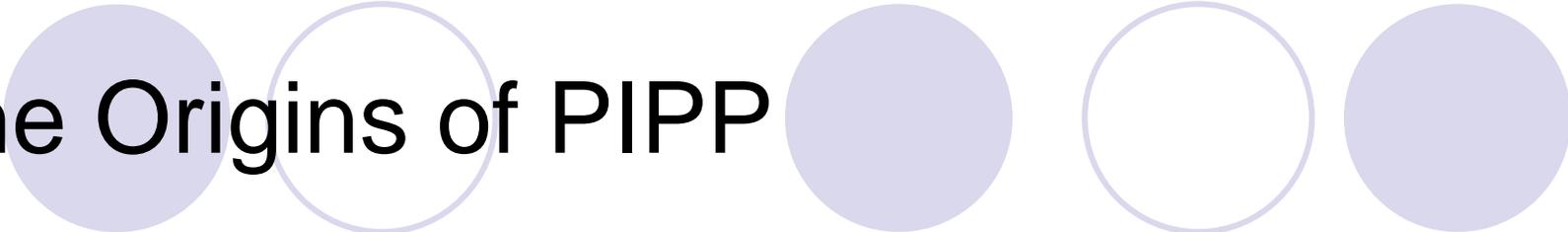


Ohio's Percentage Income Payment Plan (PIPP)

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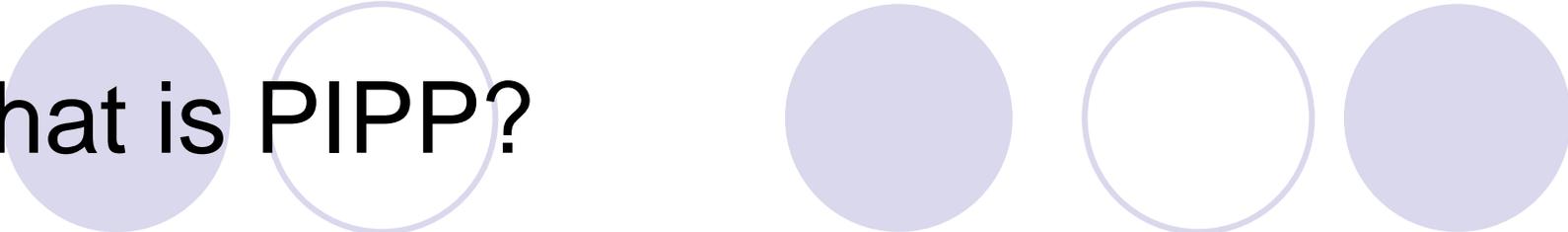
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The Origins of PIPP



- Commission Ordered Investigation initiated in 1983 in the face of rising gas and electric prices, and recession.
- Investigation focused on large increase in utility disconnections for non-payment.
- Process included public hearings and numerous parties, including local community groups and agencies.

What is PIPP?



PIPP is an extended payment arrangement that requires regulated gas and electric companies to accept payments based on a percentage of the household income for those customers who are at or below 150% of the federal poverty level.

The program is often combined with the Commission's annual Winter Reconnect Order, which permits customers in disconnection status to retain or reconnect to utility service for a payment of \$175 (prorated across two utilities if necessary) and enroll in a payment plan.

Payment Requirements Under PIPP

- Customers must pay 10% of their income for their primary heat source.
- Customers must pay 5% (or 3% if below 50% of the federal poverty level) of their income for their secondary heat source.
- Customers of combined companies or residing in all-electric homes pay 15% or 13%, respectively.

PIPP Program Structure – Natural Gas

- Program managed by local distribution companies (LDCs). In most cases, community action network handles customer intake activities including benefit determination.
- Customers placed on budget billing.
- Customers must pay PIPP amount for any bill that includes service between November 1 and April 15.
- Customers pay the higher of the budget amount or the PIPP amount from April 16 through October 31.

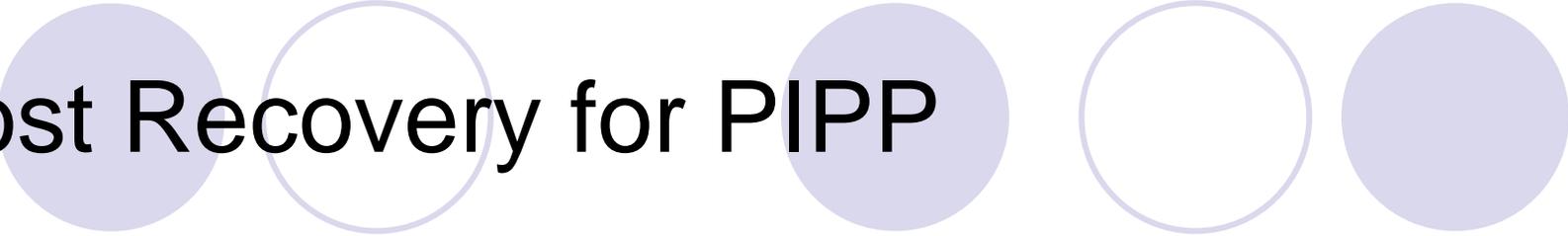
PIPP Program Structure - Electric

- Program managed by Ohio Department of Development with community action network handling customer intake functions.
- Customer may opt for budget billing.
- Customers must pay PIPP amount for any bill that includes service between November 1 and April 15.
- Customers pay the higher of the actual bill/budget amount or the PIPP amount from April 16 through October 31.

Number of PIPP Customers & Cost

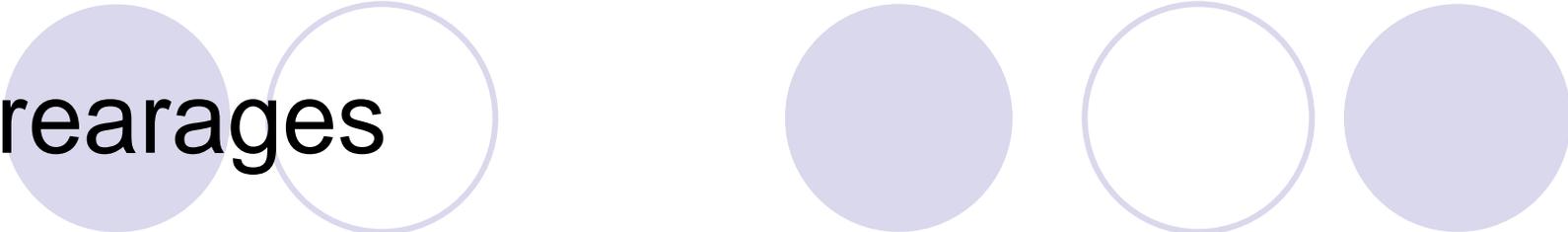
- Electric – program served approximately 184,000 customers during 2003-2004. The bill assistance component of the program costs approximately \$66 million.
- Natural gas – program served approximately 170,000 customers during 2003-2004. The program costs approximately \$50 million.

Cost Recovery for PIPP



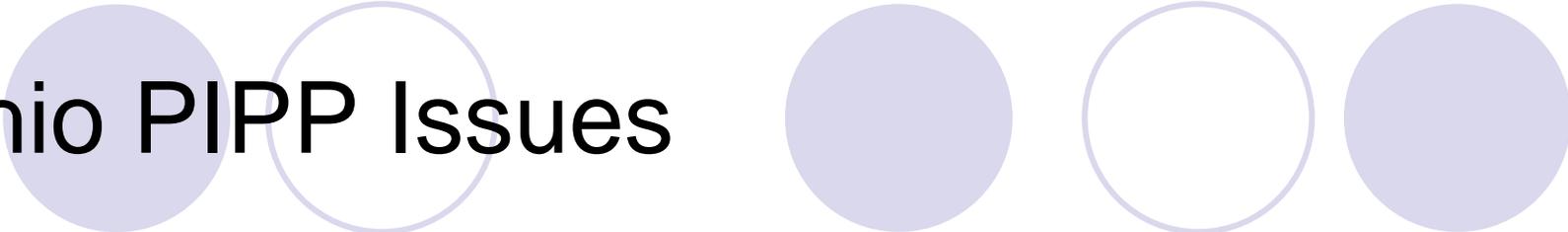
- The delta revenue – the difference between the actual bill and the customer payment – is recovered from ratepayers.
- Electric – A USF Rider is established annually using a test year approach. The rider includes funding for energy efficiency and consumer education activities designed to reduce the need for bill assistance.
- Natural Gas – A PIPP Rider is embedded in distribution charges. LDCs age customer arrearages for a minimum of two months and then collect via the Rider. LDCs may request adjustments in their riders as necessary.

Arrearages



- The unpaid portion of the bill (the delta), becomes an arrearage on the customer's bill. The arrearage is due and payable if the customer terminates service, fails to make payments, or is dropped from the program because of a change in income.
- Arrearage Crediting Programs are offered for all customers who become income ineligible for the program. The generic program permits customers to continue to make PIPP Payments for one year, then make actual bill payments the second year, and finally actual bill plus no more than \$20 per month per utility thereafter.

Ohio PIPP Issues



- The percentage of income required is too high. The average energy burden for a household in the Midwest is 6%. Requiring 15% makes the choice between heating and eating still a reality. Newly adopted PIPP programs in NJ, NH and NV opt for much lower percentage payment requirements.
- Arrearages are a major problem for low income households and a barrier to program participation. Many other PIPP programs do not include an arrearage concept. In actual experience, payment of arrearages is quite low.

Responses to Arrearage Problems

- In 1999, General Assembly forgave all electric PIPP arrearages for elderly and disabled customers.
- In 2002, CG&E agreed to forgive all natural gas PIPP debt incurred to that point.
- In 2003, Commission authorized arrearage crediting program that permits natural gas PIPP customers in DEO, COH and VEDO territories who pay bills on time to eliminate arrearages over three years.

Observations & Recommendations

- A certain portion of customers cannot afford their energy bills. PIPP may well cost less than allowing bad debt to accrue, shut-off moratoriums, and disconnection/reconnection costs.
- Utilities have accepted the program because it essentially guarantees payment for services to the most destitute households, minimizing bad debt.
- A PIPP should not have an arrearage component, or should only be imposed when bills are not paid timely. Special low income rates are justified without arrearages.
- PIPP should be set at an affordable level, somewhere between 6-10% of income in the Midwest.