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Shutoff Restrictions Based on Medical Emergencies Yield Few Adverse Payment Impacts.

NOTE TO READERS

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Data Shows that Imposing Shutoff Restrictions on Protected Customers Does Not Adversely Affect Extent of Bill Payment.

Recent research for the Rhode Island Public Justice Center examines whether restricting the threat that nonpayment might result in the loss of utility service completely, customers will simply stop paying their home energy bills.

In response to a proposal to restrict National Grid's authority to disconnect service to customers with medical emergencies in Rhode Island, the state's Division of Public Utilities and Carriers (hereafter, Division) argued that during the months in which shutoff restrictions would be in effect, National Grid would expect to experience a substantial increase in the number of customers who fail to pay their bills in a full and timely fashion. As a result, the Division asserted, ratepayers of National Grid would pay noticeably higher rates (and thus bills) as a result of any restraint on service disconnections for nonpayment.

The data found the Division's argument to be without merit.

CUSTOMERS DO NOT STOP PAYING BILLS IN THE ABSENCE OF NONPAYMENT DISCONNECTIONS.

Despite the Rhode Island Division's stated concern about the consequences of shutoff restrictions, the available data finds that these concerns are unfounded. No empirical evidence exists to document that significant changes in

payment patterns have any basis in fact. Indeed, existing data is to the contrary. Some of that data arises from cold-weather protections. Some of that data arises from protections for customers facing medical problems that would be exacerbated by the loss of electricity.

Existing Data on Medical Certificates Shows that Utility Customers Do not Stop Paying their Bills as a Result of Restrictions on Nonpayment Terminations.

The California Public Utilities Commission (CPUC) has adopted what it calls its “medical baseline” program. Medical baseline protections are available when a customer, or someone sharing the customer’s home full-time, requires certain medical equipment for life-support or specific illnesses. CPUC regulations provide that medical baseline customers:

- May not receive utility communications regarding the potential for disconnections for nonpayment;
- Must have an in-person visit, including by a field person who can provide an opportunity for a payment, prior to a disconnection of service for nonpayment; and
- May not be subject to remote disconnections for nonpayment.

As with National Grid in Rhode Island, the number of “medical baseline” customers in California is small. Between January 2012 and December 2015 (48 months), for example, Pacific Gas and Electric Company (PG&E), California’s largest utility, had an average of 5.379 million residential customers, 169,335 (on average) of whom were medical baseline customers. Just

over 3.1% of PG&E’s residential customers, in other words, were protected by the California PUC’s medical baseline shutoff restrictions.

The California shutoff restrictions for medical baseline customers do not result in a systematic nonpayment by customers protected by the PUC’s regulations. Figure 1 below tracks the arrearage patterns of PG&E’s medical baseline customers over a four-year (48 month) period. The age of arrearages tracked include arrearages old enough to represent two missed payments (aged 31 – 60 days) as well as arrearages that are deemed to begin to reach the stage of concern about lack of payment (more than 90-days). This Figure presents the percentage of all medical baseline customers in each month that carry an arrearage balance of the stated age.¹ The PG&E data supports two conclusions:

- Medical baseline customers do not represent a substantial threat of nonpayment as represented by an aged arrearage; and
- The percentage of medical baseline customers with the older arrearages is remaining flat over time.

If the Rhode Island Division’s concerns about systematic nonpayment were based in fact, neither of these observations would be correct. If the Division’s concerns about shutoff restrictions were well-founded, the percentage of medical baseline customers with arrears over the age of 90 days would be large and they would be increasing. In contrast, the 90-day arrears represent fewer than 10% of the medical baseline cus-

¹ The numerator in each percentage is the number of medical baseline accounts with the arrearage by age; the denominator is the total number of medical baseline accounts.

tomers, while the 31 – 60 days arrears are roughly five percent (5%).

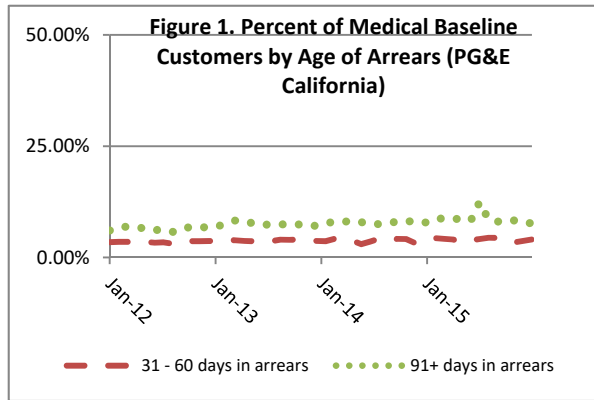
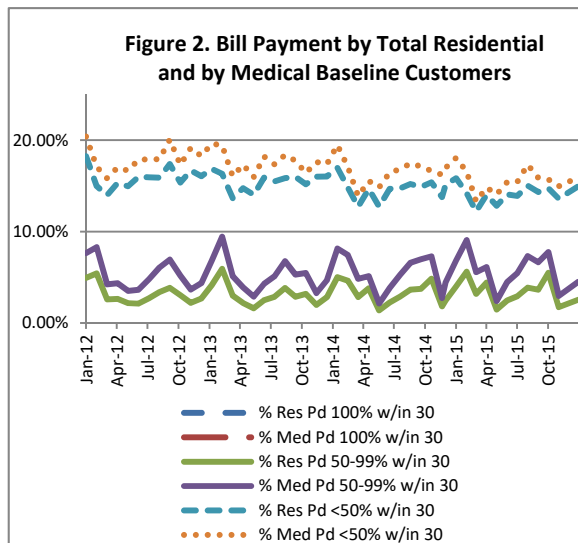


Figure 2 below demonstrates this same conclusion on a month-by-month basis, not by looking at what bills remain unpaid, but instead by looking at the extent to which bills are paid. Using data reported to the California PUC, Figure 2 compares the portion of the monthly bill paid each month by residential customers as a whole and the portion of the monthly bill paid by customers protected from shutoffs by the PUC’s medical baseline shutoff restrictions.



There is no dispute that residential customers overall perform somewhat better than do medical baseline customers. That, of course, is to be expected given the limited ability-to-pay of the medical baseline customers with which to begin. Nevertheless, several observations are evident from a review of the data presented in Figure 2.

- First, the vast majority of medical baseline customers pay their bill in full (i.e., pay 100%) on a monthly basis.
- Second, there is no long-term divergence between the percentage of medical baseline customers who pay their bills in full and the percentage of total residential customers who pay their bills in full. The medical baseline customers who are protected by restrictions on service disconnections closely mirror the residential customers who have no such restrictions.
- Third, there is no seasonal divergence between the total residential population and the medical baseline population. The seasonal variations in bill payment patterns that appear for the total residential population appear almost identically for the medical baseline population.²

The same observations can be made about both customers who pay less than half of their bill on a monthly basis, as well as about the customers who pay more than half, but less than 100%, of their bills on a monthly basis. The difference

² It should be noted that merely because one does not pay in full before the due date does not mean that the arrears become long-term overdue. A customer who pays two days late (i.e., on Day 22 rather than on Day 20) is, for purposes of Figure 2, nonetheless counted as having paid “less than half” of their bill in that month.

between the two populations is small; the trend over the four-year period does not indicate a divergence between the two populations;³ and the seasonal variations in payments are nearly identical between the two populations.

The final observation that flows from Figure 1 and Figure 2 involves a synthesis of the data presented in the two figures. It is possible to conclude from the two figures together that those customers who fail to pay their bills involve the normal variation in payments from a customer population involving hundreds of thousands (medical baseline), if not millions (residential customers as a whole) of customers. There is not an identifiable population that systematically pays less than half of their bills.

If there were such a population, that population would present itself in Figure 1 by an ever-increasing percentage of customers with arrearages that are 91 or more days in arrears on their bill. That increasing percentage simply is not present for medical baseline customers. The California data on medical baseline customers who take service under the umbrella of significant shutoff protections do not change their payment patterns as a result of such protections.

The medical baseline shutoff restrictions in California are not tied to cold weather protections. Some shutoff restrictions throughout the country, however, are specifically tied to cold weather. The FSC review for Rhode Island turned to an examination of the impact of those restrictions next.

³ If customers protected by medical baseline regulations regularly failed to pay their bill, an increasing proportion of customers would appear as having paid “less than 50%” of their bill. This would occur because those payments that were made would be applied against arrearages, leaving an increasing proportion of bills for current service unpaid.

A Groundbreaking Pennsylvania Study Found that Shutoff Restrictions do not Impede Collections.

One groundbreaking study of the extent to which customers do (or do not) pay their bills when protected against nonpayment service disconnections was performed by the Bureau of Consumer Services (“BCS”) of the Pennsylvania Public Utility Commission. In examining payments and collections on accounts protected by winter shutoff restrictions, the BCS introduced the use of “weighted arrears” as a mechanism to assess payment outcomes. According to the 1983 BCS analysis, contrary to the argument by that state’s utility companies, the Pennsylvania shutoff restrictions did not result in an increase in the number of unpaid bills, or the amount of unpaid bills, that would have existed in the absence of the restrictions.

The BCS study reported that:

Average overdue bills are at a low in November and rise to a high point in March or April. The apparent relationship of this pattern to Public Utility Commission regulations is obvious. That is, arrears are greatest at the end of the Commission’s winter termination restrictions (December 1 to March 31 of the following year) and have been reduced to their lowest point immediately prior to the introduction of those restrictions for the following year. This pattern is consistent with the assertion put forward by utilities that they would be able to control arrearages if there were no winter termination restraints.

However, the seasonal fluctuations are substantial only for heating accounts. Arrear-

ages for non-heating accounts show only minor seasonal fluctuations. A comparison of [the data] suggests a simple explanation for this difference, that is, that the size of arrearages is related to the size of monthly bills. Heating customers' bills grow radically in the winter and so do their arrearages. Non-heating customers' bills change very little seasonally and their arrearages follow suit.

In other words, if the assertions that winter termination restraints invite nonpayment were correct, then non-heating arrearages should show the same seasonal pattern of variations as do heating arrearages. That they do not casts substantial doubt on the assertion that PUC winter termination restraints are responsible for willful nonpayment and consequent collection problems.⁴

This Pennsylvania report introduced the notion that any assessment of arrears must control for the impact of monthly bills. The BCS report recommended use of a "weighted arrears" or "bills behind" statistic to factor out the impact of increased arrears caused by factors other than nonpayment. BCS explained that its "bills behind" statistic "permits comparisons to be drawn between companies by eliminating the effects of different customer bills on arrearages." Without such a measure, "the interpretation of average arrearages, either over time or in comparison between companies, presents some difficulties."⁵

⁴ Joseph Farrell (1983). *Utility Payment Problems: The Measurement and Evaluation of Responses to Customer Nonpayment*, at 19, Pennsylvania Public Utility Commission: Harrisburg, PA.

⁵ Id.

Summary.

It is often asserted as "conventional wisdom" that adoption of restrictions on the termination of utility service will result in a wholesale increase in customer nonpayment. Under this reasoning, consumers who are not subject to the disconnection of service in response to their nonpayment have no incentive to make their payments. Implicit within this argument is the assertion that the *only* incentive for making full and timely payments on a household utility bill is the threat that service will be disconnected in the face of nonpayment. Available data does not support the conclusion that shutoff restrictions substantially alter customer bill payment practices.

IMPOSING RESTRICTIONS ON SOME SHUTOFFS DOES NOT PREVENT NATIONAL GRID FROM ENGAGING IN THE USE OF NONPAYMENT DISCONNECTIONS AS A COLLECTION STRATEGY.

Restricting the disconnection of service by policy, particularly when those restrictions are applied to a limited number of customers, will neither harm the financial wherewithal of the utility whose collection activities are so restricted, nor will such restrictions raise rates to customers not subject to the restrictions. A utility such as National Grid does not direct collection activity, particularly including efforts to disconnect service for nonpayment, to the entire universe of customers that owes it money. Even if such widespread use of service disconnections was acceptable from a policy perspective, the utility simply lacks sufficient resources, financial and/or staff, to perform such a broad-based effort to pursue disconnections for nonpayment (sometimes referred to as "DNPs").

This realization has substantive implications for evaluating the financial impacts of restricting the ability to disconnect service to some customers. Rather than reducing the overall collection effort by the utility, the restriction of shutoffs to Customers A, B and C will simply result in National Grid redeploying its collection efforts to Customers X, Y and Z instead. The total number of customers toward whom service terminations will be directed as a collection tool, in other words, should not be reduced.

We know that National Grid does not differ from other utilities in this regard from the data that it files with the Rhode Island Public Utilities Commission each month. This data allows us to gain insights into the collection efforts in which the Company engages. For example, Figure 3 below shows the number of natural gas disconnection notices that National Grid issued from April 2009 through December 2015 compared to the number of actual disconnections of service for nonpayment. Figure 4 presents the same Rhode Island National Grid data for electric service.⁶

The limited nature of the accounts that National Grid actually disconnects relative to those accounts for whom their level of arrears merits a disconnect notice is as dramatic as it is consistent over the years of data reported. The portion of the bar that exceeds the line representing the number of actual disconnections portrays those numbers of accounts each month to which National Grid could redeploy its collection efforts. Each account receiving a disconnect notice has an arrears of sufficient value that the account would merit, in the eyes of the utility, the

⁶ National Grid does not report the duplicated or unduplicated nature of this data.

termination of service for nonpayment.⁷ To the extent that the Company is able to redeploy its collection resources amongst its nonpayment population would result in no adverse impact to the Company and, by extension, would not increase rates to its residential customers.

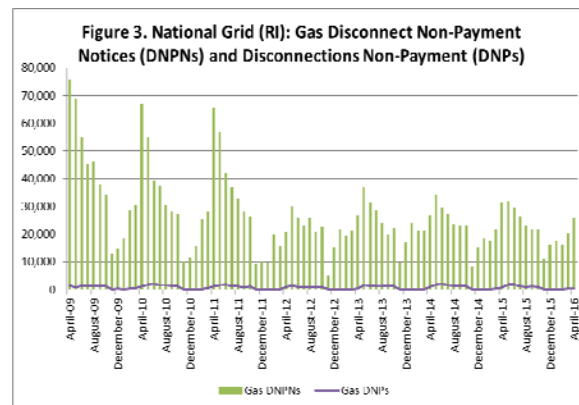
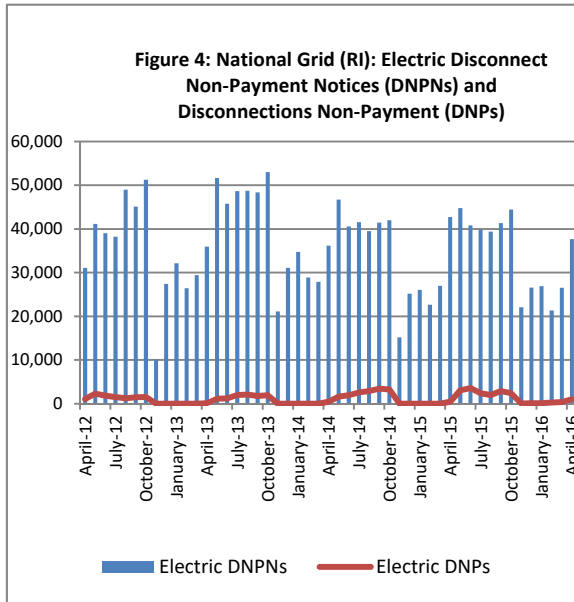


Figure 4 documents that the same observations that pertain to gas accounts attach to electric accounts as well. The number of electric accounts for whom the nonpayment of service would merit disconnection, as evidenced by the receipt of a disconnect notice, far outstrips the number of accounts for whom the Company actually pursues the disconnection of service. The ability of National Grid to redeploy collection resources is evident from the portion of the bar that exceeds the line demarcating the actual number of service disconnections for nonpayment.

⁷ This observation is based on the seemingly self-evident proposition that National Grid would not send a notice of disconnection to an account whose arrears, in the Company's view, did not merit the disconnection of service absent payment.



National Grid Redeploys Collection Activities in the Normal Course of Business.

The fact that National Grid not only can, but will, redeploy its collection resources is supported by an examination of the extent to which the Company engages in such redeployment in the normal course of business. The limited nature of disconnections actually undertaken by National Grid, along with the extent to which resources can be redeployed to the extent that those resources are barred from being used to address one small population of payment-troubled customers, can be seen in National Grid data. That data presents the total number of residential service disconnections for nonpayment by month for the months April 2012 through April 2016 for both gas and electric service. FSC then compared the number of disconnections in each month to the number of disconnections in the corresponding month one year earlier (e.g., April 2013 vs. April 2012). FSC finally considered a running cumulative total of the monthly differences, starting each year anew in April. In this way, cumulative twelve-month totals can be compared to preceding or succeeding twelve-

month periods (e.g., April 2015 through March 2016 vs. April 2013 – March 2014). The first month of each twelve-month total begins with April so that each complete winter heating season remains in the same twelve-month period.

From April 2013 through March 2014, for example, National Grid cumulatively disconnected 998 more natural gas accounts than it did in the corresponding 12-month period in the year before; in the same time period, the Company cumulatively disconnected 794 fewer electricity accounts than it did in the corresponding period of April 2012 through March 2013. From April 2014 through March 2015, the Company cumulatively disconnected more accounts of each service type than it did in the corresponding previous 12-month period, 2,601 more natural gas accounts and 5,922 more electric accounts. In April 2015 through March 2016, the Company disconnected 1,482 fewer gas accounts than in the prior twelve months, but disconnected 1,593 more electric accounts.

It simply cannot be concluded, FSC found, that continuing restrictions on shutoffs will reduce National Grid’s ability to pursue the disconnection of service for nonpayment. As shown in National Grid’s own data, in three of the six months since November 2015 (January, February, March 2016), National Grid disconnected *more* natural gas accounts than it did in the corresponding months in the prior year. The data shows that, in all six months November 2015 through April 2016, National Grid disconnected more electric customers for nonpayment than it did in the corresponding time period in the prior year.

Summary

Conventional wisdom in the utility industry is often stated to be that the most appropriate response to nonpayment is the disconnection of service. Without the availability of service disconnection as a threatened collection mechanism, this reasoning posits, utility customers will simply stop making payments.

Information recently developed for the Rhode Island Justice Center found this conventional wisdom to be in error. Imposing shutoff restrictions on protected classes, whether for natural gas or for electricity customers, has not resulted in systematic nonpayment.

For more information regarding the use of utility nonpayment disconnections as an effective credit and collection mechanism, or for a copy of FSC's Rhode Island study, please write:

roger [at] fsconline.com

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