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Increasing Collections Yields Little in Improved Payment Outcomes for Pennsylvania Utilities

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NOTE TO READERS

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Pennsylvania Utilities Increase Collection Activities Under "Chapter 14" But do not Necessarily See Resulting Improved Payment Outcomes

On November 30, 2004, Pennsylvania Governor Edward Rendell signed into law senate Bill 677, the Responsible Utility Consumer Protection Act (66 PA C.S. §§1401 – 1418). The new law added Chapter 14 to Title 66 of the Pennsylvania statutes, designed to achieve the policy goals of increasing utility account collections and eliminating the subsidy of bad debt costs by paying customers.

Chapter 14 is scheduled to sunset on December 14, 2014 unless affirmatively extended by the legislature.

One requirement of Chapter 14 (§1415) was for the Pennsylvania Public utility Commission (PUC) to file a biennial report with the legislature examining, among other things:

- The effect of the statute on cash working capital or cash flow, on uncollectible levels, and on the collections of Pennsylvania utilities; and

- The effect of the statute on the level of access to utility services by residential customers, including low-income customers.

In its First Biennial Report (filed December 2006), the Pennsylvania PUC concluded that it was premature to pursue a comprehensive evaluation of Chapter 14. In the Second Biennial Report (filed December 2008), the PUC reported that the electric industry had seen a deterioration in its collections outcomes since the implementation of Chapter 14, but the natural gas industry (particularly the Philadelphia Gas Works, PGW)[1] had seen some improvement. The Third Biennial Report was filed with the legislature on January 14, 2011.[2]

Given the six year period since the effective date of Chapter 14, and the success of the Pennsylvania PUC in adding collections data retroactive through 2002, the discussion below considers the payment outcomes generated by Pennsylvania's natural gas and electric utilities under the Chapter 14 regime, as based on the Third Biennial Report.

ELECTRIC CUSTOMERS IN DEBT.

The enactment of Chapter 14 did not result in Pennsylvania's electric utilities improving their collections outcomes according to data reported in the PUC's Third Biennial Report. This conclusion is based on a comparison of collections performance before and after the December 2004 effective date of Chapter 14. For the state as a whole, while Pennsylvania's electric utilities experienced a decrease of 4.4% in the proportion of residential customers in debt from 2002-2004, but saw an increase of 0.4% from 2004-2009.

The deterioration in collection performance is evident across all electric utilities. Three utilities saw a continuing decrease in their percentage of residential customers in debt, yet at a decreased rate under Chapter 14. While Duquesne Light saw a decrease of 25.7% from 2002 – 2004, it saw a decrease of only 20.1% in 2004 – 2009. While Allegheny Power saw a decrease of 6.1% from 2002 – 2004, it saw a decrease of only 4.0% in 2004-2009. While Pennelec saw a decrease of 3.5% from 2002-2004, it saw a decrease of only 2.1% from 2004-2009.

In contrast, two utilities moved from a pre-Chapter 14 decrease in the percentage of residential customers in debt to an increase in the proportion in the post-Chapter 14 period. GPU (electric) saw a decrease in the proportion of residential customers in debt of 3.9% in 2002-2004, but experienced an increase of 5.8% in 2004-2009. Penn Power saw a decrease of 10.3% from 2002-2004, but saw an increase of 0.4% in the 2004-2009 period.

NATURAL GAS CUSTOMERS IN DEBT.

Pennsylvania's natural gas utilities have had a better experience under Chapter 14, but cannot demonstrate that their improved experience can be attributed to the statute. According to the PUC's Third Biennial Report, "the percentage of residential customer[s] in debt for the gas industry, excluding PGW, increased by 19.4% in the pre-Chapter 14 period from 2002-04 and declined by 24.2 percent in the post-Chapter 14 period from 2004-09. PGW's improvement since the passage of Chapter 14 was even more dramatic than its industry peers as the percent of customers in debt declined by 37.5% perform from 2004-2009."[3]

The same fundamental results can be seen when examining the proportion of dollars in debt rather than proportion of accounts in debt. While the electric industry saw an overall increase of 2.1% of the dollars in debt in the post-Chapter 14 period (2004-2009), the natural gas industry experienced an overall decrease of 34.3%. Holding bills constant,[4] while the electric industry saw a reduction of 2.7% in its bills-behind represented by residential arrears, the natural gas industry saw a reduction of 8.2%. Given the much lower percentage reduction in the bills behind for natural gas utilities, it can be seen that a substantial contributor to the reduction of arrears was the reduction in natural gas prices during the 2004 – 2009 period. Segregating PGW out,

[1] PGW is the municipal gas utility serving the City of Philadelphia.

[2] Third Biennial Report to the General Assembly and Governor Pursuant to Section 1415, Impact of Chapter 14, January 14, 2011. Each Biennial Report is available on the Pennsylvania PUC's web site under "publications and reports."

[3] PGW did not report data prior to 2004.

[4] One can hold bills constant by examining a "weighted arrears" (or "bills-behind") statistic.

it is possible to see the extent to which PGW contributed to the statewide improvement in the natural gas industry. While the statewide gas weighted arrearage decreased by 0.7 percent (without PGW), the PGW weighted arrears statistic decreased (i.e., improved) by 15.6 percent from 2004 – 2009.

The enactment of Chapter 14 was not the only change in utility actions directed toward Pennsylvania's residential utility customers in the 2004 – 2009 time period. In addition to increasing collection activity, Pennsylvania utilities also substantially increased the scope of their low-income rate affordability programs. From 2004 through 2009, for example, Pennsylvania electric utilities increased their universal service program costs by 74.4 percent, from $137.6 million (2004) to $239.8 million (2009). In the period 2002 through 2004, the electric utilities had expanded their universal service programs by only 23.8 percent ($111.1 million to $137.6 million). Similarly, the state's natural gas utilities expanded their universal service programs by 104.2 percent, from $98.4 million to $201.0 million.

Overall, the Pennsylvania PUC notes that the collections performance of the state's electric utilities continues to deteriorate. The PUC expressed concern that the situation will become even worse in the future, both as the proportion of residential customers living at or below 150% of the Federal Poverty Level continues to increase (from 19% in 2000 to 25% in 2008) and as price caps on electric utilities continue to expire for an increasing number of electric utilities.

In contrast, while collections outcomes have improved for the state's natural gas utilities, according to the PUC, "this improvement reflects the continuation of a trend that had already begun in the pre-Chapter 14 period from 2002-2004." Moreover, the improvement in overall statewide natural gas figures can largely be attributed to dramatic improvement in the performance of a single utility (PGW).

ACCESS TO UTILITY SERVICE: DISCONNECTIONS

Access to utility service has substantially deteriorated since the enactment of Chapter 14 in 2004. In the electric industry, the PUC notes, terminations of service for nonpayment were on the rise prior to the enactment of Chapter 14, increasing by 19.5% from 2002 through 2004. Since 2004, however, "terminations have reached record levels, increasing 78.6% during the period from 2004 to 2009." While Pennsylvania's electric utilities terminated 98,693 customers for nonpayment in 2004, they terminated service to 176,298 residential customers in 2009.

The same result can be seen in the natural gas industry. The PUC reports that "terminations for the gas industry, excluding PGW, rose to record levels since the passage of Chapter 14, with an overall increase of 56.7 percent from 2004-09. This followed a period of a more modest increase of 6.1 percent from 2002 - 2004."

PGW's experience with terminations is of particular importance. PGW increased its rate of residential terminations by roughly half the rate of the remainder of the state (29.8 percent). Despite this substantially lesser reliance on the disconnection of service as a collection device (as compared to the rest of the state's natural gas utilities), PGW out-performed the rest of the natural gas utilities in every collection outcome metric. While not relying on the same increase in terminations, PGW improved the percentage of residential customers in arrears, improved the residential dollars in arrears and improved the bad debt write-off rate to an extent significantly exceeding those of Pennsylvania's natural gas utilities.

The reconnection of service obviously offsets somewhat this increase in disconnections. The PUC concludes, however, that while an increase in the number of reconnections after a disconnection "has helped maintain reasonable access to utility service, overall these results show that more Pennsylvanians are without electric and gas service since the passage of Chapter 14."

ACCESS TO UTILITY SERVICE: COLD WEATHER ACCESS.

Every December, the Pennsylvania PUC releases the results of its Cold Weather Survey. The CWS documents the number of households without heat-related service entering the winter months. The PUC requires, as part of the CWS, each utility to check residential properties where service has been disconnected. Contact is attempted through both telephone calls and in-person visits.

In the pre-Chapter 14 period (2001 – 2004), there was an average of 12,049 homes that entered the winter heating season without heat-related utility service. According to the PUC, "this number peaked in 2005, at 17,057 households. The 2009 number continues to be at a near-peak level of 17,037."

In addition, the CWS identifies homes using potentially unsafe heating sources. Potentially unsafe sources of heat are considered to include kerosene heaters, kitchen stoves or ovens, electric space heaters, fireplaces and connecting extension cords to neighbors' home. The PUC reports that in 2009, "there were 3,992 residences using potentially unsafe heating sources, bringing the total homes not using a central heating system to 21,029. The total number of homes not using a central heating system continues to be considerably higher than the pre-Chapter 14 average of 14,979."

Overall, the number of homes using potentially unsafe heating sources increased by 22 percent from 2004/2007 to 2009. The total number of households without service after completion of the CWS (excluding household using potentially unsafe heating source, other central heating sources, and vacant) increased by 13 percent from 2004/2007 to 2009.

Finally, the CWS found that many homes that had experienced a disconnection of service were abandoned prior to the winter heating season. As of December 15, 2009, 14,332 residential homes where gas service was terminated now appear to be vacant. In addition, 7,438 residences where electric service was terminated now appear to be vacant.

SUMMARY AND CONCLUSIONS

Persons interested in obtaining a copy of the Biennial Reports by the Pennsylvania PUC to the state legislature and governor regarding the impacts of Chapter 14 can obtain these reports by sending a request to:

roger[at]fsconline.com

In addition, each utility's annual collections data can be obtained from FSC (in Excel format) by writing to the same address.

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