

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

In the Matter of the PUBLIC UTILITY COMMISSION OF OREGON Staff Investigation into Cost Methods for Use in Developing Electric Rate Spreads	Docket UM 1415
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**COMMENTS OF
AARP Oregon
September 8, 2011**

AARP submits the following comments in Docket UM 1415 pursuant to the procedural schedule issued on August 8, 2011. AARP is a nonprofit, nonpartisan social welfare organization with a membership that helps people 50+ have independence, choice and control in ways that are beneficial and affordable to them and society as a whole. AARP has a half million members primarily over age 50 in the state of Oregon.

According to the Commission’s July 8 Order, the purpose of this proceeding is “to develop a list of factors that the Commission will consider in deciding whether to approve a time-varying rate. At this phase of the docket, we will focus on considerations relevant to *mandatory* time-varying rates. We will also develop a list of directives to electric utilities to ensure that such rate structures are systematically considered. We clarify that the issues under consideration in this docket apply only to electric utilities.”¹ A “Draft Straw Proposal” regarding factors to be considered is included with the order. The Order does not define “time-varying” rate, however AARP interprets this term to include all the types of rates typically included under the umbrella term “dynamic pricing” and includes “time-of-use rates”, “critical peak pricing”, “peak time rebates” and “real time pricing.”

AARP recommends the Commission reject the Straw Proposal and instead adopt a prohibition on mandatory time-varying rates. AARP opposes the mandatory imposition of time-

¹ Docket UM 1415, Order 11-255, p. 2. Emphasis added.

varying rates for residential customers. This is a view shared by other national consumer organizations, including Consumers Union, the National Association of State Utility Consumer Advocates (NASUCA), and the National Consumer Law Center (NCLC) which joined with AARP in drafting a report which recommends essential consumer protections for smart meters. Each of these national consumer organizations supports prohibitions on mandatory dynamic pricing, or time-varying.² *Some* types of time-varying rates are likely to be beneficial to *some* residential customers. AARP does not oppose the offering of optional time-varying rate plans. However, mandatory time-varying rates have been shown to have negative impacts on some customers and customer groups, in particular low-usage customers (which includes many households headed by seniors). While AARP does not oppose optional rate plans, such plans should be “opt-in” (in which customers indicate they want to participate) as opposed to an “opt-out” approach (which automatically includes customers in the rate program unless they specifically indicate that they do not want to participate), and optional rate plans should be accompanied with non-promotional customer education.

Mandatory Time-Varying Rates Assumes that All Residential Customers Could Reduce Peak Usage Without Significant Cost or Harm to Health and Safety

One argument made by proponents of time-varying rates is that they are necessary to alert a consumer that usage at a particular time of the day is more expensive. The energy conservation that results is in response to the pricing signal, in which consumers are induced to cut back on usage in order to maintain affordable service. This theory assumes that all consumers have “wasteful” energy which could be reduced without significant discomfort or health effects. However, this theory also fails to consider the real world where consumers are already struggling to afford home energy and where disconnections for nonpayment of service are on the rise.

There is a significant cost to consumers of reducing usage, in addition to the price signal. Enabling residential consumers to conserve energy requires use of energy efficient appliances,

² These organizations have sponsored a publication that sets forth recommendations for consumer protection policies that should accompany the implementation of AMI and dynamic pricing. NASUCA, AARP, et al., *The Need for Essential Consumer Protections: Smart Metering Proposals and the Move to Time-Based Pricing*, August 2010, available at www.nasuca.org

lighting, equipment, and housing. Many people will not purchase smart or energy efficient appliances and devices especially if they cannot afford them.³ In fact, regardless of income, the purchase of new appliances is highly correlated with the purchase of a new home and with the need to replace appliances that no longer function or are obsolete.⁴ For example, many low-income people have older, less energy-efficient appliances and may not replace appliances even if they are nonfunctioning.⁵

Those who live in rental homes are also unlikely to be able to make significant reductions in their utility usage. They do not own the appliances, which tend to be older, and have no control over the energy efficiency of the building. Energy efficiency improvements by a tenant may be prohibited by lease or cost prohibitive to make to a property they do not own and in which they have limited tenure. Owners of rental properties likewise have little incentive to improve the energy efficiency, because typically they do not pay the utility costs and would receive very little, if any, return on their investment.

Low and limited income households often respond to energy price signals in ways which threaten their health and safety. When people cannot afford to pay their utility bills, the consequences are far worse than merely darkened homes. With 39.8 million people living below the federal poverty level in 2008, the scope of the problem of unaffordable utilities is such that it threatens public health and safety.⁶ People who cannot afford to pay for their utilities may resort illuminating their homes with candles or to heating with ovens or kerosene heaters, which may increase the risk of fire, poor air quality, and even carbon monoxide poisoning. Those who cannot afford utilities may use inadequate heating and cooling, which may create or exacerbate health conditions and cause food borne illnesses.⁷

³ See, e.g., Lucas W. Davis, *Evaluating the Slow Adoption of Energy Efficient Investments: Are Renters Less Likely to Have Energy Efficient Appliances?* (Nat'l Bureau of Econ. Research, Working Paper No. 16114, 2010); see also Wilma Mert, Inter-university Research Centre for Technology, Work and Culture, *Consumer Acceptance of Smart Appliances* 30–35 (2008), http://bit.ly/mert_smarta.

⁴ Euromonitor International, *Consumer Appliances in the US* (2010), http://bit.ly/euromonitor_app (“Volume sales of major appliances are not only largely correlated with new homes sales, but also home remodeling projects....”).

⁵ see AARP et al., *supra* note 23, at 11 n.19.

⁶ Carmen DeNavas-Walt et al., U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2008*, at 13 (2009), http://bit.ly/walt_census.

⁷ John Howat & Philene Taormina, *Home Energy Costs: The New Threat to Independent Living for the Nation's Low-Income Elderly*, 41 *Clearinghouse Review* 552, 562 (Jan.–Feb. 2008). See generally Centers for Disease

Many health conditions—including cardiac and respiratory illnesses from which low-income people suffer at disproportionate rates—are aggravated by extremes in temperature.⁸ Age, disease, and various medications make it difficult for the body to maintain its own temperature.⁹ Indeed, lower socioeconomic status means greater risk of temperature-related death, especially for older adults who are particularly vulnerable to temperature extremes.¹⁰

Low-income people who face challenges in paying their energy bills are often “food insecure,” meaning that they are at risk of not earning enough income to purchase sufficient groceries at any given time.¹¹ In fact, the relationship between hunger and utility costs is predictable. Low-income people in northern states are more likely to experience hunger in late winter and early spring when heating costs are high, while those in southern states are more likely to go without food in late summer due to high air conditioning costs.¹² Food insecurity may cause developmental delays in children and increase the use of public health services.¹³

More than five million adults 60 or older have experienced food insecurity.¹⁴ In a recent nationwide survey of Low-Income Home Energy Assistance Program (LIHEAP) recipients, 32 percent said that they went without food for at least one day during the last five years because they needed to pay their energy bills instead of buying food.¹⁵

Low-income and older households spend a greater proportion of their income on energy. This is partly because they use older, less efficient appliances.¹⁶ But rising energy costs also

Control and Prevention, *Heat-Related Deaths—United States, 1999–2003*, 55 *Morbidity and Mortality Weekly Report* 796 (2006), http://bit.ly/mmw_heat_deaths .

⁸ Lynne Page Snyder & Christopher A. Baker, AARP Public Policy Institute, *Affordable Home Energy and Health: Making the Connections* 6, 14 (2010), http://bit.ly/aarp_energy_health ;

⁹ Snyder & Baker, *supra* note 26, at 6; Centers for Disease Control and Prevention, *supra* note 25, at 797.

¹⁰ Snyder & Baker, *supra* note 26, at 11–13.

¹¹ National Energy Assistance Directors’ Association, *The Low Income Home Energy Assistance Program: Providing Heating and Cooling Assistance to Low Income Families* 12 (Nov. 26, 2007), <http://bit.ly/comd2n> .

¹² *Id.*

¹³ *Id.*; Ruth Rose-Jacobs et al., *Household Food Insecurity: Associations with At-Risk Infant and Toddler Development*, 121 *Pediatrics* 65, 69–70 (2008).

¹⁴ *Understanding Older Adult Hunger: Facts-at-a-Glance*, AARP’s Digital Newsstand, http://bit.ly/aarp_older_adult_hunger (June 2, 2010).

¹⁵ National Energy Assistance Directors Association, *2008 National Energy Assistance Survey* 61 (2009), http://bit.ly/neada_comm_survey .

¹⁶ Howat & Taormina, *supra* note 25, at 555–56.

consume a greater percentage of their stagnant monthly income.¹⁷ Households below the federal poverty level receiving LIHEAP assistance may spend over 16 percent of their monthly income on energy, while wealthier households spend only 3.6 percent of their income on energy bills.¹⁸ Moreover, LIHEAP funding levels are not sufficient to meet the need. Only 16 percent of income-eligible households receive any benefits, and funding levels are down.¹⁹ The pressure to cut federal spending will continue to grow, putting this and other low-income assistance programs at risk.

The energy-affordability gap is already enormous. If the premium pricing at peak hours is added to these already high bills, millions more low-income people may be forced to make difficult choices between paying for electricity and purchasing other necessities such as food, medicine, and shelter.

Mandatory Time-Varying Rates in Oregon Would Be the Exception Nationally

AARP is not aware of any other jurisdiction where electric rate payers are faced with mandatory time-varying rates. In fact, AARP intervened in the 2009 Baltimore Gas & Electric (BGE) case in which the utility sought approval for both the costs of its advanced metering infrastructure (AMI) deployment and mandatory time of use rates for residential customers. AARP's witness showed that looking beyond "average" bill impacts, the proposal would result in significant bill increases for groups of residential customers, including households with seniors and low income households.²⁰ The Maryland Commission rejected the proposal for mandatory time of use rates for residential customers.

Alternatives to Time-Varying Rates are Effective in Reducing Peak Demand

¹⁷ See Snyder & Baker, *supra* note 26, at 15; Howat & Taormina, *supra* note 25, at 558–61.

¹⁸ See Snyder & Baker, *supra* note 26, at 14 and fig. 1

¹⁹ Office of Community Services, Administration for Children and Families, U.S. Department of Health and Human Services, LIHEAP Home Energy Notebook for Fiscal Year 2008, at 29 (2010), http://bit.ly/dhhs_liheap_ntbk.

²⁰ Direct Testimony of Barbara R. Alexander on behalf of AARP, before the Maryland Public Service Commission, Case No. 9208.

The results of pricing pilots are inconclusive as to whether time-varying rates result in a long term or overall reduction in energy usage. While time-varying rates are effective in inducing *some* customers to reduce or shift usage at peak, others have inelastic demand.²¹ AARP recommends the Commission consider cost-effective alternatives to reduce usage and peak demand, including *voluntary* direct load control programs and *optional* pricing program. Studies have shown that there are more cost effective means to reduce energy usage than through smart meters or time-varying rates.²²

Time-varying Rates are Not Compatible with Equal Payment Plans

Equal payment plans, where annual gas or electric bills are collected in equal monthly payments, are popular with consumers because the certainty helps them stay current on their payments. Rather than struggle to pay a few months of high bills during the heating or cooling season, equal payment plans allow consumers to have standard payments every month, so there are no surprises when the bill arrives in the mail. Oregon's utility regulations at Sec. 860-021-0414 require electric companies and gas utilities to make equal payment plans available to residential customers. Oregon could not simultaneously mandate time-varying rates and require equal payment plans. AARP supports maintaining equal payment plans, which help maintain affordable energy service for many customers. Mandatory time-varying rates introduce more volatility into monthly bills, the very scenario that budget billing is trying to address.

²¹ NASUCA, AARP, et al, pp. 6-10

²² Martinez, Donnelly, and Laitner, *Advanced Metering Initiatives and Residential Feedback Programs: A Meta-Review for Household Electricity-Saving Opportunities* (June 2010), ACEEE Report Number E105. This report is available at: www.aceee.org

Conclusion

The Commission should reject the Straw Proposal and mandatory time-varying rates. Instead the Commission should make clear that it will not entertain proposals by any utility for mandatory time-varying rates. Optional time-varying rate plans should be allowed if they are opt-in, do not shift costs to other customers, and are accompanied by non-promotional customer education which helps consumers understand whether the rate option would work for them.

Respectfully submitted by:



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