**N00I0006**

# Office of Home Energy Programs

**Department of Human Resources**

## *Operating Budget Data*

**($ in Thousands)**

| | FY 12 Actual | FY 13 Working | FY 14 Allowance | FY 13-14 Change | % Change Prior Year |
|---|---|---|---|---|---|
| Special Fund | $53,362 | $57,941 | $57,124 | -$816 | -1.4% |
| Contingent & Back of Bill Reductions | 0 | 0 | -1 | -1 | |
| **Adjusted Special Fund** | **$53,362** | **$57,941** | **$57,123** | **-$817** | **-1.4%** |
| | | | | | |
| Federal Fund | 66,917 | 87,639 | 85,861 | -1,779 | -2.0% |
| Contingent & Back of Bill Reductions | 0 | 0 | -1 | -1 | |
| **Adjusted Federal Fund** | **$66,917** | **$87,639** | **$85,860** | **-$1,780** | **-2.0%** |
| | | | | | |
| **Adjusted Grand Total** | **$120,279** | **$145,580** | **$142,983** | **-$2,597** | **-1.8%** |

- The fiscal 2014 allowance of the Department of Human Resources (DHR) Office of Home Energy Programs (OHEP) decreases by $2.6 million, or 1.8%, compared to the fiscal 2013 working appropriation, after accounting for a back of the bill reduction in health insurance due to favorable cost trends.

- Federal Low Income Home Energy Assistance Program (LIHEAP) decreases by $1.8 million in the fiscal 2014 allowance. The special fund decrease ($817,024) results from lower anticipated revenue in the Strategic Energy Investment Fund ($2.3 million), which is partially offset by an expected increase in the availability of funds from the Electric Universal Service Program (EUSP) ($1.4 million).

Note: Numbers may not sum to total due to rounding.

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## *Personnel Data*

| | FY 12 Actual | FY 13 Working | FY 14 Allowance | FY 13-14 Change |
|---|---|---|---|---|
| Regular Positions | 13.87 | 13.87 | 13.87 | 0.00 |
| Contractual FTEs | 0.50 | 0.00 | 0.00 | 0.00 |
| **Total Personnel** | **14.37** | **13.87** | **13.87** | **0.00** |

***Vacancy Data: Regular Positions***

| | | | | |
|---|---|---|---|---|
| Turnover and Necessary Vacancies, Excluding New Positions | | 0.99 | 7.14% | |
| Positions and Percentage Vacant as of 12/31/12 | | 1.00 | 7.21% | |

- There were no changes in the number of positions in OHEP in the fiscal 2014 allowance.
- Turnover expectancy increases from 6.78 to 7.14% in the fiscal 2014 allowance.
- As of December 31, 2012, OHEP had 1.0 vacant position, a vacancy rate of 7.21%. To meet its turnover expectancy, OHEP needs to maintain 0.99 vacant positions in fiscal 2014.

## *Analysis in Brief*

### Major Trends

***Demand for Energy Assistance Benefits Declines in Fiscal 2012:*** After increasing in nearly all recent years, the number of households receiving EUSP bill assistance and Maryland Energy Assistance Program (MEAP) benefits declined in fiscal 2012. This trend reversal was likely due, in part, to the warm winter weather. Over the last few years, the number of households receiving arrearage assistance benefits has been influenced by the availability of funding.

***Percent of Eligible Households Receiving Benefits Declines:*** Due to fewer households applying for and receiving benefits, the percent of eligible households receiving EUSP bill assistance and MEAP benefits declined in fiscal 2012.

***Benefits Provided to Some Targeted Populations Improves:*** In fiscal 2012, the percent of households with an individual over the age of 60 and households with a child under the age of 6 receiving energy assistance benefits increased. However, the number of households with an individual with disability applying for energy assistance benefits decreased in that year, resulting in a reduction in the percent of these households receiving benefits.

***Fiscal 2013 Expenditures Higher Than at This Point in Fiscal 2012:*** In total, through December 2012, OHEP has paid $11.9 million more in total energy assistance benefits than the same time period in fiscal 2012. This year-to-date increase has resulted from higher numbers of households receiving MEAP and EUSP arrearage assistance benefits, in combination with higher MEAP benefit levels for most fuel sources and higher average arrearage assistance.

## Issues

***Public Service Commission Review of Energy Assistance Programs:*** In January 2012, as a result of concerns raised from the fiscal 2011 *EUSP Annual Report*, including whether the current programs are fulfilling or can fulfill the intended purpose, the Public Service Commission (PSC) announced that it would conduct a comprehensive review of energy assistance programs in Maryland. As part of the review, the PSC staff submitted a proposal for a percent of income payment plan energy assistance program and an arrearage retirement forgiveness program (for pre-existing arrears only). To date, no additional action has occurred in the review. DHR is also considering program changes that could be implemented in lieu of a program overhaul, such as providing higher benefits if a customer agrees to undertake energy conservation activities.

***Low Income Energy Efficiency and Energy Assistance Programs:*** In Maryland, low income energy efficiency and weatherization activities are undertaken by a different agency than the agency that administers the energy assistance programs. The connection between the programs for energy assistance recipients is voluntary, and few MEAP applicants have requested a referral for weatherization assistance. Four states have requirements that energy assistance recipients accept weatherization services (or a state energy efficiency program) if offered to them. New energy efficiency programs and energy assistance program changes under consideration may strengthen this connection.

## Recommended Actions

1. Adopt committee narrative requesting a report on proposed changes to the energy assistance program.

2. Adopt committee narrative requesting a revised policy on energy efficiency and weatherization activities for energy assistance recipients.

# Office of Home Energy Programs

**Department of Human Resources**

## *Operating Budget Analysis*

### Program Description

The Office of Home Energy Programs (OHEP) is a program of the Family Investment Administration in the Department of Human Resources (DHR). The services of OHEP include cash benefits, budget counseling, vendor arrangements, referrals, and assistance with heating/cooling equipment repair and replacement. OHEP administers two energy assistance programs for residential customers using local agencies, including local departments of social services, in each county and Baltimore City. These two programs are (1) the Maryland Energy Assistance Program (MEAP) funded from the federal Low Income Home Energy Assistance Program (LIHEAP) providing bill payment assistance, crisis assistance, and furnace repair/replacements for a variety of energy sources; and (2) the Electric Universal Service Program (EUSP) funded from a ratepayer surcharge and the Strategic Energy Investment Fund (SEIF) that provides both bill payment and arrearage assistance to electric companies.

The key goals of OHEP are to provide access to the benefits and services of OHEP to as many low income eligible households as possible to help households reduce their home energy cost burden and to meet the immediate needs of households experiencing energy crises by preventing or remedying off-service or out-of-fuel emergencies.

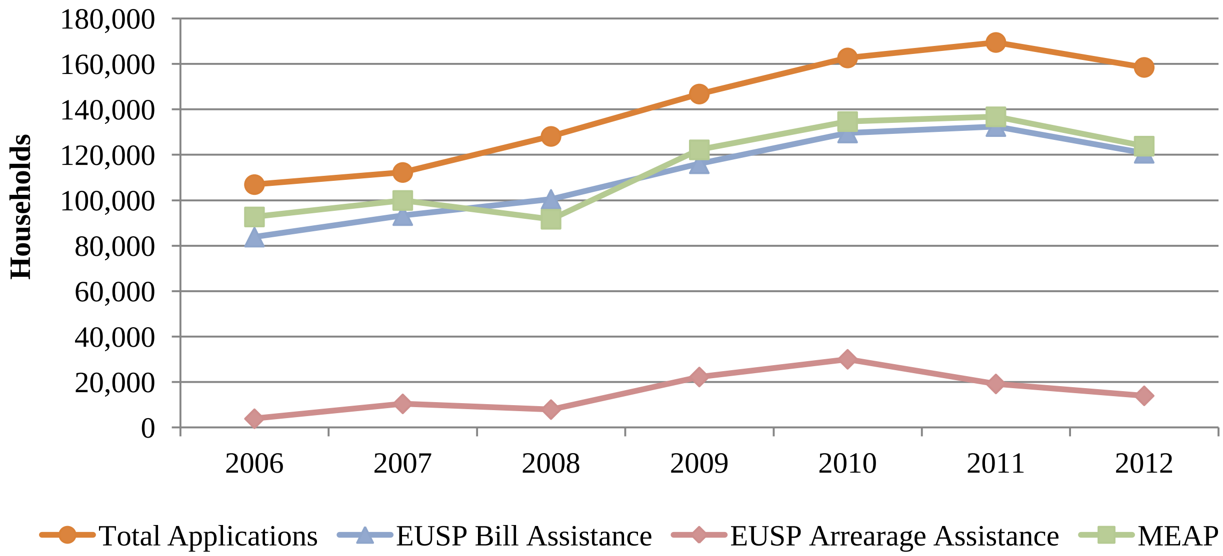
### Performance Analysis: Managing for Results

### 1. Demand for Energy Assistance Benefits Declines in Fiscal 2012

As shown in **Exhibit 1**, the number of total applicants, EUSP bill assistance recipients, and MEAP recipients has generally increased since fiscal 2006, with particularly dramatic growth occurring between fiscal 2007 and 2010. Unexpectedly, in fiscal 2012, decreases compared to the prior year occurred in each of these areas:

- total applications 6.5%;
- EUSP bill payment recipients 8.9%; and
- MEAP recipients 9.4%.

**Exhibit 1**
**OHEP Benefits Provision History**
**Fiscal 2006-2012**




EUSP: Electric Universal Service Program
MEAP: Maryland Energy Assistance Program
OHEP: Office of Home Energy Programs

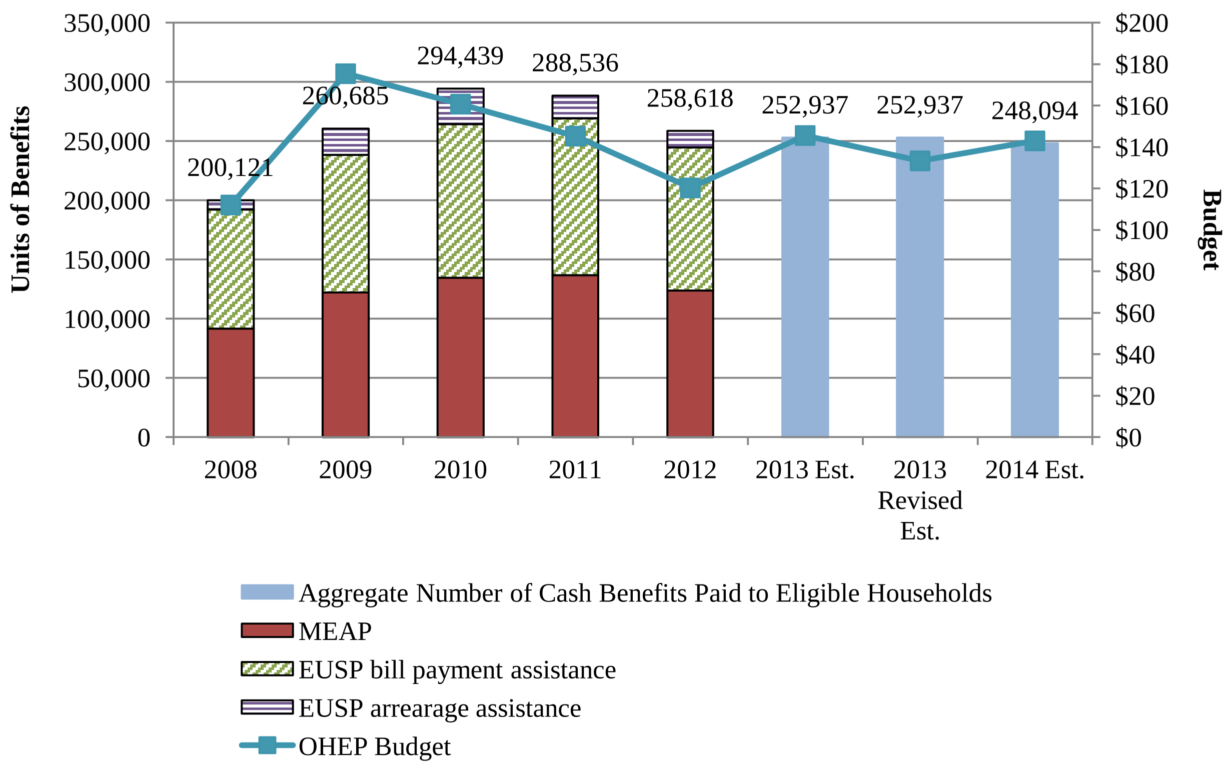
Source: Department of Human Resources

OHEP attributed these decreases, in part, to the mild winter weather in that year. Despite the reductions, in fiscal 2012, the total number of applications and EUSP bill payment recipients was more than 40.0% higher than in fiscal 2006.

As more funds were allocated to EUSP arrearage assistance, with the availability of fund sources other than EUSP and the removal of the $1.5 million statutory cap, the number of households receiving arrearage assistance began to grow. Arrearage assistance peaked in fiscal 2010, with 30,078 households receiving arrearage assistance. Funding concerns in OHEP since that time have led to informal caps on spending for this program, reducing the number of households receiving this benefit. In fiscal 2011, arrearage assistance benefits were suspended in February 2011, and in fiscal 2012, DHR originally set a cap of $5.0 million, which was ultimately raised leading to expenditures of approximately $13.0 million. However, in that year, similar to other energy assistance benefits, the number of households applying for assistance decreased. Less than half the number of households received arrearage assistance in fiscal 2012 than in fiscal 2010.

Until fiscal 2011, the growth in households receiving bill assistance and arrearage assistance, shown in Exhibit 1, translated into increases in the aggregate number of cash benefits provided to eligible households, as shown in **Exhibit 2**. Units of cash benefits are MEAP and EUSP bill payment assistance, and EUSP arrearage assistance. In fiscal 2010, the growth in units of cash benefits was able to continue despite lower funding due to adjustments in the benefit level, which allowed more households to be served than would have otherwise been possible. However, in February 2011, the EUSP arrearage assistance program was suspended due to funding concerns, resulting in fewer households receiving this benefit in fiscal 2011. The substantial reduction in households receiving EUSP arrearage assistance in that year drove down the aggregate number of cash benefits provided, despite modest increases in households receiving bill assistance. In fiscal 2012, a combination of spending limits for EUSP arrearage assistance and reduced demand for the energy assistance programs, led to fewer aggregate cash benefits provided than in fiscal 2011, a decrease of 10.4%.

**Exhibit 2**
## OHEP Outcomes vs. Expenditures
**Fiscal 2008-2014 Est.**
**($ in Millions)**




EUSP: Electric Universal Service Program
MEAP: Maryland Energy Assistance Program
OHEP: Office of Home Energy Programs

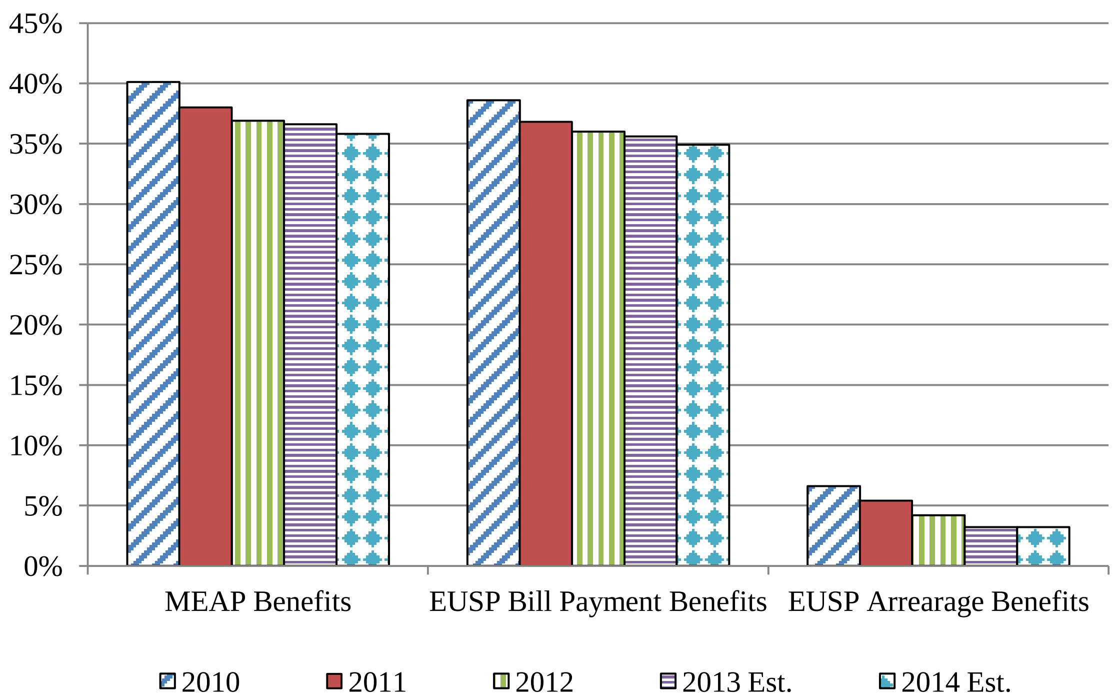
Note: Fiscal 2013 revised estimate assumes the availability of LIHEAP at the level of the initial allocation by the U.S. Department of Health and Human Services plus carryover funds available from fiscal 2012.

Source: Department of Human Resources; Governor's Budget Books; U.S. Department of Health and Human Services

## 2. Percent of Eligible Households Receiving Benefits Declines

As shown in **Exhibit 3,** despite increases in the number of households receiving MEAP and EUSP bill assistance benefits in fiscal 2011, the percent of eligible households receiving these benefits decreased as a result of an even larger increase in the estimated number of eligible households. In fiscal 2012, the decrease in households receiving each type of benefit also led to a decline in the percent of eligible households receiving these benefits, even though the number of eligible households also fell. DHR anticipates the economic recovery will further reduce the percent of eligible households receiving energy assistance benefits. However, the economic recovery would be expected to impact both the number of eligible households (as occurred in fiscal 2012) and the number of applications and should not necessarily lead to an erosion of the energy assistance benefit penetration rate. **DHR should comment on steps it plans to take to reach more eligible households.**

**Exhibit 3**
**Eligible Households Certified for Energy Assistance Benefits**
**Fiscal 2010-2014 Est.**




EUSP: Electric Universal Service Program
MEAP: Maryland Energ Assistance Program

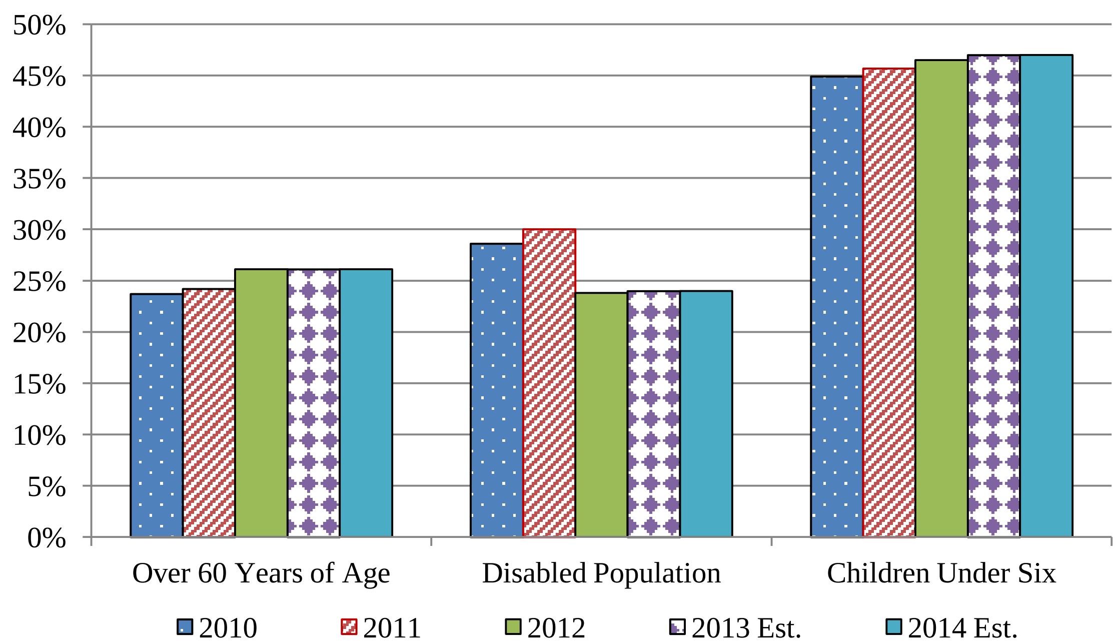
Source: Department of Human Resources; Governor's Budget Books

The percent of eligible households receiving arrearage assistance decreased from the previous year in both fiscal 2011 and 2012, primarily due to the imposition of spending caps and reduced demand discussed earlier. Funding concerns are also likely to impact the percent of eligible households receiving arrearage assistance in fiscal 2013.

## 3. Benefits Provided to Some Targeted Populations Improves

As shown in **Exhibit 4**, in two of the three targeted populations (households with an individual over the age of 60 and households with a child under the age of 6) the percent that received benefits increased in fiscal 2011 and 2012 relative to the prior year. DHR indicates that the reason for these changes is unclear. DHR is also uncertain about the factors that led to fewer households with an individual with a disability applying for benefits, which resulted in a decline in the percent of these households receiving benefits in fiscal 2012.

**Exhibit 4**
**Targeted Populations Receiving Benefits**
**Fiscal 2010-2014 Est.**




Source: Department of Human Resources; Governor's Budget Books

## 4. Fiscal 2013 Expenditures Higher Than at This Point in Fiscal 2012

As shown in Exhibit 2, despite anticipated increases in expenditures in fiscal 2013, the aggregate number of cash benefits is expected to decrease, in part due to anticipated lower demand as a result of the economic recovery. Consistent with that expectation, through December 2012, fewer households have applied for EUSP bill assistance and MEAP benefits than in the same period in fiscal 2012, as shown in **Exhibit 5**. Despite the substantial decrease in applications (more than 15%), the number of households receiving MEAP benefits is actually higher than in fiscal 2012. DHR indicates that differences in the number of applications and number of recipients of energy assistance benefits are attributable to factors such as:

- the number of applicants that are eligible;
- processing improvements; and
- the timely provision of documents needed to determine eligibility.

As we saw during the winter of 2011 to 2012, daily temperatures can significantly impact demand for energy assistance benefits. Extreme temperatures can lead to unexpected bill increases as heating and cooling systems must work harder to keep homes and businesses at comfortable levels. The available fiscal 2013 data does not yet capture the entire winter heating season, including recent cold weather, and, as a result, it is still unclear whether DHR will ultimately experience the expected reductions in aggregate units of cash benefits.

As shown in Exhibit 5, the average EUSP benefit in fiscal 2013 is relatively stable compared to fiscal 2012. However, in fiscal 2013, DHR provided a substantial increase in the MEAP benefit for nonelectric fuel sources, after several years of stable or reduced levels. In fact, the fiscal 2013 MEAP benefit levels, with the exception of households with electric heat, are higher than in any recent year. For example, in fiscal 2013, households at the highest benefit levels (0-75.0% of the federal poverty level) will receive benefits equivalent to 95.0% of the household's annual bill for natural gas, compared to 60.0% in fiscal 2012. The increased benefit levels have led to a substantial increase (47.8%) in the average MEAP benefit compared to fiscal 2012. Through December 2012, the combination of the higher number of households receiving MEAP benefits and the higher MEAP benefit amounts has resulted in an increase ($12.7 million) in expenditures for MEAP, compared to the same period in fiscal 2012.

**Exhibit 5**
## OHEP Applications and Benefits Data
**July through December**

| | Fiscal 2012 | Fiscal 2013 | Change | % Change |
|---|---|---|---|---|
| **Applications** | | | | |
| MEAP | 112,737 | 95,064 | -17,673 | -15.7% |
| EUSP Bill Payment | 109,159 | 91,831 | -17,328 | -15.9% |
| EUSP Arrearage | 9,334 | 11,754 | 2,420 | 25.9% |
| **Receiving Benefits** | | | | |
| MEAP | 56,742 | 61,739 | 4,997 | 8.8% |
| EUSP Bill Payment | 69,008 | 61,367 | -7,641 | -11.1% |
| EUSP Arrearage | 6,413 | 8,759 | 2,346 | 36.6% |
| **Average Benefit** | | | | |
| MEAP | $368 | $543 | $176 | 47.8% |
| EUSP Bill Payment | $340 | $327 | -$13 | -3.8% |
| EUSP Arrearage | $873 | $941 | $67 | 7.7% |
| **Benefits Paid ($ in Millions)** | | | | |
| MEAP | $20.9 | $33.5 | $12.7 | 60.8% |
| EUSP Bill Payment | $23.5 | $20.1 | -$3.4 | -14.4% |
| EUSP Arrearage | $5.6 | $8.2 | $2.6 | 47.1% |
| **Total Benefits Paid** | **$49.9** | **$61.9** | **$11.9** | **23.9%** |

EUSP: Electric Universal Service Program
MEAP: Maryland Energy Assistance Program
OHEP: Office of Home Energy Programs

Source: Department of Human Resources

Similar to other recent years, DHR planned to limit the amount of EUSP arrearage assistance available in fiscal 2013, setting the level at $7 million. However, DHR had already expended more than this amount by the end of November 2012, due to a substantial increase in the number of households receiving EUSP arrearage assistance and a higher average benefit amount than during the same time period in fiscal 2012. DHR indicates that eligible applicants are experiencing higher arrearages, leading to the overall increase in the average benefit amount. As a result, DHR has made more funding available than planned for this benefit. The year-over-year increase in households receiving arrearage assistance in fiscal 2013 through December 2012 makes it appear unlikely that OHEP will see the anticipated reduction in households receiving this benefit shown in Exhibit 3. **DHR should comment on the level of funding available for arrearage assistance in fiscal 2013 and how the department will assist customers when or if arrearage assistance funding is fully**

**expended. DHR should also comment on whether its overall funding level in fiscal 2013 is sufficient given the increase in total expenditures.**

## Proposed Budget

As shown in **Exhibit 6**, the fiscal 2014 allowance decreases by $2.6 million, or 1.8%, compared to the fiscal 2013 working appropriation, after accounting for a back of the bill reduction in health insurance due to favorable cost trends. A decrease in budgeted federal LIHEAP funds ($1.8 million) and the SEIF ($2.3 million) is partially offset by an increase in EUSP ($1.4 million).

Aside from the changes in funding for energy assistance benefits, OHEP's fiscal 2014 allowance increases by $516,679. The majority of the increase, in non-energy assistance benefit areas of OHEP, occurs as a result of the increased cost of contracts with local administering agencies ($464,308).

Personnel expenditures increase by $15,377 in the fiscal 2014 allowance, primarily in the areas of employee retirement ($13,986) and employee and retiree health insurance ($11,655). The contribution rate for the regular employees' pension plan increases in fiscal 2014. The rate increase is attributable to underattaining investment returns, adjusting actual assumptions, and increasing the reinvestment of savings achieved in the 2011 pension reform.

**Exhibit 6**
**Proposed Budget**
**DHR – Office of Home Energy Programs**
**($ in Thousands)**

| How Much It Grows: | Special Fund | Federal Fund | Total |
|---|---|---|---|
| 2013 Working Appropriation | $57,941 | $87,639 | $145,580 |
| 2014 Allowance | 57,124 | 85,861 | 142,985 |
| Amount Change | -$816 | -$1,779 | -$2,595 |
| Percent Change | -1.4% | -2.0% | -1.8% |
| | | | |
| Contingent Reductions | -$1 | -$1 | -$2 |
| Adjusted Change | -$817 | -$1,780 | -$2,597 |
| Adjusted Percent Change | -1.4% | -2.0% | -1.8% |

| | |
|---|---|
| **Where It Goes:** | |
| **Personnel Expenses** | |
| Employee retirement | $14 |
| Accrued leave payout due to a higher than normal level of employee retirements | 12 |
| Employee and retiree health insurance net of a back of the bill reduction due to favorable cost trends | 12 |
| Annualization of the fiscal 2013 cost-of-living adjustment | 7 |
| Reclassifications | 3 |
| Social Security contributions and unemployement compensation | -1 |
| Turnover adjustments | -2 |
| Regular earnings primarily due to the filling of vacant positions at lower salary levels | -29 |
| **Energy Assistance Benefits** | |
| Anticipated availability of federal Low Income Home Energy Assistance Program funds and Strategic Energy Investment Fund partially offset by an increase in funds from the Electric Universal Service Program | -3,113 |
| **Administrative Expenses** | |
| Local administering agencies contract increases | 464 |
| Customer call center contract | 24 |
| Postage and telephone based on recent experience | 8 |
| Space rentals for training and staff development primarily for technical assistance opportunities | 4 |
| Office supplies, printed forms, and subscriptions | 1 |
| **Total** | **-$2,597** |

Note: Numbers may not sum to total due to rounding.

## Energy Assistance Benefits

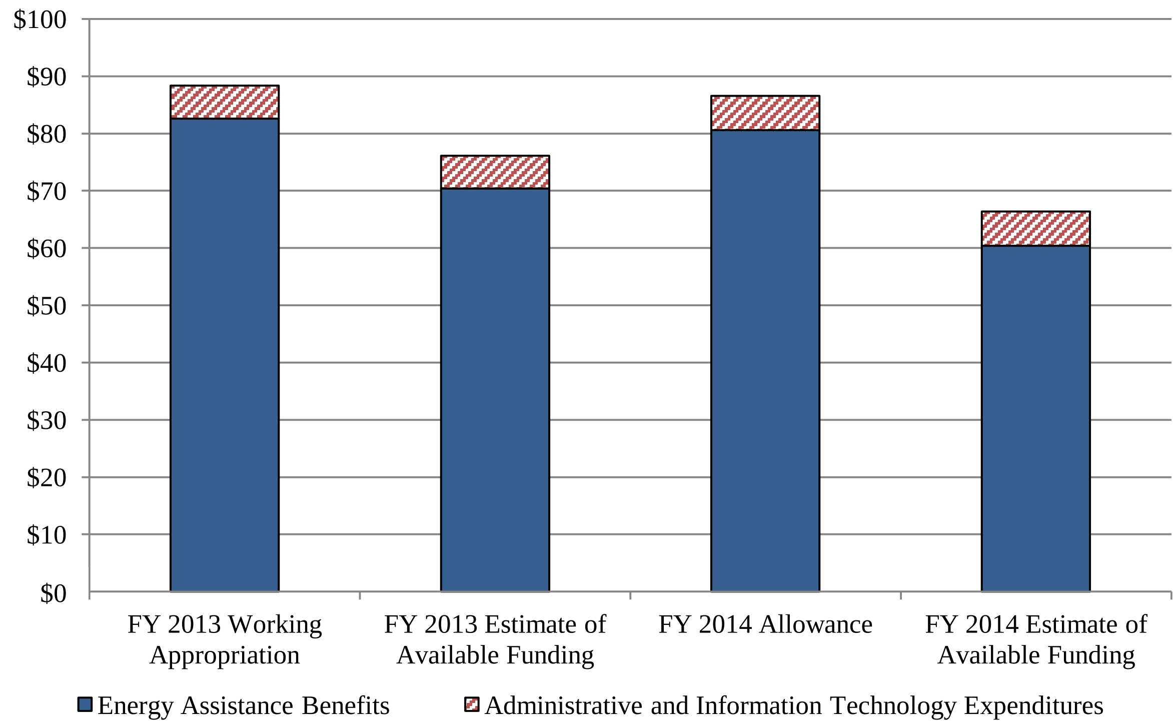
The fiscal 2014 allowance for energy assistance benefits decreases by $3.1 million, or 2.3%, compared to the fiscal 2013 working appropriation. The actual difference in the energy assistance benefits between those years is uncertain because both the fiscal 2013 working appropriation and fiscal 2014 allowance appear to overstate the amount of federal LIHEAP funds that will be available to Maryland, and the level of EUSP exceeds the authorized level of collections.

### LIHEAP

Federal LIHEAP funds in DHR's fiscal 2014 allowance decrease by $1.8 million compared to the fiscal 2013 working appropriation to a total of $86.6 million. More LIHEAP funds are directed to various administrative expenses of OHEP, particularly for the local administering agencies, so there is $2.0 million less available for energy assistance benefits in fiscal 2014, for a total of $80.6 million.

**Exhibit 7** presents a comparison of the fiscal 2013 working appropriation and fiscal 2014 allowance of LIHEAP, including funds budgeted in DHR's Office of Technology for Human Services (OTHS) for the OHEP data system, and estimates of the LIHEAP that will actually be available to DHR in those years. The final allocation of LIHEAP for Maryland in fiscal 2013 is uncertain because the federal government is currently operating under a continuing resolution, and sequestration was delayed until March 2013. However, the initial release of LIHEAP funds, under the continuing resolution (representing the vast majority of funds likely to be available to Maryland) provided an allocation of $66.4 million. An additional $9.7 million is available from fiscal 2012 carryover to OHEP in fiscal 2013, which resulted from a lower demand for benefits in fiscal 2012 and benefit reductions to account for a larger anticipated reduction in Maryland's allocation than actually occurred. In total, between the initial allocation and carryover an estimated $76.1 million of LIHEAP would be available to DHR for use in fiscal 2013. However, the fiscal 2013 working appropriation of LIHEAP in DHR is $88.3 million ($82.7 million for energy assistance benefits), $12.2 million more than is likely to be available.

**Exhibit 7**
**LIHEAP Funding Availability**




LIHEAP: Low Income Home Energy Assistance Program

Note: Estimated funding levels in fiscal 2013 and 2014 assume Maryland receives only the level of the initial release of the fiscal 2013 allocation. The U.S. Department of Health and Human Services provided no more than 90% of the allocation available under the continuing resolution to States in the initial release.

Source: Department of Human Resources; Governor's Budget Books; U.S. Department of Health and Human Services

It is also unlikely that DHR will receive an allocation of LIHEAP in fiscal 2014 at the level assumed in the allowance, given the current fiscal climate. In fiscal 2013, carryover from the prior year has cushioned the shortfall from an expected lower amount of LIHEAP funding than was assumed in budget development. A similar level of carryover from fiscal 2013 into fiscal 2014 seems unlikely because, as discussed earlier, OHEP has increased the MEAP benefit levels in fiscal 2013, leading to higher levels of expenditures than in fiscal 2012. If, for example, DHR were to receive LIHEAP funding in fiscal 2014 at the level initially allocated to Maryland in federal fiscal 2013 and have no carryover funding, the fiscal 2014 allowance for energy assistance benefits would overstate the available LIHEAP funds by slightly more than $20.0 million, as show in Exhibit 7. DHR has, in the past, reduced benefits to accommodate changes in funding levels, and this situation would likely occur in fiscal 2014 if the lower funding level were to occur.

**EUSP**

DHR's fiscal 2014 allowance, including OTHS, increases the level of EUSP by $1.4 million compared to the fiscal 2013 working appropriation, for a total of $40.2 million. As with LIHEAP, changes in administrative needs results in an increase of $1.2 million of EUSP available for energy assistance, with total funding of $33.9 million.

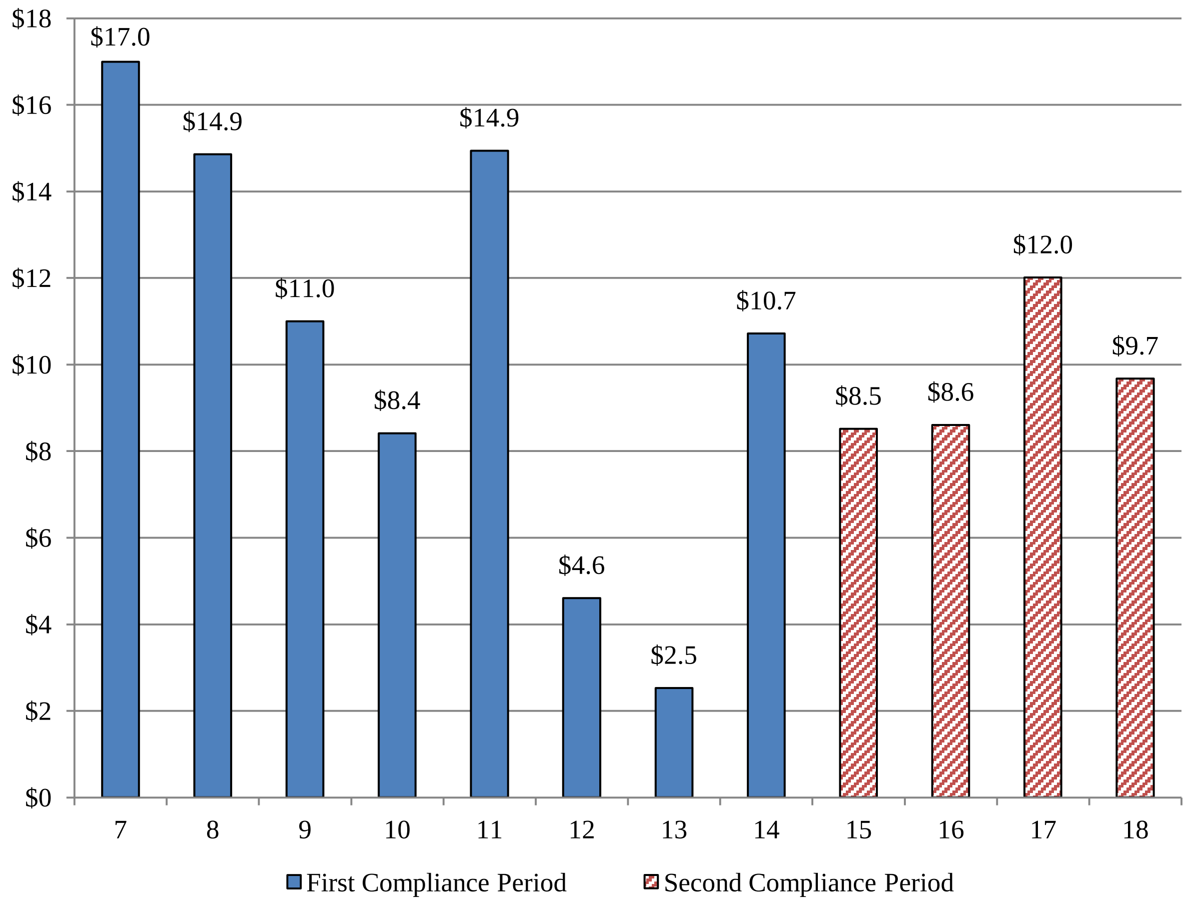
Although the amount has varied year-to-year, EUSP funds included in the budget have exceeded the level authorized since fiscal 2011. EUSP funding included in DHR's fiscal 2013 working appropriation exceeds the authorized level by $1.7 million and in the fiscal 2014 allowance exceeds it by $3.2 million, or 8.6%. Expenditures can exceed the authorized level of collections due to refunds that are received when, for example, customers move prior to the end of the program year. However, actual collections have exceeded $37.0 million in each recent year. The issue of these overcollections is discussed further in the fiscal 2014 analysis of the Public Service Commission (PSC), the agency responsible for monitoring the collections. In fiscal 2014, EUSP funds available for energy assistance will likely be impacted only if collections are limted to the statutory amount.

**SEIF**

OHEP began receiving special funds from the SEIF in fiscal 2009 as a result of Chapters 127 and 128 of 2008, which allocated 17% of the revenue from Regional Greenhouse Gas Initiative (RGGI) carbon dioxide emission allowance auctions for electricity assistance programs in DHR. Since fiscal 2010, OHEP has received 50% of the revenue received from these auctions as a result of the Budget Reconciliation and Financing Act (BRFA) of 2009 and the BRFA of 2011. The SEIF allocation has been used entirely for benefit payments.

The fiscal 2014 allowance, as required, provides OHEP with 50% of the estimated revenue available from the RGGI auctions, a total of $17.7 million, $2.3 million less than budgeted for fiscal 2013. Revenue from RGGI's quarterly auctions fluctuated substantially during the first compliance period, as shown in **Exhibit 8.** The second compliance period began in calendar 2012. Four auctions have been held since that time (auctions 15-18), and the revenue from those auctions has

**Exhibit 8**
**RGGI Auction Revenue**
**Auctions 7-18 (March 2010 – December 2012)**
**($ in Millions)**




RGGI: Regional Greenhouse Gas Initiative

Source: Regional Greenhouse Gas Initiative, Inc.

been more stable than in the previous period, ranging between $8.5 million and $12.0 million per auction. The fiscal 2014 allowance assumes auction revenue will remain within that range.

RGGI is currently undergoing a comprehensive program review, discussed further in the fiscal 2014 analysis of the Maryland Energy Administration. The program changes could impact the SEIF available to OHEP in fiscal 2014. Program changes resulting from the review were released on February 7, 2013.

The current allocation of RGGI revenue extends through fiscal 2014. Following that, absent any legislative action in the 2013 or 2014 session, the allocation will return to the level authorized in Chapters 127 and 128, the legislation that created the SEIF. **Exhibit 9** compares the current allocation to the allocation under Chapters 127 and 128. For illustrative purposes, if the estimated fiscal 2014 RGGI auction proceeds were subject to the allocation provided in Chapters 127 and 128, OHEP would receive $6.0 million of SEIF rather than the $17.7 million expected under the current allocation. **DHR should comment on the anticipated impact of the allocation change on the energy assistance program, particularly in light of the federal funding uncertainty.**

**Exhibit 9**
## Statutory Allocation of RGGI Auction Proceeds

| | BRFA of 2011 (Chapter 397 of 2011) In Effect for FY 2012-2014 | Chapters 127 and 128 of 2008 In Effect Beginning FY 2015 |
|---|---|---|
| Energy assistance for the Electric Universal Service Program and other electricity assistance | Up to 50.0% | 17.0% |
| Residential Rate Relief | 0% | 23.0% |
| Energy Efficiency and Conservation (at least one-half for low and moderate income programs) | At least 20.0% | At least 46.0% |
| Renewable and clean energy programs; energy related public education and outreach; and climate change programs | At least 20.0% | Up to 10.5% |
| Administrative expenses (MEA) | Up to 10.0%, but no more than $4.0 million | Up to 3.5%, but no more than $4.0 million |

BRFA: Budget Reconciliation and Financing Act
MEA: Maryland Energy Administration
RGGI: Regional Greenhouse Gas Initiative

Notes: The allocation from the BRFA of 2011 is in effect for auctions held between fiscal 2012 and 2014. Following fiscal 2014, the allocation will return to that set by Chapters 127 and 128 of 2008.

Source: Chapters 127 and 128 of 2008; Chapter 397 of 2011

# *Issues*

## 1. Public Service Commission Review of Energy Assistance Programs

In January 2012, PSC initiated a review of Maryland's energy assistance programs as a result of concerns that arose from the *Fiscal 2011 EUSP Annual Report*, particularly, whether the energy assistance programs are currently fulfilling (or could fulfill) the intended purposes and whether the programs are appropriately funded. The review was expected to address issues related to:

- scope, causes, and trends over time of arrearages and inability to pay bills;
- goals of the program as developed and recommendations on changes to the goals;
- sources of funding;
- eligibility criteria;
- coordination with other government programs;
- logistical, mechanical, and technological issues that need to be addressed to improve program efficiency;
- relative impact on customer bills between increasing bill assistance contributions and writing off greater proportions of uncollectibles; and
- best practices of other states.

The initial public conference in the review was held in March 2012. In comments prior to the hearing, the staff of PSC offered a series of policy goals including that:

- assistance should be designed to address ability to pay;
- programs should be designed to encourage consistent bill payments;
- arrearage assistance should not be ongoing;
- programs should be flexible enough to respond to changing energy costs; and
- programs should incentivize usage reductions and provide tools for that reduction.

In July 2012, PSC requested that staff prepare recommendations for changes to Maryland's energy assistance programs by November 1, 2012. These policy goals provide the basic premise of the recommendations ultimately made by PSC staff.

## PSC Staff Recommendations

The PSC staff worked with the Office of People's Counsel (OPC) to develop consensus recommendations. OPC contracted with an expert in the field of energy assistance policy to support the development of the proposal. Implementing the PSC staff recommendations, referred to as the Affordable Energy Plan (AEP), would require statutory changes. However, the PSC staff recommends that PSC have oversight of the program and decide specific implementation details. No action has occurred in the review since the program proposal and resulting comments from various parties. However, PSC recently released a notice that it would hold a hearing on this matter in May 2013.

### Benefit Level

Although designed to replace EUSP, the new program is expected to be coordinated with MEAP. The AEP, as recommended, is designed as a percentage of income payment plan (PIPP) and would be available for both natural gas and electricity consumption, in contrast to the existing EUSP which serves only electric customers. In a PIPP, a certain percent of a household's income (a level defined as affordable) is subtracted from a customer's actual (or estimated) energy bill for a year, and the difference is the benefit amount. Under the PSC staff proposal, the affordable level of an energy bill would be defined as 6% of the household income, although a lower monthly amount would apply for households with nonelectric or non-natural gas heating fuel. Under the proposal, the credit would be fixed at the time of the benefit eligibility determination and based on a household's estimated energy usage for the year. The fixed benefit amount would then be applied equally throughout the year. If MEAP continues under its current structure, the MEAP benefit amount would be subtracted from the estimated annual bill before the fixed credit amount is determined.

### Energy Conservation

The AEP proposal eliminates the electricity usage limits that exist in EUSP. However, all AEP customers would be evaluated for participation in weatherization services or for an energy audit (such as, the Quick Home Energy Checkup offered by utilities). Households with very high energy usage would be targeted for additional energy conservation measures and energy education. Customers who choose not to make usage changes under their control would be subject to limitations in benefits. AEP customers could also be referred for case management. These aspects of the recommendation are discussed further in Issue 2.

### Arrearage Assistance

The AEP would eliminate the existing arrearage assistance program and replace it with a new arrearage forgiveness program for pre-AEP participation arrears only. Under this program, an additional 1% of the household's income, for each electric and natural gas bill (if arrears exist for both), would be added to the 6% required household spending on the energy bill for a set period of time and the amount of the arrearage not eliminated by the additional payment would be retired. The arrearage retirement would not be dependent on whether energy bills were paid on time, only whether the energy bill was paid. There would be no arrearage assistance for customers with arrearages accumulating after program enrollment. PSC staff also recommended a limited amount of funding (5% of total program funds) to provide crisis assistance in certain circumstances.

**Cost and Ratepayer Impact**

The PSC staff estimated that the funding necessary to support the AEP would be $250.0 million, replacing the existing EUSP and SEIF funding, a net increase of approximately $192.9 million compared to the fiscal 2014 allowance of EUSP and the SEIF. The estimated funding need is based on current participation levels in EUSP/MEAP. The estimate assumes 12% of funds are required for administration of the program, but it does not account for any specific costs for the arrearage program. In the recommendation, PSC staff noted that the administrative costs are likely to be less than 12% and assumes that some portion of the overstated funding requirements for administrative expenses would be used to support the arrearage program.

The PSC staff does not specify a funding mechanism in the proposal but assumes a cost recovery from customers of some type. The necessary value of the cost recovery per customer would vary depending on whether the recovery mechanism applies only to residential customers (a cost of $8.25 per month) or is split between classes based on usage (a cost to residential customers of $4.07 per month). The exact impact would vary based on other policy choices (such as the affordable level of a bill or whether cost recovery is specific to benefits in a specific utility territory).

## Utility Response to the AEP

Several of the utilities (Baltimore Gas and Electric (BGE), Potomac Edison, Columbia Gas, and Pepco Holdings, Inc. on behalf of the Potomac Electric Company and Delmarva Power and Light) submitted responses to the proposal. The companies expressed several concerns about the proposal, including:

- the lack of implementation detail (including who would administer the program and how costs of the program would be recovered);
- the place of the AEP in the framework of existing energy assistance and energy efficiency programs and termination of service requirements;
- the utility implementation costs;
- the process for estimating the program costs; and
- the distribution of the AEP benefit between natural gas and electric service.

## DHR Response

Committee narrative in the 2012 *Joint Chairmen's Report* (JCR) requested that DHR and PSC submit an update to the committees on (1) the outcome of PSC's review; (2) operational changes resulting from the review; and (3) statutory changes to the program or funding level as a result of the review. The report was due on December 1, 2012. Although PSC's review was not yet completed, DHR submitted a response including a discussion of the PSC staff recommendations and recommendations for changes to the department's existing programs that could be implemented in lieu of the AEP.

DHR highlighted several strengths of the proposal including that the AEP addresses bill affordability rather than only providing assistance, promotes behavior change, requires customer responsibility for pre-existing arrears, and focuses on energy conservation. However, DHR also expressed concerns about the proposal, such as:

- the difficulty in estimating the total program cost;
- the expected high cost and substantial impact on residential ratepayers (including those just above the eligibility level for the program);
- the lack of implementation detail contained in the proposal including what entity (State utilities, others) would be responsible for administering the program; and
- the assumed high administrative cost.

As an alternative, DHR presented a plan for program changes to EUSP that would allow the program to continue at the current funding level. The proposals are to:

- alter the arrearage assistance program to require customer participation (arrearages would be reduced by 1/12th for each timely arrearage co-payment paid along with the monthly bill);
- create a two-tier bill assistance program to promote energy conservation (discussed in Issue 2);
- implement case management to help improve self-sufficiency; and
- implement energy conservation education.

DHR plans to implement these changes only after convening an implementation workgroup to further evaluate the recommendations and develop an implementation plan. DHR is still in the process of determining if implementing the changes would require regulatory or statutory changes. As a result, no specific timeline for the implementation of the proposal is available. **The Department of Legislative Services (DLS) recommends committee narrative requesting a report**

**on OHEP's final decision on whether to implement the program changes, whether statutory changes are needed to implement the changes, the timeline for implementation, the impact of the changes on customers, and the funding implication of the changes.**

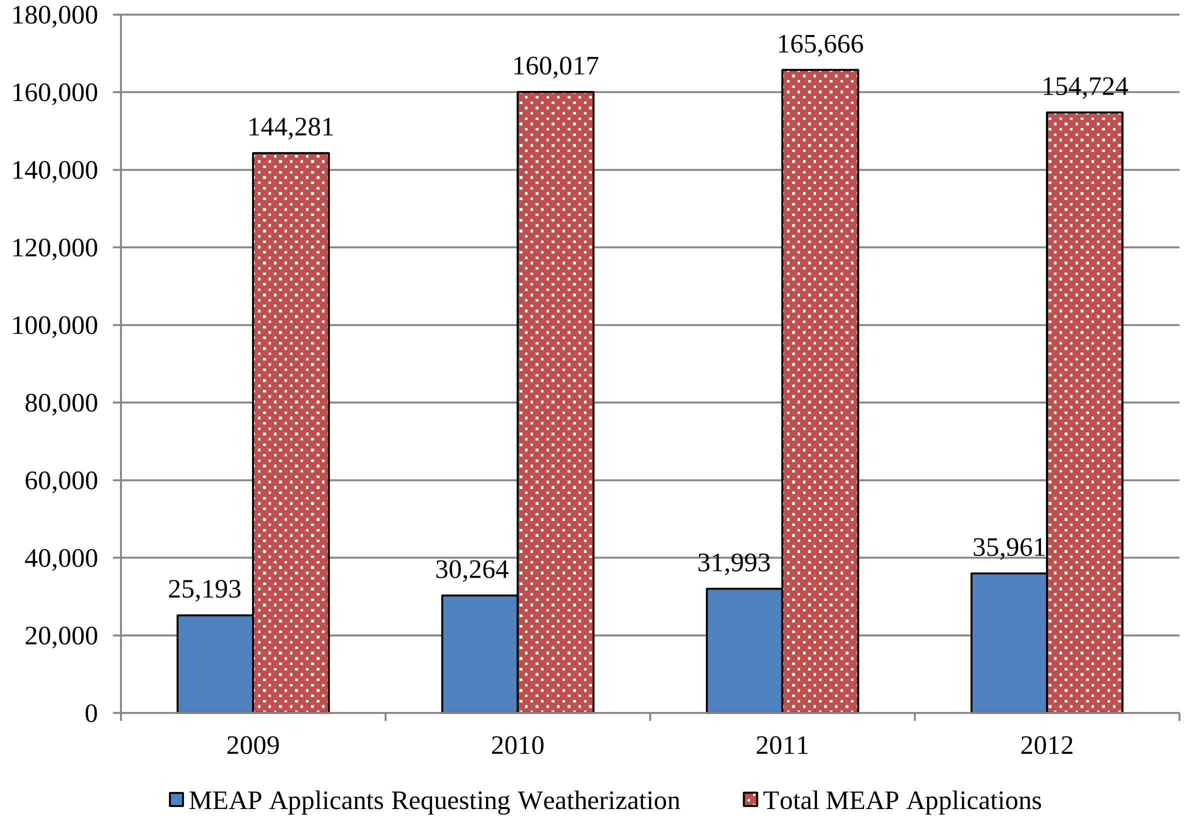
## 2. Low Income Energy Efficiency and Energy Assistance Programs

In Maryland, low income energy efficiency and weatherization activities are administered by the Department of Housing and Community Development (DHCD), while DHR administers low income energy assistance. In addition to the weatherization assistance program, DHCD operates a Low Income Energy Efficiency Program, similar to weatherization, and a multi-family energy efficiency program through ratepayer funds from the EmPower Maryland program. The programs have different eligibility criteria; households earning up to 60% of the statewide median income are eligible for weatherization assistance while households earning up to 175% of the federal poverty level are eligible for energy assistance.

As part of the energy assistance application process, an individual may request a referral for weatherization assistance, and the information is provided to DHCD. Energy assistance recipients are not required to accept weatherization or energy efficiency services if offered to them. **Exhibit 10** provides information on the number of total MEAP applications and the number of MEAP applicants requesting weatherization assistance in recent years. As shown in this exhibit, less than one-quarter of these applicants requested weatherization services.

DHCD indicates that the majority of the weatherization activity is associated with energy assistance clients. However, DHCD also strives to reach consumers that do not apply for energy assistance. DHCD also notes that, in general, the amount of funding available to support weatherization is not enough to meet all requests for assistance.

**Exhibit 10**
**Weatherization Assistance Referrals**
**Fiscal 2009-2012**




MEAP: Maryland Energy Assistance Program

Sources: Department of Human Resources

## Comparison with Activities in Other States

Like Maryland, a number of other states have energy efficiency programs targeted to low income households. In some states, these low income energy efficiency programs are operated at the utility level and are required by either law or the utility commission in the state, while in other states the low income programs appear to be voluntary initiatives of the utilities. Programs may also be operated by state agencies, or other types of state entities (like those created to operate energy efficiency programs). Although program offerings vary, these targeted programs are sometimes similar to (or a source of additional funding for) the federally funded weatherization programs. Only a few states have identifiable programs that focus on improving energy efficiency of low income multi-family housing, as Maryland does. A limited number of states, such as New Jersey and Ohio, have separate programs based on the level of energy use or include it as an eligibility criterion.

States also differ in the degree to which the energy assistance programs and weatherization programs are connected. These differences occur not only through information availability (for example, website links or program descriptions) but whether the recipients are referred or required to participate in weatherization or energy efficiency programs. According to the LIHEAP Clearinghouse, three states (Colorado, Montana, and Vermont) require energy assistance recipients to participate in the weatherization program if offered. In Ohio, participants in the state energy assistance program (known as PIPP Plus) must participate in the state energy efficiency program (the Electric Partnership Program). In general, of the three states that provided information on the impact of this requirement, few or no participants refused the assistance. Based on this experience, such a requirement can benefit households by reducing high energy use without providing barriers to participation in the energy assistance program. For such a requirement to be adopted, exceptions are needed to ensure renters are not denied energy assistance for a landlord’s unwillingness to participate.

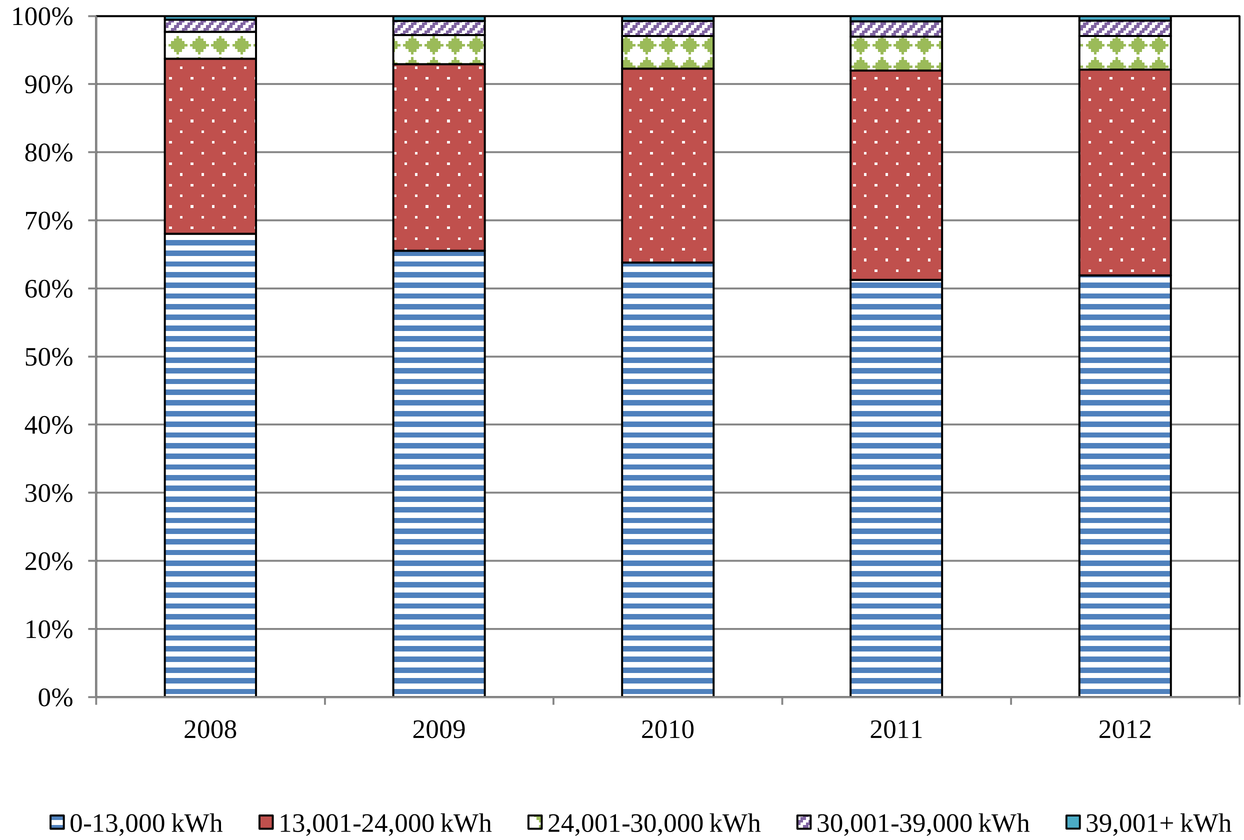
## Energy Use by Energy Assistance Customers

Energy assistance benefits in Maryland are currently a function of income (as a percent of the federal poverty level), usage, cost, service territory, and whether an individual lives in subsidized housing with heat included in the cost. However, DHR caps electricity usage for individuals receiving EUSP (without electric heat the maximum is 14,000 kilowatt hours (kWh) and for those receiving EUSP and MEAP for electric heat the maximum is 24,000 kWh). Households receiving assistance with electricity usages above those limits are essentially responsible for the entire overage. According to DHCD, the average electricity use by Maryland households is 13,152 kWh.

**Exhibit 11** provides information on the proportion of households receiving EUSP that use various amounts of electricity. In general, between fiscal 2008 and 2012, the majority of energy assistance recipients have usage that is below the average use of households in Maryland (13,000 kWh or less), ranging from a low of 61.3% in fiscal 2011, to a high of 68.0% in 2008. Fewer than 8.0% of energy assistance clients have used more than the 24,000 kWh cutoff for an additional benefit in each of these years; however, with the exception of fiscal 2012, the share of households using higher energy levels has grown over time.

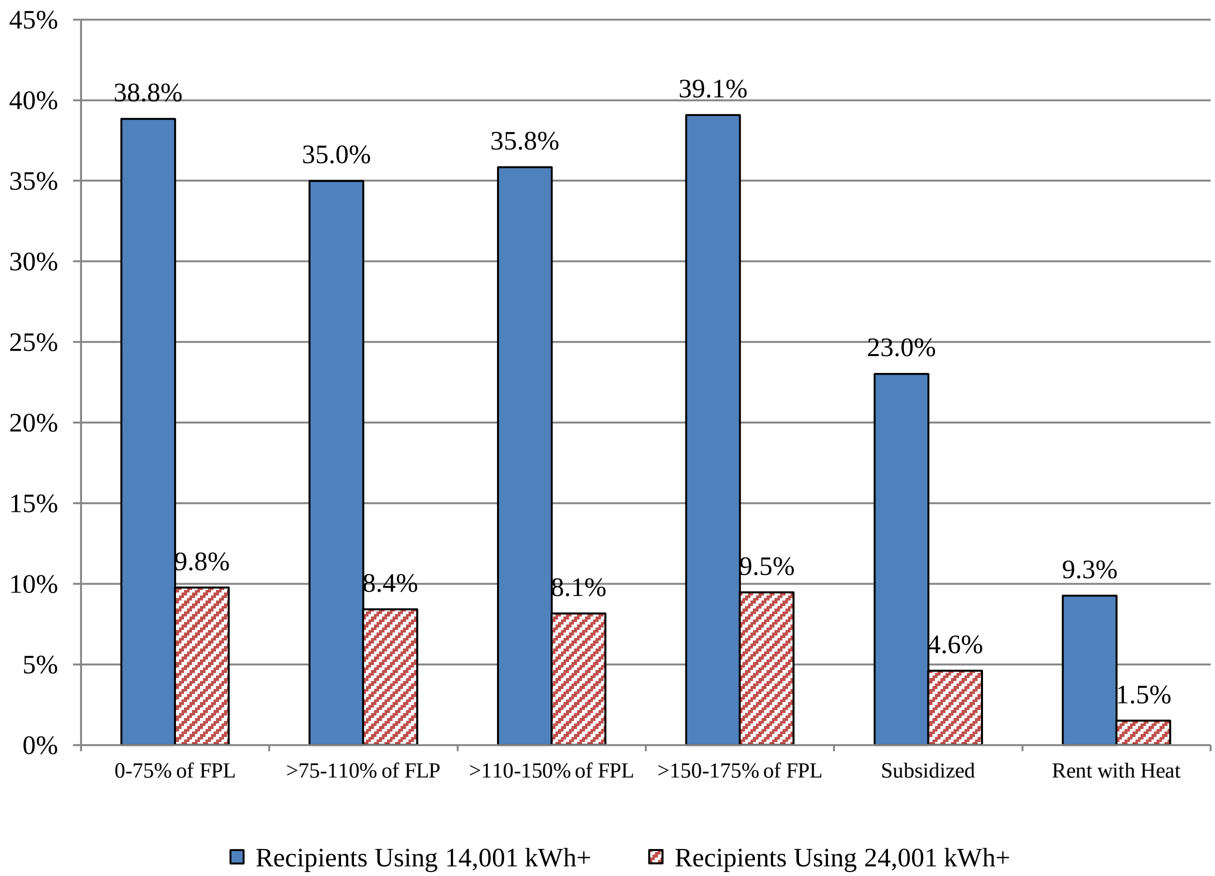
High levels of electricity use are not evenly distributed among income levels. In each recent year, households at the lowest income category (households earning between 0 and 75% of the federal poverty level) and the highest eligible income range (150% to 175% of federal poverty level) have the highest proportion of EUSP participants using more than 14,000 and 24,000 kWh of electricity. As an example, **Exhibit 12** presents information on the high users by benefit level for fiscal 2012 only.

**Exhibit 11**
**Electricity Use by Energy Assistance Clients**
**Fiscal 2008-2012**




Source: Department of Human Resources

**Exhibit 12**
**Energy Assistance Clients with High Usage by Benefit Level**
**Fiscal 2012**




FPL: federal poverty level

Source: Department of Human Resources

Although only a limited number of energy assistance recipients are high energy users, the impact of high electricity use can strain household budgets and can strain EUSP and MEAP, by resulting in higher benefit amounts. The high electricity use of households could be a function of problems with housing (lack of insulation, poorly insulated windows, roof and other sealing issues), energy education needs, or the need for medical equipment requiring electricity. A stronger connection with the low income weatherization and energy efficiency programs would seek to address problems of housing and energy education.

## Applying Customer Investment Fund to This Problem

PSC required, as one condition of the approval of the merger between Exelon Corp. and Constellation Energy Group, a contribution of $113.5 million into a Customer Investment Fund (CIF). In November 2012, PSC announced the allocation of the CIF. The allocation provides funding for several programs targeted to low income households; two of these programs (one which will be run by Baltimore City and one by DHCD) target high energy users receiving energy assistance to address housing health and safety concerns, shell improvements, lead abatement, roofs, heating improvements, and weatherization services which are not covered under traditional weatherization or the EmPower Maryland programs. In total, the two programs received $38.8 million, of which $19.0 million will be available to DHCD. DHCD's program will serve those energy assistance recipients in BGE's territory outside of Baltimore City. **DHR should comment on whether it has developed a plan to track any energy assistance program savings resulting from these programs.**

## Other Recent Action

As part of the 2012 JCR response on the outcome of the PSC review of energy assistance, DHR indicated it was planning some changes to the energy assistance program. As noted in Issue 1, one of the proposals is to create a two-tier bill assistance program.

- The legacy bill assistance program would operate in the same manner as the current program, although benefit levels would be lower than are available currently; and
- an enhanced bill assistance program with higher benefit levels would also operate similar to the current program, but would only be available to customers agreeing to participate in certain energy conservation services.

The enhanced bill assistance customers would be screened for energy conservation interventions and directed to either the utility quick home energy checkups or DHCD programs depending on the customer's energy use. Enhanced bill assistance customers would also receive energy conservation education. Failure to comply with program rules would lead to a customer's removal from the enhanced program and placement in the legacy program. The higher benefit level received by enhanced customers would be funded through reducing the benefit levels in the legacy program. However, as noted in Issue 1, DHR has not developed a timeline for implementing these changes.

Under the AEP proposal made by PSC staff, discussed in Issue 1, a limited number of the highest energy user customers participating in the program would be identified and would receive visits by either a program administrator or the local utility to develop solutions for the high energy usage. The solutions could include weatherization, equipment replacement, or energy usage counseling. The proposal suggests that if customers could address the cause of the high usage and are unwilling to do so, program benefits received by the customer could be limited. The proposal also suggests that other criteria for targeting of energy efficiency and conservation activities be developed later for customers with special circumstances. To date, PSC has not taken action on the proposal.

**Given the uncertainty about whether either the DHR proposed changes or the PSC staff proposed changes will be implemented, DLS recommends committee narrative requesting DHR and DHCD report on actions taken to revise existing policies to incentivize EUSP and MEAP participants to accept weatherization or energy efficiency services if offered.**

# *Recommended Actions*

1. Adopt the following narrative:

**Proposed Program Changes**: In calendar 2012, the Public Service Commission (PSC) began a comprehensive review of Maryland's energy assistance programs. As part of the review, PSC staff submitted a proposal for a new type of energy assistance program. The 2012 *Joint Chairmen's Report* requested that the Department of Human Resources (DHR) provide a report on the outcome of the review by December 1, 2012. Although the review had not been completed, DHR submitted the response discussing the PSC staff's proposal and discussing program changes under consideration by DHR. DHR has not developed a timeline for implementation of the program changes. The department first intends to convene a workgroup to review the proposed changes and develop an implementation plan. The budget committees would like to be kept apprised of any changes made to the energy assistance programs and request that DHR submit a report including discussions of (1) whether the department will implement program changes; (2) the program changes to be implemented and rationale for the program changes; (3) the timeline for the implementation of the changes; (4) the impact of the changes on customers; and (5) the impact of the changes on the program's funding requirements.

| **Information Request** | **Author** | **Due Date** |
|---|---|---|
| Report on proposed program changes | DHR | July 15, 2013 (if implemented for fiscal 2014) |
| | | December 1, 2013 (if proposed program changes are not implemented for fiscal 2014) |

2. Adopt the following narrative:

**Revised Policy on Energy Efficiency Participation by Energy Assistance Participants**: The budget committees are concerned that only a limited number of energy assistance applicants request weatherization services, particularly in light of the growing proportion of Electric Universal Service Program (EUSP) participants that are high energy users. The budget committees understand that not all EUSP or Maryland Energy Assistance Program (MEAP) participants will be able to be served with the limited amount of weatherization and energy efficiency funds available. However, the budget committees request that the Department of Human Resources (DHR) and Department of Housing and Community Development (DHCD) report on actions taken to revise existing policies to incentivize EUSP and MEAP participants to accept weatherization or other energy efficiency services if offered to them, with the exception that, if an EUSP or MEAP participant is a renter, the EUSP or

MEAP participant not be denied an enhanced energy assistance benefit due to a landlord's unwillingness to accept these services. The policy should also address how the agencies will prioritize participation in weatherization and energy efficiency programs based on energy use.

| **Information Request** | **Authors** | **Due Date** |
|---|---|---|
| Report on a revised policy on energy efficiency participation by energy assistance participants | DHR<br>DHCD | November 15, 2013 |

Appendix 1

## *Current and Prior Year Budgets*

**Current and Prior Year Budgets**
**DHR- Office of Home Energy Programs**
**($ in Thousands)**

| | General Fund | Special Fund | Federal Fund | Reimb. Fund | Total |
|---|---|---|---|---|---|
| **Fiscal 2012** | | | | | |
| Legislative Appropriation | $0 | $55,996 | $87,207 | $0 | $143,203 |
| Deficiency Appropriation | 0 | 0 | 0 | 0 | 0 |
| Budget Amendments | 0 | 0 | 2 | 0 | 2 |
| Reversions and Cancellations | 0 | -2,634 | -20,291 | 0 | -22,926 |
| **Actual Expenditures** | **$0** | **$53,362** | **$66,917** | **$0** | **$120,279** |
| **Fiscal 2013** | | | | | |
| Legislative Appropriation | $0 | $57,937 | $87,636 | $0 | $145,573 |
| Budget Amendments | 0 | 4 | 3 | 0 | 7 |
| **Working Appropriation** | **$0** | **$57,941** | **$87,639** | **$0** | **$145,580** |

Note: Numbers may not sum to total due to rounding.

## Fiscal 2012

In total, in fiscal 2012, OHEP's expenditures were $22.9 million less than the legislative appropriation. An increase of $1,614 of federal funds is associated with the $750 one-time employee bonus. Federal fund cancellations are primarily the result of a lower than anticipated allocation of federal LIHEAP, as well as a decrease in households receiving benefits and a reduction in benefits. A portion of these funds ($9.7 million) are available as carryover funds in fiscal 2013. The special fund cancellation was due to lower than expected revenue from the RGGI auctions.

## Fiscal 2013

The fiscal 2013 appropriation of OHEP has increased by a total of $6,812 ($3,619 special funds and $3,193 federal funds) due to the 2% cost-of-living adjustment provided to employees in January 2013.

**Object/Fund Difference Report**
**DHR – Office of Home Energy Programs**

| Object/Fund | FY 12 Actual | FY 13 Working Appropriation | FY 14 Allowance | FY 13 - FY 14 Amount Change | Percent Change |
|---|---|---|---|---|---|
| **Positions** | | | | | |
| 01 Regular | 13.87 | 13.87 | 13.87 | 0.00 | 0% |
| 02 Contractual | 0.50 | 0.00 | 0.00 | 0.00 | 0.0% |
| **Total Positions** | **14.37** | **13.87** | **13.87** | **0.00** | **0%** |
| **Objects** | | | | | |
| 01 Salaries and Wages | $ 1,376,193 | $ 872,852 | $ 890,042 | $ 17,190 | 2.0% |
| 02 Technical and Spec. Fees | 405,800 | 1,250 | 1,250 | 0 | 0% |
| 03 Communication | 57,288 | 49,919 | 57,567 | 7,648 | 15.3% |
| 04 Travel | 7,057 | 3,076 | 3,076 | 0 | 0% |
| 06 Fuel and Utilities | 5,137 | 0 | 0 | 0 | 0.0% |
| 08 Contractual Services | 117,770,973 | 144,587,737 | 141,941,656 | -2,646,081 | -1.8% |
| 09 Supplies and Materials | 73,667 | 60,169 | 86,361 | 26,192 | 43.5% |
| 10 Equipment – Replacement | 7,205 | 0 | 0 | 0 | 0.0% |
| 11 Equipment – Additional | 1,286 | 0 | 0 | 0 | 0.0% |
| 12 Grants, Subsidies, and Contributions | 507,060 | 0 | 0 | 0 | 0.0% |
| 13 Fixed Charges | 67,106 | 4,875 | 5,155 | 280 | 5.7% |
| **Total Objects** | **$ 120,278,772** | **$ 145,579,878** | **$ 142,985,107** | **-$ 2,594,771** | **-1.8%** |
| **Funds** | | | | | |
| 03 Special Fund | $ 53,362,037 | $ 57,940,505 | $ 57,124,465 | -$ 816,040 | -1.4% |
| 05 Federal Fund | 66,916,735 | 87,639,373 | 85,860,642 | -1,778,731 | -2.0% |
| **Total Funds** | **$ 120,278,772** | **$ 145,579,878** | **$ 142,985,107** | **-$ 2,594,771** | **-1.8%** |

Note: The fiscal 2013 appropriation does not include deficiencies. The fiscal 2014 allowance does not include contingent reductions.

Appendix 2