply displace the federal rent subsidy.) In October, 1992, the Commission ordered Bangor Hydro-Electric to expand eligibility for the Low-Income Rate discount program to all HEAP-eligible customers. Bangor Hydro adopted a plan with a 14 percent discount for the households with incomes between 75 and 150 percent of poverty.

The "PowerPACT" program by Maine Public Service initially offered an annual bill credit at the end of the heating season for eligible customers who kept their electric bills paid. The annual benefit was \$100 for customers whose income was 100 percent of federal poverty guidelines or \$125 for customers at 75 percent of poverty. To be eligible, customers must use electric heat as the primary heat source, or use electricity as a primary water heating source. For 1992-93, the Commission directed Maine Public Service to expand eligibility to all HEAP-eligible customers. The amount of the benefit now ranges from \$150 for customers at or below 75 percent of poverty to \$75 for customers from 126 to 150 percent of poverty.

Under the Central Maine Power's "Electric Lifeline Plan" (ELP), participants receive a monthly credit on their electric bill based upon the consumer's income and electric consumption history. The credit for 1991-92 reduced electric bills to between five percent of income {for households with electric use of 5,000 kilowatt-hours (kwh) per year} and ten percent of income (for families with 14,000 kwh or more usage per year). For 1991-92, customers with incomes at or below 75 percent of the federal poverty guidelines were eligible. For 1992-93, eligibility was expanded to all HEAP-eligible households under a formula that reduced electric bills for customers to a range between 6.1 and 11.1 percent of income when incomes are between 75 percent and 150 per-cent

of poverty. Renters, roomers, and boarders whose rent includes heat and residents of federally-subsidized housing were excluded from ELP.

As a percentage of income program, the CMP program targeted assistance much more specifically than the Bangor Hydro or MPS programs. The CMP program also incorporated an innovative feature that addressed the PUC's original objection that an electric service subsidy might increase usage. The calculation of the credit is based upon the previous year's usage, rather than current usage. Because the credit would be based upon usage and income in the previous year, the customer's current bill would vary directly with current usage. The customer would benefit from any reduction in usage and would pay the entire cost of any increase. As the first percentage of income program with this feature, the program has received considerable national attention.

Although the three Maine programs are radically different in their basic design, they do share a number of common features. All three programs use the Community Action Programs (CAPs) to recruit program participants and to perform the initial screening for eligibility. The CAP agencies were compensated by the utilities for this task. For example, the CMP enrollment fee is now \$22 per enrollee. CAP agencies provide transportation programs, preventative health and child-care programs, permanent and transitional housing programs, home energy assistance (including HEAP), and weatherization programs. The use of HEAP eligibility standards for all three programs flowed logically from the use of the CAPs as administrative agencies.

The decision to "piggyback" lifeline administration on the HEAP application process has generally been considered as a strong feature of Maine's lifeline programs. However, for the CMP program, "HEAP assignment" presented some design issues. The policy decision was made that ELP benefits should not duplicate benefits provided under HEAP, so ELP benefits are reduced dollar-for-dollar by any HEAP benefits if the customer uses more than 12,000 kwh per year. (This level was supposed to identify households that use electric space heat.) However, this 12,000 kwh per year rule for HEAP assignment creates an inequitable "notch" in benefits. The ELP customer who uses both electricity and wood (for example) and uses 11,500 kwh per year may qualify for roughly \$400 more in ELP benefits than a similar electric/wood customer who uses 12,500 kwh per year. That is, the below-12,000 kwh per year customer can keep the entire HEAP benefit by assigning it to a wood dealer. The above 12,500 kwh per year customer has the entire HEAP benefit credited against the ELP benefit.²

All three programs have components that deal with delivery of both existing and new demand-side management (conservation) programs to eligible low-income households.³ The PUC has also directed that lifeline participants be accorded special treatment with regard to payment of past due electric bills.

In principle, all three lifeline programs are rate-payer financed. However, the timing of the recovery of the costs varied among the three utilities. Bangor Hydro was directed to incorporate the costs into its rates at the time of implementation. CMP and MPS were directed to defer the costs of the program until the next base-rate case or fuel-adjustment clause change. In the amendments that were made in 1992, the utilities and the PUC staff disagreed about the cost of the expanded programs. Rather than directly resolve this factual disagreement, the Commission essentially adopted a guideline of one-half of one percent of 1992 revenues for the total cost of

the program for each company. If the actual level of benefits should approach or exceed this guideline, the companies were to return to the Commission for instructions.

In general, the Maine and national experiences with electric lifeline programs have been quite similar. Maine, like a number of other states, had a lifeline experiment in the mid-1970s. Despite periodic efforts to revive the concept by low-income advocacy groups, electric lifeline was not a popular concept in Maine during the 1980s. In both Maine and nationally, electric lifeline programs became an issue again with the dramatic reduction in state and federal commitments to low-income assistance in the late 1980s and early 1990s. As most states and the federal government face major pressures to reduce budget deficits, there are continuing pressures on social programs. Consequently, alternative ways to finance social spending, like lifeline rates, are increasingly attractive "social safety valves." The lifeline programs currently being implemented in both Maine and in other states are quite different from the programs of the 1970s. The 1970s concept of a discounted "lifeline block" for all customers has given way to targeted subsidies for the low-income and/or elderly.

Lifeline and welfare

Any lifeline policy must interact with broader social welfare programs. At a very general level, the greater the government funding for social welfare, the less the need for lifeline programs. At a mechanical level, lifeline interacts with existing social welfare programs to shape incentives for recipients. At a more philosophical level, lifeline shares many of the features that are often criticized in categorical, means-tested social welfare programs.

Lifeline in Maine and nationally has been revived as a policy primarily because social welfare spending has been reduced sharply in the face of budget deficits. It is reasonable to expect that the need for lifeline would recede if a renewed government commitment to adequate financing of social welfare programs were to occur. Success in the Clinton administration's avowed interest in "ending welfare as we know it," which presumably means financing programs to help people end welfare dependence, would also affect programs like lifeline.

Conversely, continued erosion in governmental social welfare spending will evoke pressures to expand lifeline. In fact, Maine's lifeline program will automatically expand to compensate for some decreases in HEAP funding. Because the cost of the program for CMP and Bangor Hydro is reduced by the amount of HEAP assignments received, substantial reductions in HEAP benefits would cause the current formulas to become much more expensive. Although a Clinton administration (with Maine's Senator Mitchell as Senate majority leader) seems much less likely to eliminate HEAP than the Reagan-Bush administrations, federal budget pressures do continue to force unpleasant federal choices on welfare spending.

Lifeline is a form of categorical, means-tested social welfare. That is, lifeline provides assistance that can be used for one purpose (to buy electricity) and to qualify individuals must meet certain criteria as to income and electricity usage. The program is, in general, not coordinated with other social welfare programs (except HEAP).

Categorical aid programs have two well-known problems. First, a household that increases its income by seeking work often faces loss in categorical aid that exceeds the income earned. In the

jargon of economists, the marginal tax rate under categorical aid programs often exceeds 100 percent. The lifeline programs are no exception. Households whose income move above the various thresholds (75 percent, 125 percent, or 150 percent of poverty) face large reductions in benefits or complete loss of benefits.

The other major effect of categorical aid is to encourage recipients to spend their money in ways that increase categorical aid. Electric lifeline programs that use rate discounts (such as Bangor Hydro's plan) or percentage of income plans (such as CMP's ELP plan) create incentives to use electricity for space heating and hot water heating. CMP's Electric Lifeline Program, which uses electric use in the previous year to calculate benefits, does provide some incentive to reduce electric use in the current year. But the ELP customer who heats with electricity will have heating costs capped at five to ten percent of income. If the customer installs an oil-fired system to replace electric heat, that protection disappears. This incentive traps the lifeline customer in the use of a high-cost heating source and is inconsistent with Maine's general policy bias against electric space heat.

Stakeholder perspectives

Four parties have had major roles in development of electric lifeline in Maine: the Legislature, the utilities, the PUC Commissioners, and low-income advocates (which included the PUC advocacy staff and the Public Advocate's office). Understanding the positions of these four groups is very helpful when assessing where lifeline policy may go in the future.

Of particular interest is the extent to which lifeline policy represents a fundamental shift by any of these stakeholders away from the long-standing principle that all utility rates should be cost-based. The principle that rates must be cost-based has been a kind of regulatory anchor that has kept regulation from being used to pursue a variety of private agendas. Absent the cost standard, electric rates might be adjusted to reflect a seemingly endless set of values. For example, if low-income households are to be assisted through subsidized electric rates, why not help them by developing new jobs through "economic development" rates for electricity for new businesses? Or why should we not raise electric rates to reflect the opinions of many environmentalists that all energy costs in the U. S. are too low?

For the Maine Legislature, lifeline rates were essentially a pragmatic political response to increasing electric rates in an era of declining government resources for social welfare. Interestingly, the Legislature stopped short of actually ordering lifeline rates. Rather, it directed the PUC to consider such rates (although the public hearings made clear that many legislators favored such rates). The Legislature has failed to act on a number of bills that would have incorporated other objectives into ratemaking. In general, the Legislature seems reluctant to stray too far from cost-based ratemaking.

Low-income advocates have never accepted the principle that rates must reflect costs for their clients. The argument that subsidized electric rates are the "wrong" way to assist low-income families has been a frustrating impediment to their objectives. But even low-income advocates have tried, where possible, to defend lifeline rates as cost-based. They have pointed to the reduction in bad debts and in the administrative costs of bill collection as potential savings from lifeline rates.

In Maine, as in the most other states, the Public Utilities Commission and the electric utilities have consistently taken the position that social welfare programs should be funded from general revenues, not from hidden subsidies in the rate structures and that rates must be cost-based.⁴ In the shadow of the statement of Legislative intent in L.D. 1428, both the Commissioners and the utilities have avoided making this argument too loudly, but it is clear that L.D. 1428 did not change their views.

For the utilities, lifeline programs in Maine could not have been implemented at a worse time. The cost of lifeline subsidies only exacerbates the squeeze between rising costs and increasing competition that utilities face. Electric rates are being pushed up rapidly by the stream of qualifying facilities (co-generators and small power producers) that have come on line in the past several years. Both technology and regulation are changing to increase the competition faced by electricity. The efficiency of small power plants has been increased significantly in the past few years, so industrial users now have increased options to self-generate. Large electrical users seem increasingly mobile, and flight of operations from Maine into other states to avoid high electric rates seems like an increasingly frequent strategy. Some builders of new independent power plants, especially co-generators and waste-to-energy plants, are trying to enter into direct sales agreements. The efforts by the Federal Energy Regulatory Commission (FERC) to promote competition in wholesale power sales through mandatory wheeling requirements is making it possible for some buyers, such as municipal power districts, to buy power from distant generators. The recent contract to purchase power by the Madison municipal district and Madison Paper illustrate this trend. Maine's utilities are very concerned that the combination of increasing rates and increasing competition may dramatically reduce their business in the next decade. The cost of lifeline programs are a small, but not insignificant, portion of the regulation-mandated increases in rates.

From the Commissioners' point of view, the lifeline proceedings were a political lose-lose choice. If the Commission failed to approve lifeline after the rather clear statement of intention by the Legislature in L. D. 1428, it would both flaunt the intentions of the Legislature and seem callously indifferent to the welfare of the poor. On the other hand, to approve lifeline rates necessarily meant higher rates for other customers, and the Commission faces relentless criticism for its failure to hold rates down. Thus, in 1992, the Commission tried to give both sides "half a loaf": Low-income advocates got eligibility expanded to all HEAP-eligible households; for utilities, lifeline benefits were essentially capped at one-half of one percent of 1992 revenues. Given the frustrating set of choices, Commissioners seemed hopeful that their 1992 decision would at least keep lifeline off the PUC's crowded docket for a year or two.

In the short run, the political position of low-income advocates is strong, due in large part to the Legislative endorsement in L.D. 1428. Their decision to pursue a regulatory docket on lifeline for the third year in a row would seem to reflect a self-assessment of that strength. In the long run, Maine's low-income advocates seem almost certain to pursue a strategy of forcing Bangor Hydro and MPS to adopt a percentage-of-income program, which has more generous benefits for very-low-income, high-electricity-usage households. All three programs are nominally "experiments," so advocates will be able to argue at some point that these experiments have generated convincing evidence in favor of the percentage-of-income approach. The simple argument that low-income families should be treated the same across the state is likely to reinforce this argument.

In the short run, the other parties seem to prefer simply to let lifeline policy alone. If lifeline becomes a more or less permanent feature of electric regulation, some tinkering with the details of the legislation and the regulations can better accommodate the interests of the stakeholder groups. The argument that the lifeline subsidy unfairly penalizes the public utility has considerable merit, especially if independent producers or out-of-state electric suppliers continue to compete for the larger utility customers. A relatively simple, although perhaps politically contentious, way to create a "level playing field" would be a per kilowatt-hour tax on all electric use equal to the utility subsidy. In such a scenario, Madison and Madison Paper could not escape their share of the lifeline subsidy for low-income Maine households when they buy power out-of-state. Taxes on self-generators might be more difficult to enforce, and taxes on non-electric by-pass are probably impossible to administer.

The incentives to use electricity for space heating under a percentage of income are understood by all the parties. Consider a simple case where a low-income household had income of \$10,000 and an electric bill (including space heat) of \$1,500 per year. Using a five percent-of-income lifeline program, this family would qualify for a \$1,000 lifeline benefit. (That is, \$1,000 will reduce the \$1,500 electric bill to five percent of income.) Consider the effect if the family converted to oil heat, such that its electric bill became \$400 and its oil bill \$700. Under an electricity-only five percent-of-income standard, its benefit would be completely eliminated because its electricity would now cost less than five percent of income. This would raise its real cost of energy by \$600, from \$500 (after lifeline benefit) to \$1,100. But under a five percent electricity-plus-heat rule, the household's benefit would be calculated to keep total energy lost at five percent (\$500). A benefit of \$600 would reduce cost from \$1,100 to \$500. In this latter case, the family is not penalized for installing a more efficient heating system. (However, these calculations do not include the equipment costs of the conversion.)

By creating a lifeline formula that is based upon the household's entire energy bill, it is possible to reduce these disincentives. In at least two states (Ohio and Illinois), the calculation of the lifeline benefit under a percentage-of-income program is based upon the combined cost of electricity and other space heating fuels used by the household. The political problem with an electricity-plus-heating implementation of a lifeline program is that the utility can argue that it is, in effect, paying for heating oil. That would suggest that the cost of such a program should be borne by a tax on all suppliers of home energy. In states that have significant natural gas use, the utility commission has the option of placing the same lifeline obligations on suppliers of natural gas as on electric utilities. But in Maine, the two major alternative energy sources for home heat are oil and wood. A tax on wood would probably be impossible to collect, and a tax on heating oil faces severe political obstacles.

Conclusions

Clearly, lifeline policy is not a settled issue in Maine or in the nation. Maine's three programs were explicitly initiated as "experiments." The varying designs of Maine's three programs reflect the diversity of programs being implemented nationally. These programs are more pragmatic than ideological, and their design responds to changes in the external political and economic environment. Even the seemingly strong Legislative endorsement for this program may be deceiving. Maine's earlier (1976) lifeline trial was halted in the midst of a political backlash, and a similar backlash can not be ruled out for the present programs. While there are changes in the

intermediate term that could make lifeline function more effectively, the real future of lifeline is bound up with the prospects for true welfare reform in the U. S.

Steve Ballard is Director the Margaret Chase Smith Center for Public Policy. He is also Professor and Chair of Public Administration. James Faulkner was a Graduate Research Assistant at the Smith Policy Center. Charlie Morris and Barbara Jean Nicoletti are Research Associates at the Margaret Chase Smith Center for Public Policy. Ralph Townsend is Associate Professor of Economics.

References:

Ballard, Steven, James Faulkner, Charles Morris, Barbara Jean Nicoletti, and Ralph Townsend. 1992. "Procoess Evaluation for the Central Maine Power Electric Lifeline Program" Margaret Chase Smith Center for Public Policy, University of Maine.

Edison Electric Institute, 1910. Discounted Rates and Reduced Payment Programs for Low-Income Electric Customers.

U. S. Department of Energy, 1980. Lifeline Electric Rates and Alternative Approaches to the Problems of Low-Income Ratepayers, v. 1-3. Washington: GPO.

Endnotes:

1. This article is based on Ballard *et al.* 1992.
2. As Ballard *et al.* (1992, pp. 64-66) discuss, it is possible to create a formula that ends the "notch" by pro-rating HEAP assignment according to the level of usage. Such a change raises other questions, primarily about total program cost, and has not been implemented.
3. There are, however, some technical problems with the Chapter 380 standards that determine "cost-effectiveness" of conservation programs as they relate to low-income individuals. See the discussion in Ballard *et al.* 1992, pp. 66-67.
4. Note that the telephone companies are generally in favor of lifeline telecommunications rates. Actually, they are arguing for a targeted benefit to replace the current universal subsidy, so their position has the effect of moving to less subsidy and greater relation to cost.

Full cite: Ballard, Steven, James Faulkner, Charles Morris, Barbara Jean Nicoletti, and Ralph Townsend. 1993. *Electric lifeline policy in Maine.* Vol. 2(2): 51-63.