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Nonpayment Disconnections and Indiana's Low-Income Rate Affordability Programs

NOTE TO READERS

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INDIANA LOW-INCOME RATE AFFORDABILITY PROGRAMS YIELD SUBSTANTIAL POSITIVE IMPACTS ON REDUCING NONPAYMENT SHUTOFFS

Three Indiana utilities have operated low-income rate affordability programs for the past three years. The objective of these programs was to respond to spiraling natural gas prices that resulted in corresponding increases in arrears, service disconnections, and bad debt.

This issue examines the impacts that Indiana's low-income utility rate affordability programs did, in fact, have on the disconnection of service for nonpayment. The observations below are based on the "aggregated" data provided by Vectren Energy (Vectren) and by Northern Indiana Public Service Company (NIPSCO) throughout the implementation of the low-income programs.[1]

The aggregated data involves those data elements agreed to be collected and reported by the three utilities after extensive consultation with all other parties before, during and after the 2006 Indiana Utility Regulatory Commission (IURC) proceeding involving the three Indiana low-income programs.

The Indiana programs generated substantial positive outcomes in preventing the disconnection of service amongst the low-income customers of each company. These outcomes can be measured through a variety of metrics.

VECTREN ENERGY DELIVERY

Vectren's Universal Service Program (USP) succeeded in virtually eliminating the impacts of

[1] Citizens Gas is not included in this analysis.

income on the rate of nonpayment disconnections during the post-winter months.

Post-winter disconnects: The post-winter shutoff rate for low-income and non-low-income customers was virtually the same over the various customer populations. In April, the rate of shutoffs for all customers differs by only four-tenths of one percent using the highest rate for a low-income program participant for comparison purposes.[2] While 1.3 of each 100 program participants with the lowest incomes had service disconnected in April, only 0.9 of each 100 residential customers overall experienced a nonpayment April disconnection.

A similar lack of difference exists in May. Within the residential customer base as a whole, 1.3 of every 100 accounts were disconnected, compared to 1.3 for USP1, 0.9 for USP2, and 1.8 for USP3 customers. Again, USP3 customers are the lowest income customers.

Disconnects among accounts in arrears: The shutoff situation is even better when one looks at the ratio of shutoffs to accounts in arrears rather than the ratio of shutoffs to all accounts. In both April and May, the ratio for program participants is *lower* than the ratio for all customers.

Indeed, in May, the ratio of program participant shutoffs to accounts in arrears is nearly half that of all customers. While nearly 3 accounts are disconnected for every 100 residential accounts in arrears overall, the ratio for USP1 is only 1.5; the ratio for USP3 is also only 1.5. The ratio for USP2 is even lower.

Disconnections among aging arrears: A similar picture emerges if one looks not at all accounts in arrears, but rather at accounts that may be "old enough" to be more likely subject to the disconnection process. The data reveals that all three groups of program participants have a lower rate at which their accounts 60 or more days in arrears are disconnected, when compared to the total residential population.

The April total population rate is 13 disconnected accounts among each 100 accounts 60+ days in arrears, while the *highest* program rate (USP1) is only 10.3 disconnects per 100 accounts 60+ days in arrears. The May total population is 15.1 while the highest program ratio (USP3) is 10.9.

Remember, however, that these are ratios, not percentages. These figures do not show that 10.9% of all USP3 accounts 60+ days in arrears are disconnected. They show that the ratio of *all* disconnections for nonpayments (DNPs) to total accounts 60+ days in arrears is 10.9 per 100 accounts 60+ days in arrears.

The Factors at Work.

The differences between populations occur because of two dynamics going on at the same time. It is not until after the Vectren program delivers its bill payment assistance during the winter months that the DNP performance begins to substantially improve. The trend of program participant DNPs going down is evident; the corresponding trend of non-program participant DNPs going up is also evidence.

There has never been an assertion that the total number of disconnects will decrease in some absolute sense because of a low-income rate affordability program. Instead, the impact of the Indiana programs would be to allow the utilities to redirect their collection activities away from low-income accounts where disconnections for nonpayment (DNPs) have little useful impact and toward non-low-income accounts that are more likely to have an ability to pay. It is possible to see both of these dynamics at work by comparing the pre-winter performance with the post-winter performance.[3]

[2] The program participants were divided into three tiers, corresponding to the different tiers of their respective rate discounts. The tiers are distinguished by the ratio of household income to Poverty Level.

[3] Comparing winter shutoff performance provides no useful information since shutoffs are constrained by

In November 2006, it is evident that the households who would eventually become program participants were performing less well than the total population. This is true for all three metrics (DNPs to total accounts; DNPs to accounts in arrears; DNPs to accounts 60+ days in arrears).

Particular Help to Large Arrears Customers

The outcome evaluation of the Indiana programs[4] noted in a variety of places that the low-income programs of Indiana's utilities were of particular help to accounts with the largest arrears.

This outcome is evident in the aggregated data as well. The percentage of total accounts in arrears that, in fact, are in arrears 90+ days is reasonably comparable in November between the total population and the program participant population. Vectren experienced a ratio of 7 accounts in 90+ day arrears for 100 accounts in arrears for all customers. The Company experienced ratios ranging from 8 to 9 accounts in 90+ day arrears per 100 total account in arrears for the USP customers depending on household income.

While the ratio stays relatively constant for all customers throughout the winter months (dipping to 5 in April and increasing to 9 in March and May), the same pattern does not exist for the program participants. Rather than seeing the proportion of accounts with older, and thus larger, arrears increase over the winter, the proportion of program participant accounts that are 90+ days in arrears are a fraction of what they were in the pre-winter months (1-per-100 in April and 2-per-100 in May compared to 8-per-100 in November).

NORTHERN INDIANA PUBLIC SERVICE COMPANY (NIPSCO)

Participants in NIPSCO's Winter Warmth program were evaluated somewhat differently from the participants in the Universal Service Program (USP) of either Vectren or Citizens Gas & Coke Utility (CGCU or Citizens). NIPSCO's Winter Warmth program is not directed toward low-income customers generally. Rather, Winter Warmth is directed toward the most payment-troubled population in an effort to improve the performance of those causing the greatest problems.

The aggregated data documents the favorable performance of Winter Warmth in this effort. Winter Warmth customers are among the most payment troubled of NIPSCO's low-income customers. The ratio of December shutoffs for nonpayment (SONP) to total accounts for Winter Warmth participants (16.4-per-100) is much higher than for the residential natural gas population as a whole (0.2-per-100). The same is true for January (Winter Warmth = 12.5 vs. total residential population=0.5).[5]

Despite this population of payment-troubled customers, Winter Warmth's rate of service terminations for nonpayment *decreases* substantially once the Company begins to distribute program benefits. The rate of service disconnections decreases from the January rate of 12.5-per-100 to a rate of only 6.7 in May.

The same result can be seen within the population of accounts having arrears. In December, the ratio of accounts in arrears that were losing service was much greater for the Winter Warmth population (18.8-per-100) than for the total residential natural gas population (0.6-per-100). The same was true in January, with the Winter Warmth population (16.7-per-100) substantially exceeding the total residential natural gas popu-

the winter shutoff moratorium during those months.

[4] Roger Colton (2007). An Outcome Evaluation of Indiana's Low-Income Rate Affordability Programs, prepared for Northern Indiana Public Service Company, Citizens Gas and Coke Utility, Vectren Energy Delivery, Fisher, Sheehan & Colton: Belmont (MA).

[5] It is important to remember, that Winter Warmth benefits do not flow in December and January. Winter Warmth dollars begin to flow in February.

lation (2.3-per-100). However, while the ratio of nonpayment shutoffs to total accounts in arrears had more than doubled for the total residential natural gas population by April and May (5.2 and 5.0 respectively), the ratio of Winter Warmth nonpayment shutoffs to total accounts in arrears had been reduced to less than one-half the rate before program benefits were distributed.

The constant ratios within the 60+ day arrears populations, and the increasing ratio in the 90+ day arrears population do not contradict the conclusion that payment performance substantially improves for Winter Warmth participants.

Again, it is important to remember that Winter Warmth is intentionally *targeted* to NIPSCO's most payment-troubled low-income population. Indeed, the data shows that 100% of NIPSCO's Winter Warmth participants were 60 or more days in arrears in October 2006, while 88% of NIPSCO's Winter Warmth participants were 90 or more days behind. This payment-troubled population is the intended target of Winter Warmth benefits.

As Winter Warmth benefits flow, that proportion of Winter Warmth accounts 60-days or more in arrears was reduced from 100% in October to 24% in March, 21% in April and only 28% in May. The proportion of Winter Warmth accounts that were 90 or more days behind was reduced from 88% in October to only 11% in both April and May.

The Winter Warmth population outperformed the residential population as a whole in this regard. While the proportion of total residential gas customers 60+ days in arrears decreased from October to May (from 2.6 to 1.7 per 100), and the proportion of total residential gas customers 90+ days in arrears decreased in that same time period (from 1.6 to 0.7 per 100), the extent of the decrease for the total residential population in no way mirrored the extent of the decrease for Winter Warmth.

The improved performance of Winter Warmth participants is even more evident when compared to the total low-income population receiving energy assistance. While the ratio of Winter Warmth participants in arrears who were either 60 or more days in arrears, or who were 90 or more days in arrears, decreased from October through May, the ratio of energy assistance customers who were 90 or more days in arrears doubled (from 0.7 to 1.5), while the ratio of energy assistance customers who were 60 or more days in arrears increased by 70% (from 2.0 to 3.4) during that same time frame.

From the perspective of nonpayment shutoffs, the substantial reduction in the numbers of accounts 90 or more days in arrears helps to explain the increase in the ratio of SONPs to accounts 90+ days in arrears. As the number of accounts 90+ days in arrears becomes smaller, the *ratio* of SONPs to accounts in that aging bucket will necessarily increase.

COMPARISON TO STATEWIDE DATA

The performance of Vectren and NIPSCO as outlined above should be compared to the statewide performance of Indiana utilities. The program participants for both utilities demonstrated a substantially different pattern than did the state as a whole. The October 2006 Indiana "billing and collections" report[6] makes the following observations about the disconnection of low-income accounts by Indiana utilities generally:

- "The number of service disconnections for nonpayment *peaked* in April and May. . ." (2006 Billing and Collections Report, at 20). (emphasis added).

- "During the months of April through June 2006, Indiana utilities issued only 10 shutoff notices for each disconnected low-income account. In the months coming out of the

[6] Roger Colton (October 2006). Indiana Billing and Collection Reporting: Natural Gas and Electric Utilities: 2006, Coalition to Keep Indiana Warm, Indianapolis (IN).

> winter heating season, the "notice ratio" is noticeably lower for low-income accounts in Indiana than it is for total residential accounts. A low-income account in Indiana that receives a shutoff notice in the post-winter heating season months, in other words, was more likely to move on to the actual disconnection of service for nonpayment than was a residential account in general."

If one were to look at Vectren and NIPSCO and postulate what to expect based on the low-income performance statewide, one would not expect to find substantially different results from what, in fact, did occur. Both Vectren and NIPSCO performed far better than what would have been expected based on the annual billing and collections report reporting statewide data.

SUMMARY

For more information on the outcomes generated by the low-income rate affordability programs operated by Northern Indiana Public Service Company (NIPSCO), Citizens Gas & Coke Utility, and Vectren Energy Delivery, readers may contact FSC directly at:

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Fisher, Sheehan and Colton, Public Finance and General Economics (FSC) provides economic, financial and regulatory consulting. The areas in which *FSC* has worked include energy law and economics, fair housing, affordable housing development, local planning and zoning, energy efficiency planning, community economic development, poverty and telecommunications policy, regulatory economics, and public welfare policy.