

DIFFERENT APPROACHES TO DEFINING ENERGY AFFORDABILITY

Presentation to:

Energy
Affordability and
Accessibility
Collaborative
(Michigan)

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April 8, 2021

#1: PERCENT OF “AVAILABLE INCOME” (“DISPOSABLE INCOME”)

- **Basics:** Income “remaining” for utility payment after “essential” living costs subtracted.
- **Fundamental challenge(s):**
 - Who makes decision(s) on what costs are “essential”? Internet service? Extracurricular school activities? School-age tutoring?
 - Multiple family types each have different spending levels. (See, Michigan self-sufficiency income.)
 - Even within same family type, geographic differences exist across Michigan. (See, self-sufficiency incomes again.)
 - Doesn’t answer basic question: what percent is appropriate?

#2: “HOURS OF MINIMUM WAGE”

- Basics: What number of hours (at minimum wage) are required to pay utility bill(s)?
- Fundamental challenge(s):
 - Academic thumb-twiddling. Doesn't answer “so what” question.
 - Provides no basis to answer question of “what is affordable.”
 - Works on “averages.” Wrong for almost everyone.
 - Lack of relationship to work status in Michigan.
 - Meaningless for large swaths of population (aging, stay-at-home parents).
 - Does not consider “fragility” of income in addition to level.

#3: “SHUTOFF PREVENTION”

- Basic premise: The objective of “affordability” is to preserve essential service.
- Fundamental challenge(s):
 - Shutoffs limited by utility policy (treatment amounts).
 - Shutoffs limited by utility resources (labor).
 - Compare # of shutoffs to # of long-term arrears / # of shutoffs to # of shutoff notices.
 - Can limit shutoffs without redressing underlying inability-to-pay (paid-but-unaffordable).
 - Inherently directed toward short-term response rather than proactive prevention.
 - Does not consider recidivism (compare foreclosure prevention).

#4: “PAYMENT TROUBLED STATUS”

- **Fundamental premise:** The objective of affordability is to prevent bill nonpayment.
- **Fundamental challenge(s):**
 - **Perspective-dependent:** Paid-but-unaffordable phenomenon is real (applicable also: shutoff prevention).
 - **Reactive, not proactive prevention** (similar to keep someone healthy vs. cure the illness).
 - **May “solve” payment-troubled status by shutoffs (or other onerous collections).** Likely unacceptable policy decision.

#5: “ESSENTIAL SERVICE” (LIFELINE)

- Fundamental premise: Bills are “affordable” if the basic amount for “essential service” is priced lower.
- Fundamental challenge(s):
 - Who defines what service is “essential”?
 - Same challenges as “disposable income” approach: differences in geography, family composition.
 - Much usage is higher because of very fact of poverty (e.g., housing quality, heating system efficiency, ability to Wx).
 - Bill payment not disaggregated by payment for “essential” and “non-essential” service—bill payment on total bill.
 - “Hits” and “misses: Low-income who consume above “essential”; non-low-income who consume below “essential.”

#6: PERCENTAGE OF INCOME

- **Fundamental premise:** Inability-to-pay can be traced to bills exceeding a reasonable proportion of income (“bill burden”).
- **Fundamental challenge(s):**
 - Can be data-heavy (but no more so than “available income” or “payment-troubled”).
 - Possibly slanted against larger households (to extent larger households have higher incomes).
 - Deviation in implementation (e.g., minimum payments, maximum benefits).
 - Some get nothing (i.e., if bill affordable without assistance, no assistance is provided).
 - Political concern about “price signals” (not found to be a problem in reality).

ULTIMATE CONCLUSION(S)

- Can find some “fundamental challenge” in virtually any approach.
- The extent of “challenges” is often perspective-dependent (customer vs. utility; government vs. utility).
- It is difficult to separate the definition of “affordable” from program operational questions.
- Can make-up metrics without addressing the underlying question.
- If the answer was “easy,” we would all have agreed upon it by now.

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