

Getting back to our roots: On Increasing Utility Prices and the “Business Case” for Low-Income Rates



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What “cost-effectiveness” is NOT

#1

Amount of discount

- Amount of savings

= Amount of benefit

#2

Amount of savings

÷ Amount of discount

= Cost-benefit ratio

“Cost/benefit analysis has a role to play in determining the cost-effectiveness of the [low-income rate] program, but its role is complicated and limited.”

Colton, 1997

What cost-effectiveness is: "Net Back"



"Net back is the total amount collected minus the total expenses involved with the collection technique."

Colton, 1997

Net Back:

The Importance of Considering Alternatives



“[T]o be cost-effective, the [program] does not have to result in savings that more than offset the costs of the program. The appropriate analysis is instead whether the [program] does a better job of collecting revenue at a lesser cost than the available alternatives.

Colton, 1997

Net Back: Begin with Effectiveness

	Without Program	With Program	Ratio
Billing	\$304,072	\$273,626	0.90
Collections	\$194,577	\$215,897	1.11
% collections of billing	64%	79%	---

Net Back:

Add in the effects of productivity

	Without Program	With Program
Collections	\$194,577	\$215,897
Pyt per Collection-Month	\$291	\$360
# of Collection-Months	669	600
Cost per Collection-Month	\$50	\$50
Total Cost	\$33,432	\$29,985

Net back:

Pick up the residual collections

	Without Program	With Program
Residual (billed – collected)	\$109,495	\$57,729
Payment/Collection-Month	\$291	\$360
# of Collection Months	376	160
Cost per Collection Month	\$50	\$50
Total Cost	\$18,814	\$8,018


Net Back: Putting it All Together

	Without Program	With Program
Revenue collected	\$194,577	\$215,897
Minus cost of collection	(\$33,432)	(\$29,985)
Minus cost of residual collection	(\$18,814)	(\$8,018)
Net back:	\$142,331	\$177,894

Net Back: Be Wary of the Impacts of Using Uniform "Cost of Collection"

Ratios	Without Program	With Program
DPA's to DNP's	1.6	7.7
Field collections per 100 mail collections	10.0	4.2
DNP's per 100 accounts 60+ days in arrears	13 - 15	10 - 11

Building a “Business Case” (lessons from other “social” programs)



- ⌘ Economic development impacts
- ⌘ “Locational decisions” for businesses & employees
- ⌘ Staff productivity (including turnover and absenteeism)
- ⌘ “Reputational equity”
- ⌘ Investor benefits

The Utility Case for Low-Income Rates: A New Perspective on Inter-Class Subsidies

⌘ “A growing segment of Californians work year-round but earn too little to provide for their families. As a consequence, these families must often resort to publicly funded ‘safety net’ programs to supplement their earnings and meet basic needs. **Increasingly, public assistance is becoming an ongoing wage supplement for low wage workers. . .**”

(California Institute for Labor and Employment, UC Berkeley)

⌘ “. . .increasing evidence suggests that our system is out of balance. **Some employers may be increasingly taking advantage of Wisconsin’s strong safety net—using publicly-funded assistance programs as a *private* subsidy.**”

(Center on Wisconsin Strategy, University of Wisconsin-Madison)

⌘ “It is vital for public benefits programs to provide assistance to Illinois’ neediest families. But **when profitable industries fail to pay family-supporting wages, they push their costs onto the state and its taxpayers. These hidden public costs of low wage work are an implicit subsidy to these employers.**”

(Center for Urban Economic Development: University of Illinois Chicago)

Low-Income Affordability Programs: Lessons Learned



- ⌘ "Cost effective" is not synonymous with cost/benefit ratio > 1.0 .
- ⌘ Cost-effectiveness has implicit the notion of alternatives: cost-effective relative to what?
- ⌘ Cost-effectiveness needs three components: effectiveness, productivity, cost

Low-Income Rates:

The Impact of Increasing Prices

- ⌘ The level of billings is less important than the level of collections: price increases may or may not improve “net back” for a low-income program.
- ⌘ Increasing billing may well affect the productivity: payments per collection month.
- ⌘ Increasing billings may well affect the cost-of-collection. If the cost-of-collection not the same, benefits may go up or down.
- ⌘ “Net back” probably, but not necessarily, will be enhanced by increasing utility rates.

Low-Income Rates: More Impacts of Increasing Prices



- ⌘ The “business case” from the social impacts will probably increase because of increasing rates.
- ⌘ The need to adopt low-income rates to respond to cost-shifting by low wage workers will increase in an increasing price utility industry.

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