

CONTROLLING UNCOLLECTIBLE ACCOUNTS

IN PENNSYLVANIA:

A BLUEPRINT FOR ACTION

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INTRODUCTION

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Little question exists but that regulators and utility companies in Pennsylvania need to address the increasingly serious problems of uncollectible accounts that plague their systems. The presence of uncollectible accounts harms utilities in any one of a number of ways. First and foremost, uncollectibles increase revenue requirement, and thus rates, for all paying customers. Implicit within a high rate of uncollectibles, however, are other "hidden" expenses. Included are the expenses of credit and collection activities as well as the working capital expenses associated with carrying unpaid bills for lengthy periods of time. To address the problems of uncollectibles, therefore, is to address also the problem of credit and collection practices in general.

This report looks at methods by which utilities and their regulators can seek to control the problems of uncollectibles. The report posits that the solutions to the uncollectible problem must be both effective and cost-effective. These concepts are overlapping. To be "effective," a solution must accurately define the problem and address those aspects of the problem. To be "cost-effective," the solution must promote the provision of least-cost service.

This ultimate goal, the provision of least-cost service, must not get lost in the efforts to control uncollectible accounts. Indeed, the following report looks with some detail at examining the cost-effectiveness of a variety of traditional public utility credit and collection techniques. The analysis posits that the ultimate goal of **any** utility activity is to provide reasonably adequate service to its ratepayers at least-cost.

For example, the Energy Assurance Program (EAP) proposed in these comments is designed first and foremost to permit the participating utility to provide least-cost service to all of its ratepayers. This least-cost service arises by minimizing uncollectibles, by minimizing credit and collection costs, by minimizing working capital costs, and the like. By providing the special program to low-income households, in other words, the EAP seeks to help the low-income household *and, in so doing*, seeks to reduce uncollectibles and total revenue requirement at the same time.

The requirement that utility activity contribute toward the provision of least-cost service pervades every aspect of a utility's business. It governs whether a utility should provide coal, oil or nuclear capacity; whether a utility should pursue new central station capacity, cogeneration or conservation; whether a utility should self-insure or purchase insurance policies; whether a utility should maintain compensating bank balances or pay bank fees; whether a utility should raise debt or equity capital. The requirement of least-cost

service, too, should govern utility collection activities. In reviewing these alternatives, expenses devoted to the collection of arrears and the control of uncollectibles should be measured by the same least-cost tests as any other utility expense.

Unfortunately, on too frequent of a basis, utility credit and collection activities are based entirely on supposition and presumption. Little effort has gone into identifying the specific purposes that underlie credit and collection efforts; examining whether the means proposed bear some reasonable relationship to those purposes; and calculating what the financial and economic consequences are should those means be pursued.

Far too often, utility credit and collection activities have escaped the scrutiny that is applied to other aspects of a utility's business. For example, the disconnection of service is assumed to be a rational and economic response to nonpayment of bills, without considering the impacts of the lost stream of revenue which ensues. The collection of security deposits is asserted to reduce bad debt, without looking at whether further reduction ceases after some level of security, leaving only the costs of deposit maintenance without the benefits. Long-term deferred payment plans are offered without consideration of whether collecting \$80 today may be financially and economically more sensible than possibly collecting \$100 tomorrow.

In sum, this report is grounded squarely in the dictates of *Hope*¹¹ and *Bluefield*¹² that utilities are required to operate in an economic and efficient manner and that they should take advantage of all reasonable efficiencies in operation. Utilities should undertake to identify all reasonable measures, both common and innovative, to reduce their uncollectible accounts. Just like any other utility practices, however, credit and collection activities that are found to interfere with the overall provision of least-cost service should be modified or abandoned even if they successfully control receivables and uncollectibles.

With this overview, this report is presented in eight Parts:

PART I: examines why customers don't pay;

PART II: reviews the demographics of nonpayers;

¹¹*Federal Power Commission v. Hope Natural Gas Company*, 350 U.S. 591 (1944).

¹²*Bluefield Water Works v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923).

PART III:examines low-income payment patterns;

PART IV:examines and recommends an Energy Assurance Program as an effective, cost-justified collection mechanism for households who are otherwise unable to pay;

PART V:assesses why households do not participate in the LIHEAP benefit program;

PART VI:proposes that the Commission initiate a process through which to consider a variety of new sources of leveraging new federal dollars through the provision of private utility low-income energy assistance;

PART VII:assesses the potential for conservation and weatherization programs to reduce low-income arrears;

PART VIII:considers whether arrearage forgiveness is an appropriate response to inability-to-pay and whether such a forgiveness encourages prompt payments toward current bills.

In each case, the report will evaluate what implications are held for utility credit and collection practices.

Finally, while this report looks at the control of uncollectibles, such examination must not lose sight of the fact that, ultimately, this discussion centers on the monopoly provision of essential life services. Indeed, payment problems can threaten the health, safety and perhaps even the life of low-income individuals. The availability of public utility services has been judicially recognized as essential not only to modern convenience, but to modern health and welfare as well. The U.S. Supreme Court noted in *Craft v. Memphis Gas, Light and Water Division*,¹³ that "utility service is a necessity of modern life; indeed, the discontinuance of water or heating for even short periods of time may threaten health or safety."¹⁴ Similarly, an Ohio federal district court has stated that "the lack of heat in the winter time has very serious effects upon the physical health of human beings, and can easily be

¹³436 U.S. 1 (1978).

¹⁴436 U.S. at 18.

fatal."^{15\} The poor in particular have long been found to be vulnerable to the loss of utility service.^{16\}

This recognition has both substantive and procedural implications. Procedurally, the components of fundamental fairness in any process which might threaten to deprive households of these essential services, either temporarily or permanently, must be zealously adhered to. Substantively, credit and collection mechanisms that have the potential end result of depriving households of service must explicitly articulate the goals they are intended to accomplish and, in reality, accomplish those goals and no others.

The following analysis of how to control uncollectibles in Pennsylvania is presented within this context.

^{15\}*Palmer v. Columbia Gas Co. of Ohio*, 342 F.Supp. 241, 244 (N.D. Ohio 1972) (citations omitted); *see also, Stanford v. Gas Service Company*, 346 F.Supp. 717, 721 (D.Kan. 1972). An excellent canvass of cases is found in *Montalvo v. Consolidated Edison Company of New York*, 110 Misc. 2d 24, 441 N.Y.S.2d 768, 776 (N.Y. 1981).

^{16\}Kirkwood, "Cash Deposits--Burdens and Barriers in Access to Utility Services," 7 *Harv. Civ. Rights Civ. Lib. L.Rev.* 630 (1972); Note, "The Shutoff of Utility Services for Nonpayment: A Plight of the Poor," 46 *Wash. L.Rev.* 745 (1971); Note, "Public Utilities and the Poor: The Requirement of Cash Deposits from Domestic Consumers," 78 *Yale L.Rev.* 448 (1969).

PART I. WHY CUSTOMERS DON'T PAY.

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The first step of analysis in seeking to respond to problems involving utility customer nonpayment is to determine precisely *why* households might not pay their bills. By understanding the full range of reasons why households may not pay, utilities and their regulators can adopt a flexible approach to bill collection, involving a range of techniques addressing specific problems. This flexibility will help maximize the receipt of revenue while minimizing both uncollectibles and collection expenses.

A failure to inquire into why customers do not pay has ramifications on the *need* for collection efforts as well as on the *effectiveness* of collection efforts. On the one hand, a failure to understand why people do not pay their bills may result in inappropriately severe collection techniques being imposed on nonpaying households. The involuntary disconnection of service, for example, is particularly inappropriate for households who are facing short-term payment difficulties. Temporarily losing employment, incurring extraordinary medical bills, or experiencing unusually high heating bills are all types of nonpermanent situations which might cause a household to face payment problems for some short period of time. These circumstances do not warrant the disconnection of service. Nor would the disconnection of service in these circumstances serve any collection purpose or protect the utility against the future loss of revenue.

On the other hand, failing to inquire into why households do not pay their bills on time may well result in collection techniques being pursued that have no hope for success. Deferred payment agreements, for example, are a particularly inappropriate mechanism through which to seek full payment of arrears for households that are chronically poor. If a household could not pay the full current bill in the past because of a lack of money, it lacks good sense to call upon that household to enter into a deferred payment plan in which a promise is made to pay the full current bill *plus* some increment to retire the arrears in the future.

The imposition of a late payment charge is one collection technique the validity of which is particularly susceptible to an evaluation in terms of why people do not pay their bills. Late payment fees are often justified as a means to accelerate payments.[∇] It might well be a rational collection strategy, in

[∇]Late fees can also be justified as a cost-based charge designed to compensate the utility for the expenses associated with late payment. This justification, however, most often fails on close analysis. See generally, National Consumer Law Center, *Determining the Cost-Effectiveness of Utility Credit and Collection Practices*, at 67 - 90 (July 1990).

other words, to impose a late payment fee on a customer that does not make timely payments because she seeks to capture the time value of money while letting arrears develop.¹⁸⁾ In contrast, however, if a customer does not pay because she cannot afford to pay, to seek to accelerate payments by *increasing* the bill through imposition of a late charge is not only bound to fail as a collection device, but is bound to *exacerbate* rather than to alleviate the payment problems the household is experiencing.¹⁹⁾ As one Michigan State University study concluded:

Payment performance tends, moreover, to accord with socio-economic class, with better performance in middle-income and more affluent areas than in low-income areas* * *. * * *Late payment is generally but by no means exclusively concentrated among inner-city and other poor

¹⁸⁾However, several studies indicate that the imposition of a late charge is not effective in accelerating customer payments. *See generally*, Warren Samuels, "Commentary: Utility Late Payment Charges," 19 *Wayne Law Review* 1151 (July 1973). Samuels notes in particular that late fees have *no* impact on accelerating payments for utilities that have due date 30 days or more from the date on which the bill is rendered. *Id.*, at 1159.

¹⁹⁾The impact of a proposed late fee was recently examined in a rate case involving Columbia Gas of Pennsylvania. *See, Pennsylvania Public Utility Commission v. Columbia Gas Company of Pennsylvania*, Docket No. R-891468 (Decision and Order, September 19, 1990). The Direct Testimony on behalf of the Office of Consumer Advocate found:

For the 3,907 customers in our sample, this late payment charge would, in many cases, add up to more than \$200 per year to the cost of the arrears subject to the payment plan.* * *It is not the dollar amount, however, which is so important, as it is the strain that the added late payment charge will add to the Budget Plus plan. A household making \$5 "Plus" payments, who faces a \$40 annual late payment charge, would face the equivalent of eight additional payments each year. Remember, that these equivalent additional payments are above and beyond the level of payment which has already been determined to be the limit of the participating customer's ability to pay.

The fallacy in any belief that a late payment charge will accomplish any constructive task is seen with a sub-sample of the 3,907 Budget Plus plans studied. A late payment charge would *add* a monthly cost of \$5 or more to 751 households who are charged the minimum \$5 "Plus" amount because they already have an acknowledged *negative ability to pay*."

Direct Testimony and Exhibits of Roger D. Colton, Docket No. R-891468 (filed April 14, 1990).

neighborhoods, and among the elderly on fixed incomes. It has been statistically confirmed that the late charge is not effective for those whose problem is not lack of incentive to pay but unemployment and poverty.^{10\}

In this instance, therefore, both the efficacy and the legitimacy of the collection technique (i.e., imposing a late payment fee) depends upon a proper determination of *why* the household did not pay in the first place.^{11\} Without looking at the reasons for nonpayment, a late fee qua collection device not only is ineffective, but is actually counterproductive as well.

Given the thesis that the rationality of particular utility collection mechanisms depends upon the reason for nonpayment in the first instance, it is surprising that so little information is available regarding the reasons for customer nonpayment. The purpose of this Part is to help remedy that lack.

^{10\}Warren Samuels, "Commentary: Utility Payment Charges," 19 *Wayne Law Review* 1151, 1159 - 1160 (July 1973).

^{11\}See also, the Wisconsin Public Service Corporation study which concluded "Finally, we come to the Group 5 people who have the money to pay but don't. This problem might be handled by a finance charge on the unpaid balance. However, a blanket finance charge might increase the financial burdens of Groups 1, 2 and 3. Some sort of limitation might need to be designed into the finance charge." Michael Kiefer & Ronald Grosse, "Why Utility Customers Don't Pay Their Bills," *Public Utilities Fortnightly*, at 44 (June 21, 1984). The classification of the five groups is discussed *infra*, page 16.

SECTION A: THE EXISTING LITERATURE.

1. THE PENNSYLVANIA STUDY.

A late 1985 Pennsylvania State University (Penn State) study looking at payment-troubled households in Pennsylvania^{\12\} debunked the myth that nonpaying households are characterized by "deadbeats." The Penn State study found that "payment-troubled households are experiencing considerable socioeconomic stress when compared to the pattern for the average (general) customer sample."^{\13\} The study noted that families encountering payment problems have a higher number of female heads of household, dependents, disabled members, nonmarried heads of households, and unemployed household members while also having lower levels of education, income and home ownership than households that do not experience difficulties.

Ultimately, the study concluded: "thus, with regard to their socio-economic and demographic characteristics, the groups that encounter payment problems have higher proportions of the type of customers intended for protection by public policy."^{\14\} The data reported in the study are laid out in Table A.

The Penn State study found that six of ten customers who had utility payment problems indicated that some unusual condition hindered timely payment of their utility bill.^{\15\} Employment related problems (such as being laid off, having reduced working hours, or being unemployed) were most frequently cited as the cause for the receipt of a shutoff notice as well as for the actual termination of service (22% for shutoff notice; 18% for

^{\12\}Hyman, et al., "Optimizing the Public and Private Effects of Utility Service Terminations," *Public Utilities Fortnightly*, at 29 (December 29, 1985).

^{\13\}The statewide study examined representative samples of four groups of households involving over 1,800 interviews. The four groups included: (1) general residential utility customers; (2) customers who received a termination notice; (3) households whose service was actually terminated; and (4) households who sought to have a proposed termination mediated by the Public Utility Commission Bureau of Consumer Services. *Id.*, at 30, n. 1.

^{\14\}*Id.*, at 30.

^{\15\}While the Penn State study labelled "lack of money" as an "unusual condition," that assumption was not made for this report.

**TABLE A
COMPARISON OF FOUR SURVEY GROUPS
ON SELECTED SOCIOECONOMIC
AND DEMOGRAPHIC CHARACTERISTICS**

Characteristic	General	Notice	Termination	PUC-BCS
Female heads of household	22%	23%	31%	43%
Aged heads of household	24%	5%	8%	5%
Unmarried heads of household	24%	24%	31%	43%
Median per capita income	\$6,403	\$4,500	\$4,035	\$2,282
Home ownership	83%	71%	67%	57%
Unemployment during study year	17%	29%	32%	66%
Major source of income is welfare	2%	3%	8%	17%
Disabled members in household	21%	20%	23%	37%
Average family size	3.0	3.9	3.9	4.2
Education -- lacks high school diploma	21%	18%	31%	26%
N=	559	532	265	271

termination of service).^{16\} Unusually high medical expenses (resulting from hospitalization or illness) and unusually high bills (resulting from seasonal usage variations) were the second and third most common reasons cited for the termination of service. (19% and 18% percent respectively). The study

^{16\}Id., at 32, Table 2.

concluded: "in view of the lower-income levels and higher number of dependents in the payment-troubled households when compared to the general sample, it is not surprising that these difficulties readily manifest themselves in the form of overdue bills."¹⁷ Moreover, Penn State found that 20 percent of the households with payment troubles reported that they simply lacked adequate income. The reasons underlying household payment problems are set forth in Table B.

**TABLE B
COMPARISON OF THREE STUDY GROUPS ON CIRCUMSTANCES
SURROUNDING THE OVERDUE BILL**

Unusual Condition for Overdue Bill	NOTICE	TERMINATED	PUC-BCS
No income. No money	18%	18%	6%
Illness. Medical	15%	19%	21%
Extra high utility or other large bill	22%	18%	16%
Laid off. Less work	21%	21%	32%
Other	14%	16%	11%
No unusual condition	10%	8%	4%

Finally, the Penn State study found that payment-troubled customers "made changes in their spending or lifestyle (or both) to deal with inflation and the high cost of energy." In general, the study found that "payment-troubled groups report cutting back more on essentials such as food, clothing and medical care than the general sample, and they also cut back more in other areas such as recreation, vacations, and gasoline for automobiles."¹⁸ Indeed, the Penn State study reported that:

the payment-troubled groups, which may be living near or below

¹⁷Id., at 32.

¹⁸Id., at 32.

the margin of adequacy for necessities, exhibit greater propensity to cut these items than the average residential consumer. Furthermore, the more serious the degree of utility payment problems, the higher the rate of reported cutbacks.^{19\}

In sum, the Penn State study concluded that looking at the "microdynamics of behavior and needs of the different utility consumers" suggests that "a uniform response to nonpayment may be inappropriate from both company economic and broader social perspectives. In fact, a monolithic response may be suboptimal from the point of view of utility company profit maximization."^{20\}

A second Penn State study (1988) sought to determine "the importance consumers place on utility services compared to other typical household expenses."^{21\} Consumers were asked to indicate their "level of concern" about nine major household budget items.^{22\} A series of nonutility items was included "to put utility items in a larger context." According to the study: "a comparison of the importance of paying utility

^{19\}Id., at 32.

^{20\}Id., at 34. The utility's profit is implicated because, by not automatically seeking to disconnect households who do not pay, "utility companies continued to receive payments, many of which might otherwise have been written off as bad debts had the customers' service been terminated." Id., at 34.

^{21\}Drew Hyman, et al., *Consumer Budget Priorities and Utility Payment Problems in Pennsylvania*, Penn State University (1988). According to this study: "The importance of utility service to consumers can be measured by how consumers rank these services as part of their household budgets. To examine this issue, consumers were asked to indicate their level of concern (that is, if they were concerned a great deal, to some extent, or not at all) about nine major budget items. The level of concern consumers placed on utility costs for heating, electricity, telephone, water and sewer, were then compared to other necessary household budget items, and to other major expenses related to a family's present and future security." Id., at 1.

^{22\}These included: (1) income and property taxes, (2) medical and health expenses, (3) winter heating costs, (4) food, (5) monthly electric costs, (6) education expenses, (7) telephone costs, (8) mortgage or rent, and (9) water and sewer costs.

bills with other necessities of household life indicates the relative importance of utilities in modern society.^{123\}

The study found that among utility expenses, heating is the most important.^{124\} Sixty-three percent of consumers were concerned "a great deal" about their heating expenses. Somewhat fewer households, 59 percent, said they were concerned "a great deal" about monthly electric bills.^{125\}

Among the nine budget items listed, winter heating costs were in the top three items of concern for consumer budgets.^{126\} Monthly electric bills ranked fifth (59 percent concerned "a great deal"), right behind food expenses (60 percent concerned "a great deal"). The rankings are set out in Table C.

The examination of relationships between social and demographic characteristics and their levels of concern show that neither age nor income were associated with greater or lesser concern for household budget items.^{127\} "Age differences do not have a statistically significant effect on consumer responses regarding the payment of utility bills."^{128\} "All income groups have comparable levels of concern."^{129\}

In sum, the 1988 Penn State study concluded that: "the degree of concern consumers place on public utility services is intermixed with the importance of other household budget items. Heating and monthly electric costs are in the same general range of concern as such necessities as food and health care. Telephone, water and sewer costs elicit less concern* * *."^{130\}

^{123\}Id., at 2.

^{124\}Id., at 2.

^{125\}Id.

^{126\}The study found that there were only "marginal differences" among the top three items. The top two were (1) income and property taxes, and (2) medical and health expenses respectively.

^{127\}Id., at 4.

^{128\}Id.

^{129\}Id.

^{130\}Id., at 5. The study continued to state, however, that telephone, water and sewer costs "still evoke a great deal of concern among nearly half of Pennsylvania's consumers." Id.

TABLE C¹³¹
CONCERN FOR HOUSEHOLD BUDGET ITEMS: PENNSYLVANIA

BUDGET ITEM	GREAT DEAL (%)	SOME EXTENT (%)	NOT AT ALL (%)	TOTAL (%)
Income and property taxes	67	22	11	100
Medical and Health expenses	64	27	11	102 ¹³²
Winter heating costs	63	26	11	100
Food	60	32	8	100
Monthly electric costs	59	34	7	100
Education expenses	56	26	18	100
Telephone costs	49	44	8	101
Mortgage or rent	48	29	24	101
Water and sewer costs	44	38	18	100
N=431				

2. THE WISCONSIN STUDY.

A 1983 study by the Wisconsin Public Service Corporation was

¹³¹Some respondents answered "not applicable" to particular budget items. These respondents are not included in the statistics presented in this Table. The proportion of respondents answering "not applicable" is: taxes (6%); medical (2%); heat (6%); electric (3%); education (27%); mortgage/rent (19%); water/sewer (30%).

¹³²Some items do not equal 100 percent due to rounding.

designed "to find out why customers pay late, why they miss payments, what percentage is unable to pay, and what percentage could pay but do not."^{33\} The Wisconsin research broke the study population into five basic groups.^{34\}

Group 1. The poor and the helpless who blame themselves for their status (19%).

Group 2. The poor and the helpless who are angry with their life (16%).

Group 3. The poor who are in transition (12%).

Group 4. People whose income should be sufficient to pay their utility bills, but who are poor money managers (41%).

Group 5. People who can pay their bills but do not (12%).^{35\}

The Wisconsin study found that roughly half (47%) of all customers who had a history of bill payment problems "did not have enough money to pay their bills."^{36\}

Wisconsin Public Service described Group 1 (poor who blame selves) as being "very poor. They seem to be standing still economically."^{37\} According to the utility, these households "spend little on luxuries, have done what they can do to save money, and are still unable to manage on their incomes."^{38\} Looking at their income versus family size and expenses, the utility concluded, "it appears they really do not have enough to live on."^{39\}

These households tend to be "primarily young women." One-third

^{33\}Michael Kiefer & Ronald Grosse, "Why Utility Customers Don't Pay Their Bills," *Public Utilities Fortnightly*, at 41 (June 21, 1984).

^{34\}Wisconsin Public Service provided the survey firm of Bergo & Matousek with a sample of 1,700 customers in Green Bay who had a history of bill payment problems. Some of these customers had been disconnected. From this sample, 200 door-to-door interviews were completed. The questionnaire took thirty to forty-five minutes to complete and did not identify the utility as the sponsor of the survey.

^{35\}Id., at 42.

^{36\}Id.

^{37\}Id.

^{38\}Id.

^{39\}Id.

(32%) are high school dropouts and one-half (47%) have spouses who are high school dropouts.^{\40\} Eight of ten (79%) have annual income less than \$10,000 and nine of ten (90%) have annual income less than \$15,000.^{\41\}

Group 2 (poor who are angry) was described by Wisconsin Public Service as a group that "feels helpless. * * *they are angry and frustrated with their position."^{\42\} According to the utility, this is the "poorest and least educated" of the nonpayment groups. "This group is down and out and apparently destined to stay down and out."^{\43\}

This group, too, is primarily young and female. While half the Group 2 households have an employed person, only one-quarter (28%) have a full time employed person; none have two people working full time. Sixty-five percent of the Group 2 households are high school dropouts. More than nine of ten (94%) have incomes less than \$10,000.

Group 3 (poor in transition) was described by Wisconsin Public Service as being "somewhat of a mixture."^{\44\} On the one hand, the group includes "some younger, well-educated people* * *who are moving up in the world." On the other hand, the group contains households who appear "either to be rising from hard times or sinking into hard times. This portion is less educated and primarily blue collar."^{\45\}

Most Group 3 customers are women. They are better educated with only 17 percent being high school dropouts. They tend to be employed, with more than seven of ten (71%) having an employed person and nearly four of ten (38%) having at least one full time employed person. The income level is somewhat higher, with only 54 percent making less than \$10,000 and only 12 percent making less than \$5,000 per year.

Group 4 (poor money managers), Wisconsin Public Service concluded,

^{\40\}In contrast, the general dropout rate for Green Bay was 15 percent.

^{\41\}The mean income for Brown County, in which Green Bay is located, is \$24,000.

^{\42\}Id.

^{\43\}Id., at 43.

^{\44\}Id., at 43.

^{\45\}Id.

"is the most diverse group in terms of demographics, attitudes, and life-styles."⁴⁶ The one common attribute is that the households making up this group "are poor at managing their money. They appear to be either spending beyond their means or to have bill paying priorities which are not realistic." While education is lower in this group (with 26 percent being high school dropouts), employment is higher, with 75 percent having someone employed and 18 percent having two members employed full time.

The income of Group 4 is higher than any other group except Group 5, the most affluent group. Only 30 percent of Group 4 makes less than \$10,000 per year. According to the utility, for the households in this group, "their income level and family composition is such that they should be able to pay their bills if they manage their income carefully. They appear to be in financial difficulty because they have not learned to budget properly."⁴⁷

Wisconsin Public Service reported that for Group 5 (can pay but don't), "there is no apparent reason why they should not be paying their utility bills."⁴⁸ The utility, according to the study, "is low on their list of priority" for this group of households. Possibly these households do not pay their utility bills "because they would rather do other things than write out checks or, perhaps, they prefer to spend their money on other priorities."

This group is well-educated. Only 12 percent of the persons interviewed had less than a high school education. More than nine of ten (92%) have someone employed in these households and 20 percent have two people employed full time. None of these households make less than \$10,000 per year and 72 percent make more than \$20,000 per year. According to the utility, "this group can pay their utility bill when they are threatened with a cutoff.* * *They have discretionary money and generally do not care to worry too much about money."⁴⁹ The utility concluded that this last group of households "appear to be savvy people who know how to make the system work for them."

In addition to looking at the 1984 article by Wisconsin Public Service

⁴⁶Id.

⁴⁷Id., at 43.

⁴⁸Id.

⁴⁹Id., at 44.

Corporation, the detailed study which underlies the article provides much useful information.

"Overall," Wisconsin Public Service concluded in this study, "it appears that about half the sample is quite hopeless, but half can learn to pay their bills with a little coaxing and coaching."^{150\} The detailed study provides much useful information about the nonpaying population. It is important to understand the characteristics which distinguish the households Wisconsin Public Service found to be "quite hopeless." Only in this way can efficient and effective collection mechanisms be designed to address both their particular needs and the needs of the company. The "quite hopeless" customers include those households in Groups 1, 2 and 3.

All households in Group 1 had been late in making a utility payment within the prior twelve months.^{151\} Nearly half (45%) had been late four or more times. The late payments, according to Wisconsin Public Service, were not surprising. Four of ten of those households had an average monthly utility bill in excess of \$100.^{152\} This is to be added to rent/home mortgage payments^{153\} of \$200 - \$300 per month.^{154\}

The combination of home payments and utility bills often makes housing unaffordable.^{155\} As a result, 24 percent of these households had moved within the past year.^{156\} An additional 26 percent plan to move in the next year. Wisconsin Public Service reported that "the main reason they are moving is because they can't afford to live where they do."^{157\}

^{150\} *Wisconsin Public Service Corporation: Lifestyle Study: Selected Payment Patterns*, at ii (July 1983).

"Those people who cannot pay their bills because of income and family size appear to be doing just about all they can to pay their bills. They are not indulging in luxuries they cannot afford. They're just scraping by." *Id.*

^{151\} *Id.*, at G-4.

^{152\} *Id.*, at G-5.

^{153\} 34% of these households own their homes; 66% rent.

^{154\} 47% of these households pay \$200 - \$300 per month. An additional 16% pay more than \$300 per month.

^{155\} Remember, 80 percent of these households have incomes of less than \$10,000 per year.

^{156\} *Id.*, at G-4.

^{157\} *Id.*

If this group had to choose which bills to pay first, they would pay the bills in the following order:

1. Pay the utility bill first 79%
2. Pay the telephone bill second 74%
3. Pay the gas credit card third 68%
4. Pay the charge account last 76%

The reason the utility bill is paid first is because it represents an essential service and is subject to disconnection for nonpayment.^{158\}

Wisconsin Public Service ultimately concluded with regard to Group 1 that: "there is probably very little that can be done with these people. Most likely, they will continue to pile up unpaid bills and do the best they can."^{159\}

All households in Group 2 had been late in making a utility payment within the prior twelve months.^{160\} More than half (54%) had missed four or more payments and roughly four of ten (36%) had missed more than five payments. The utility bills for these households are somewhat lower than Group 1, with only one-third (33%) having an average monthly bill in excess of \$100.^{161\} Again, this utility bill is to be added to rent or mortgage payments^{162\} of \$200 - \$300 per month.^{163\}

Like the households in Group 1, these payments tend to force households into a pattern of mobility. More than one-third of Group 2 households (36%) have lived in their current home for less than six months. In addition, more than four of ten (42%) plan to move in the next year, citing the unaffordability of their current housing as the reason for the move.^{164\}

^{158\}Id., at G-7.

^{159\}Id., at G-7.

^{160\}Id., at G-13.

^{161\}Id., at G-13.

^{162\}Only 13% of Group 2 households own their own homes.

^{163\}61% of Group 2 households make rental payments of \$200 - \$300 per month.

^{164\}Id., at G-12.

If Group 2 households had to choose which bills to pay first, they would pay bills in the following order:

- 1. Pay the utility bill first 77%
- 2. Pay the telephone bill second 71%
- 3. Pay the gas credit card third 74%
- 4. Pay the charge account last 81%

As with Group 1, the reason the utility bill is paid first is because it represents an essential service and is subject to disconnection for nonpayment.^{165\}

Wisconsin Public Service ultimately concluded that the Group 2 households "offer() little opportunity for (the company) to work with."^{166\}

All households in Group 3 had been late paying a bill within the past 12 months. More than six of ten (62%) had been late over four times in the past year.^{167\} The utility bills for these households are somewhat higher. Exactly half have average monthly bills in excess of \$100.^{168\} Unlike Groups 1 and 2, Group 3 households tend to own their own homes (46%).^{169\} Nearly nine of ten (88%) pay \$100 - \$300 in house payments each month; roughly half (46%) pay \$200 - \$300 per month.

This group of households is quite stable. Nearly all (88%) have lived at the same address for more than one year.^{170\} While none has moved more than once in the past year, six in ten have moved more than once in the past five years.

If Group 3 households had to choose which bills to pay first, they would pay bills in the following order:^{171\}

^{165\}Id., at G-15.

^{166\}Id., at G-16.

^{167\}Id., at G-21.

^{168\}Id., at G-22.

^{169\}Id., at G-21. "This may reflect that this is a more stable, settled group." Id.

^{170\}Id., at G-21.

^{171\}Id., at G-24.

1. Pay the utility bill first 79%
2. Pay the telephone bill second 71%
3. Pay the gas credit card third 67%
4. Pay the charge account last 71%

Several items need attention in this discussion of the households that Wisconsin Public Service found to be "quite hopeless." First, these households generally try very hard to cut household expenses. Group 1 households, for example, spend less than \$10 per month on recreation. Moreover, 66 percent spend less than \$50 a week on groceries (for an average family size of more than 4).^{172\} More than half (60%) own a car, but half of those own a car that is at least ten years old.^{173\} Similar findings were made for Group 2 and Group 3 households as well.^{174\}

Despite these cost-cutting measures, these households are forced into a mode of constant mobility. As a result, one expense they cannot avoid is the expense of moving: the actual cost of moving; connect fees for telephone and utilities; rental deposits; and the like. Stabilizing the living situation for these households would go a long way toward extending their budgets.

The bill paying priorities should be noted also. For each group, nearly eight of ten households said that, if a choice were forced between which bills to pay, they would pay their utility bill first. This is because, these households said, utility service is essential and is subject to disconnection. (Remember, too, these households did *not* know the survey was being sponsored by the local utility company.) These households went on to say that payment of credit card bills would come last. As a result, it should be clear that consumer credit reports involving bills other than utility bills should be rejected as a basis for making utility credit and collection decisions. For example, deposit demands should not be based upon nonpayment of a non-utility bill that households consistently ranked as "last" in their order of priorities.

The futility in deferred payment plans should be recognized. For Group

^{172\}"Most" of these families have 3 or more people. 50% have 4 or more members and 40% have 5 or more people. Most have small children. *Id.*, at G-1. Note, however, that the date of the study is 1983.

^{173\}*Id.*, at G-1.

^{174\}See, *Id.*, at pp. G-11 (Group 2) and G-19 - G-20 (Group 3).

1 household, for example, while 88 percent of the households said that someone from the utility talked to them, made arrangements to let them pay what they could, and put them on a budget, nevertheless, nearly six in ten (56%) missed 2 - 3 payments and nearly half (45%) missed 4 or more payments.^{175\} Again, similar observations were made for Group 2 and Group 3 households.^{176\}

Finally, the futility (as well as the counterproductiveness) of utility late fees for these households should be noted. In all three groups, eight of ten households have already decided that the utility would be the first bill to be paid with the limited income available. To add a late fee, therefore, would be to add no incentive to pay and, indeed, would simply make the utility bills that much more unaffordable. Moreover, nonpayment, according to the utility, is due to the unaffordability of the bills, not to a lack of incentive. While eight of ten households in Group 1 had incomes less than \$10,000, for example, (and 94% of households in Group 2 had incomes of less than \$10,000), none of the households in the can-pay-but-don't group (Group 5) had incomes that low (with three-quarters [72%] making in excess of \$20,000).

3. THE WASHINGTON STATE STUDY.

A 1989 Washington Natural Gas study was based upon a survey undertaken for the Washington Utility Group.^{177\} The purpose of the study was to "develop() a mutually acceptable understanding of the ability of delinquent utility customers to pay their energy bills. Is it that most can pay these bills on time, but choose not to, or is it that they truly are unable to pay* * *?"^{178\} The Washington study found results similar to those generated in Wisconsin and Pennsylvania.

In short, Washington Natural Gas summarized its results by categorizing

^{175\}Id., at G-4.

^{176\}Id., at G-13 (Group 2) and G-21 - G-22 (Group 3).

^{177\}This group consists of Washington Natural Gas, Pacific Power and Light, Washington Water Power, Northwest Natural Gas, Cascade, and Puget Power.

^{178\}Mildred Baker, *Utility Collection Customers: Understanding Why They Don't Pay on Time*, at 1 (1989). Baker states that this paper only "represents the interpretations of Washington Natural Gas Company, one of the principal survey sponsors." The broader survey was titled: *Investor Owned Utility Group Credit Customer Survey*, Market Trends Research Corp. (1989).

its nonpayers into six groups akin to those groups found in Pennsylvania and Wisconsin. The Washington utility then broke these groups into two broader populations: (1) those who "can pay"; and (2) those who "can't pay." Most payment-troubled customers (64%) can pay, according to the utility. These include the poor money managers (39%), the temporary downers (16%) and the won't pays (8%). A significant minority of payment-troubled households (36%), however, simply "do not have the means to pay."⁷⁹ These include the new poor (22%), the survivors (9%) and the chronic poor (6%).

⁷⁹Id., at 25.

4. Hydro-Quebec.^{180\}

In 1986, Hydro-Quebec conducted a study^{181\} of the "lifestyle and payment habits" of its residential customers.^{182\} The purpose of the Hydro-Quebec study, it said, was to "circumscribe the characteristics of HQ's residential customers with regard to their lifestyles and their payment habits in order to establish a strategy of efficient account management."^{183\}

According to the study, Hydro-Quebec customers carried nearly twice the arrears owed to the local natural gas company (\$254 vs. \$136) and nearly three times the amounts owed to Bell Canada (\$254 vs. \$81).^{184\} The difference in arrears, Hydro-Quebec found, was directly related to the reasons for nonpayment. While roughly one-half of the delinquent Bell Canada payers (48%) stated that they simply forgot to pay their bills, nearly half (46%) of the delinquent Hydro-Quebec customers explained their arrears by noting the existence of personal financial problems and thus an inability to pay.^{185\} The reasons found for nonpayment are set out in Table D.

^{180\}Translated from French for the National Consumer Law Center by Jill Singer.

^{181\}See, Jolicoeur & Associates, *Customer Account Management Summary Report: Study of Residential Customers' Lifestyles and Payment Habits* (January 1987).

^{182\}The survey was conducted by the survey firm of Jolicoeur and Associates, Professional Survey Company, in October - November 1986. It consisted of two phases. The first phase involved a telephone survey of 1435 residential customers. The second phase involved household interviews with 102 customers who had received a final notice or who had experienced an interruption of service.

^{183\}Id., at 5.

^{184\}Id., at 3.

^{185\}Id., at 4.

**TABLE D
REASONS FOR NONPAYMENT
OF VARIOUS HOME UTILITY BILLS**

REASONS	GAS	OIL	TELEPHONE	ELECTRICITY
FINANCIAL PROBLEMS	34%	9%	17%	46%
NEGLECT	38%	29%	48%	27%
DELAY	17%	34%	25%	18%
OTHER REASONS	11%	28%	10%	9%
AMOUNT OWED (last notice)	\$136.30	\$160.12	\$ 81.19	\$254.05

In general, households who don't receive notices from Hydro-Quebec^{186\} "distinguish themselves" from the other households in a number of ways in terms of "financial structure", including: available savings, few dependents, stability of employment, household makeup^{187\} and higher household revenues.

In sum, Hydro-Quebec concluded:

the frequency of nonpayment of bills can be explained more strictly by financial situation: personal income of less than \$10,000, unemployment insurance, social security and food assistance as sources of annual incomes, small amount of savings, people living alone, separated, or widowed, without a partner and with a small household income.^{188\}

The nonpaying population, Hydro-Quebec found, includes those people "who don't foresee an improvement in their situation and who tend to use their

^{186\}Hydro-Quebec sends three types of notices sequentially: missed payment notices, final notices, and interruption notices.

^{187\}They have a smaller household size, with few or no children.

^{188\}Id., at 17.

income for handling debt."^{189\}

Customers who received a final notice or an interruption notice name rent as the highest priority bill to pay. Besides the rent, Hydro-Quebec found, "those bills related to heat, like electricity and gas, are a priority (rank 1 and 2) for 48% and 57% of users, respectively."^{190\} To the extent that these households will delay paying their electric bill to pay their rent, Hydro-Quebec found, they will delay paying their telephone bill to pay for electricity.^{191\}

TABLE E
COST OF SERVICES AND PAYMENT PRIORITY
(population have received final or interruption notice)

	AVERAGE MONTHLY EXPENDITURE	PRIORITY						RECEIPT OF NOTICE
		1	2	3	4	5	6+	
Rent or mortgage	\$354	88	5	0	5	1	0	4%
Natural gas	\$42	11	46	20	23	0	0	38%
Electricity	\$74	14	34	42	5	4	1	55%
Telephone	\$32	1	32	33	20	10	4	40%
Heating oil	\$136	0	32	29	12	21	6	10%
Equipment rental	\$24	0	27	6	27	25	14	0%
Insurance	\$50	3	15	13	30	35	4	0%
Taxes	\$56	3	13	10	35	35	5	10%
Services (cable TV)	\$19	0	0	15	33	30	21	12%

Hydro-Quebec found that roughly half of the nonpayment households would defer payment of their electric bill to pay other bills, primarily rent. In contrast,

^{189\}Id., at 17.

^{190\}Id., at 18.

^{191\}Id., at 19.

the utility continued, only 33 percent of the households would defer other payments in order to pay their electric bill.^{192\} The utility found, however:

* * *in a difficult financial situation, the amount demanded by HQ when notices are sent is so high compared to other services that it becomes a substantial resource for rent payment. In contrast, in order to obtain an amount sufficient to pay the HQ bill, it is almost useless to defer payment of some other services, unless they are all deferred. Deferring other bills in order to pay HQ is thus a strategy with very minimal payment possibilities.^{193\}

In sum, Hydro-Quebec found much the same results as the other utilities. Households receiving electric shutoff notices tend to be overwhelmingly poor. They more likely miss electric payments because of financial difficulties than for other reasons. They place a higher priority on paying their utility bills (except for telephones) than on paying other bills excepting rent.

5. Summary.

These four empirical reports are significant in several regards. For example, on the one hand, the Washington report identifies (as discussed above) payment-troubled households by reason of nonpayment. Based on the Washington report, however, it is possible to work "backwards" as well: to characterize households with certain characteristics as particular types of nonpayers. For example, if a household at 90 percent of poverty does not pay, it is possible to conclude from this report that this household is not likely a poor money manager (household incomes above poverty level),^{194\} a temporary downer (income above poverty level),^{195\} or a won't pay (most incomes above poverty level).^{196\} (It is unfortunate, however, that the Washington study categorized only households at or below 100% of the Poverty Level as "poor."

^{192\}Id., at 20.

^{193\}Id., at 20. (emphasis deleted).

^{194\}Id., at 19.

^{195\}Id., at 21.

^{196\}Id., at 23.

It would be useful to know how many households in the "poor money managers" category would have been recategorized as "chronic poor" if the more typical definition of "poor" [150% of the Poverty Level] would have instead been used.)

Other significant policy conclusions can be reached for that portion of the populations (in all three reports: Wisconsin, Washington, Pennsylvania) that these utilities found "do not have the means to pay."

- oFirst, to impose late charges on these households makes little sense. If these households do not pay their bills because they cannot afford to pay their utility bills, to respond by *increasing* their bills through late charges makes little sense.
- oSecond, deferred payment plans are not likely to succeed in retiring accrued arrears. Again, if these households have not paid their bills in the past because they cannot afford them, to expect the households to pay their current bills in the future *plus* some additional increment to retire arrears is unreasonable.
- oFinally, credit counseling and budget billing is not the answer to the payment problems of these households. If credit counseling or budget billing would have resolved the payment problems of these households, the households would already have been placed into the "poor money managers" group and categorized as a "can pay" household. By instead placing these households into the "can't pay" category, (defined as households that "do not have the means to pay"), the utilities have acknowledged the inapplicability of credit counseling and budget billing as a solution.

One observation can be made about the "can pay" population as well. This involves the use of late payment charges. Of the 64 percent of the Wisconsin payment-troubled population that "can pay," for example, late payment charges are inapplicable, unnecessary and likely counterproductive in 55 percent of the cases. A late charge will not make a poor money manager (39%) a better money manager nor will a late charge give the temporary downer (16%) a job or eliminate her temporary disability. The only population to which the late payment charge is applicable as an effective collection tool is the "won't pay" (8%).

Finally, these reports demonstrate the lack of any basis to demand deposits from low-income households who have poor credit histories with non-utility vendors. In both Wisconsin and Washington, the utilities found that consumer utility bill payment came before any and all other credit payments. Ironically, therefore, to base the demand for a utility deposit based on a bad non-utility credit report may well penalize a poor person who paid the utility bill on time to the detriment of other outstanding consumer credit. In any event, these studies demonstrate that bad credit reports regarding payments consumers said they would pay "last" provide no basis to demand a deposit for payments that consumers said they would pay "first."

SECTION B: RECOMMENDATIONS

As each study looking at payment-troubled customers has noted, there are really two different classes of nonpayers. On the one hand, there are the customers who *don't* pay; on the other hand, there are the customers who *can't* pay. To fail to distinguish collection techniques between the two classes results not only in ineffectiveness, but in inefficiencies as well.

The Pennsylvania Public Utility Commission should direct the state's utilities to submit to the Commission filings in which the utilities articulate the different types of payment-troubled customers they have identified in their service territory. These filings should indicate precisely what collection mechanisms are to be directed toward what types of payment-troubled customers.

The filings recommended in this section should be sufficiently detailed so as to indicate that the utility has thought about and addressed the need to tailor different collection mechanisms toward different types of nonpayers as discussed in this section. For example:

- o Traditional collection techniques should be directed toward those households who can pay but don't. Most households pay their utility bills first because it is a necessity and will be disconnected for nonpayment. To

the extent that late payment fees can be designed in a cost-based manner, such fees should be imposed on this "can pay but doesn't" category of households.

In contrast, a large group of households needs more than the threat of disconnection to obtain regular timely payments. The "poor money manager" group in each service territory needs education and budget counselling as well.

Some households, those facing a temporary inability-to-pay, need payment plans or level billing plans.

Just as important to recognize, however, is that group of households for whom payment plans, level billing plans, and budget counselling will *not* serve to cure their inability-to-pay problems. These are the households who, in the words of Wisconsin Public Service, are "quite hopeless."¹⁹⁷ In the words of the Washington State utilities, these households simply "do not have the means to pay."¹⁹⁸

As discussed in more detail below, this group of households should be placed on the Energy Assurance Program (EAP) in response to their inability to pay problems and the uncollectibles that arise as a result. Moreover, this group of households should be placed on a priority conservation/weatherization program to minimize the inability to pay as well as to reduce the participating utilities' exposure to uncollectibles even when nonpayment does occur.

¹⁹⁷ See, note **Error! Bookmark not defined.**, *supra* and accompanying text.

¹⁹⁸ See, note **Error! Bookmark not defined.**, *supra*, and accompanying text.

PART II: THE DEMOGRAPHICS OF NONPAYERS.

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In addition to understanding why customers don't pay, understanding the demographics of households that don't pay will help regulators to craft credit and collection mechanisms that are both effective and cost-effective. Much Pennsylvania-specific data is available. The evaluation below looks both at the low-income population in general and the payment-troubled population in particular.

SECTION A. THE POOR OF PENNSYLVANIA: INCOME STATISTICS.

That low-income households often have, quite literally, more expenses than income from which to pay their utility bills is beyond dispute. A 1989 NCLC study in Utah,^{\99\} for example, found the cost of a minimum standard of living in that state to be \$9,708 (in 1986 dollars). In contrast, the average income of a Utah LIHEAP recipient (for a family of three) was only \$6,400. Similarly, a 1986 NCLC study in Pennsylvania^{\100\} found that the minimum standard of living for a family of two was \$8,445, while in contrast, a two person Pennsylvania household living at 100 percent of the Federal Poverty Level had \$7,050 in annual income. A 1986 study of Nebraska found that the cost of a minimum standard of living in that state was \$8,854 for a family of four.^{\101\} In contrast, the average annual AFDC income was \$3,360; the average income of a household on unemployment was \$6,096.

This income level simply does not provide sufficient dollars for a household to pay all of its necessary expenses. One 1989 study in Philadelphia found that 100 percent of households living below 50 percent of the Federal Poverty Level in that city had negative monthly income left after paying essential home expenditures, but before paying home heating bills; 75 percent of the households at 50-99 percent of the Poverty Level had

^{\99\}National Consumer Law Center, *Losing the Fight in Utah: Low-Income Households and Rising Energy Costs* (January 1989).

^{\100\}National Consumer Law Center, *The Crisis Continues: Addressing the Energy Plight of Low-Income Pennsylvanians Through Percentage of Income Plans* (November 1986).

^{\101\}*The Minimum Cost of Living in Nebraska*, Bureau of Business Research, College of Business Administration, University of Nebraska--Lincoln (1986).

negative income (with another 10 percent having less than \$24 per month left).^{\102\}

The fact that many households simply do not have sufficient funds to pay home energy bills should come as no surprise to Pennsylvania's utilities. Through the Budget Plus process, for example, Pennsylvania utilities make determinations of income available to devote to paying home energy bills. One utility, Columbia Gas, found in Budget Plus that many households had a "negative ability to pay." A negative ability to pay exists when a household has more expenses than available income. In such circumstances, Columbia Gas has historically required a minimum monthly payment of five (5) dollars toward arrears. A sample of 3,907 Budget Plus customers for Columbia Gas revealed that, of those households, 1,636 reported that they had more expenses than income.^{\103\}

Even beyond having inadequate income with which to begin, Pennsylvania residents have lost ground in their fight against poverty in the last several years. The cost-of-living, for example, can be measured by the Consumer Price Index. In the last five years, the cost-of-living has increased by nearly 20 percent. In Pennsylvania, unemployment recipients have not kept up with the increases in the cost-of-living. Average weekly unemployment benefits in 1988 reached \$712, an increase of only 12 percent from the \$631 level of 1984. In contrast, SSI beneficiaries have kept a little ahead. The maximum benefit for an elderly individual in 1988 was \$388, an increase of 26 percent from the 1984 level of \$306.

The National Consumer Law Center does periodic studies of the status of low-income households. The most recent study, ***The Forgotten Crisis: A State-by-State Analysis of the Energy Situation Facing the Poor, Including the Elderly, the Unemployed and Households with Children***,^{\104\} is discussed in detail below. ***The Forgotten Crisis*** is based on a variety of federally-supplied statistics, as cited in the report. The earlier figures are

^{\102\}While it is recognized that Philadelphia Gas Works (PGW) is not a utility regulated by the Public Utility Commission, because of the substantial empirical work that has been done on low-income energy problems on the PGW system, PGW is used in this report as being legitimate Pennsylvania data.

^{\103\}*Pennsylvania Public Utility Commission v. Columbia Gas Company of Pennsylvania*, Direct Testimony and Exhibits of Roger Colton, at 41, Docket No. R-891468, presented on behalf of the Office of Consumer Advocate (April 1990).

^{\104\}National Consumer Law Center (May 1989).

taken from the NCLC report ***Cold--Not by Choice***.^{\105\}

There are other disturbing trends for poverty households in Pennsylvania as well. A 1987 study by the General Accounting Office looked at participation in the Food Stamp program.^{\106\} GAO found that in Pennsylvania, participation in the Food Stamp program declined by more than 50,000 households, or roughly seven percent, simply from 1983 through 1985. More households are thus devoting more of their cash income to food purchases than before, leaving less income available for all other expenses, including energy.

These income problems directly translate into energy payment problems. ***The Forgotten Crisis*** found that Pennsylvania residents had an average 1988 energy cost of \$1,105, including an average monthly winter energy cost of \$136. This data is particularly troubling for recipients of AFDC benefits, for recipients of SSI benefits, and for recipients of unemployment benefits.

In Pennsylvania, an ***AFDC*** household of three receiving the maximum monthly benefit in 1988 (\$384) would have spent 24 percent of its annual income on home energy bills. That household would have had a weekly income left, after paying its winter energy bills, of only \$58 for all other living expenses, including housing, food, medical attention, transportation and communication. These figures assume *maximum* benefits.

An elderly couple receiving the maximum ***SSI*** grant in January 1988 (\$580) would have spent 16 percent of their income on annual home energy bills. That household would have \$115 per week left for all other living expenses after paying its winter energy bills. The individual receiving SSI is in much worse shape. An elderly individual receiving the maximum SSI benefit in January 1988 (\$386) would have spent 24 percent of her income on her annual home energy bill. That individual would have had \$58 left per week for all other living expenses after paying her winter home energy bill. As with AFDC, these figures assume *maximum* benefits.

A household receiving the average ***unemployment*** benefit in Pennsylvania in 1988 (\$712) would have spent 13 percent of its income on its

^{\105\}National Consumer Law Center (1984).

^{\106\} U.S. General Accounting Office, ***Food Stamp Program: Trends in Program Applications, Participation, and Denials*** (April 1987).

annual home energy bill. It would have had \$134 left per week to spend on all other living expenses after paying its winter energy bill.

Finally, the average monthly **Social Security** benefit in Pennsylvania for a retired worker and spouse was \$798 in 1988. That household would have spent 12 percent of its income on its annual home energy bill. That household would have had \$154 left per week for all other living expenses after paying its winter energy bill. This data is particularly disturbing. According to the U.S. Administration on Aging, unlike the average household, elderly households spend fifteen percent of their income on medical bills alone, thus further pinching elderly budgets.

SECTION B. THE POOR OF PENNSYLVANIA: USAGE STATISTICS.

Despite their payment-troubled status, contrary to what is perhaps popular perception, it is not necessarily the case that the payment troubles of low-income households are caused by substantially greater energy consumption. Indeed, a number of studies indicate that low-income households have **less** consumption than their higher income counterparts.

This observation may well seem counterintuitive. The image of low-income households living in old and dilapidated housing is strong. Rounding out that picture are images of inefficient heating systems as well as dwelling units with little or no insulation or other energy savings features. While this picture of the low-income dwelling may be accurate, it does not *ipso facto* follow that the low-income population has higher than average consumption. Indeed, notwithstanding the accuracy of the image, the opposite is true.^{107\}

The purpose of this Section is to review the available data on energy consumption as a function of income. The Section will further seek explanation of why low-income consumption might be lower than that of higher income households despite the relatively poorer and more inefficient housing stock in which low-income households live.

^{107\}This merely lends credence to the observation that low use can nevertheless involve wasteful usage. This Section, however, shall for the moment set aside the implications of this result for purposes of assessing demand side management (DSM) measures.

1. The Relationship Between Consumption and Income.

Household energy consumption decreases as household income decreases. This observation holds true for the nation as a whole, for each region of the nation, and for nearly every state in the nation.¹⁰⁸⁾ Moreover, this observation has held consistent over time.

Lower-incomes are associated with lower energy use for the United States as a whole. According to a 1990 study by the Energy Information Administration of the U.S. Department of Energy (DOE),¹⁰⁹⁾ total energy use for low-income households can be as much as 20 percent lower than the total population average. Moreover, DOE reports, this conclusion holds for a range of fuel sources used for heating, including natural gas, oil and electricity. For each of these fuels, standing alone, as well as for total energy consumption, energy use goes up as income goes up:

**TABLE F
TOTAL ENERGY BILLS BY INCOME (NATIONAL)
BY PRIMARY HEATING FUEL**

INCOME	TOTAL ENERGY	NATURAL GAS	OIL	ELECTRICITY
All households:	\$1,080	\$1,073	\$1,260	\$1,038
<\$10,000:	\$ 859	\$ 868	\$ 985	\$ 772
\$10,000-\$19,999:	\$ 944	\$ 933	\$1,170	\$ 830
\$20,000-\$34,999:	\$1,072	\$1,057	\$1,196	\$1,040
\$35000+:	\$1,347	\$1,330	\$1,662	\$1,306

This DOE data is consistent with other studies of the same issue. For example, a study released by the National Council of Senior Citizens (NCSC) found that, nationally, energy consumption by low-income elderly households is less than 84 percent of the average consumption for the elderly population as

¹⁰⁸⁾In a state as large as Pennsylvania, with as many diverse climatic regions, there may be variations between and among regions within a state, however, as well as between utility service territories.

¹⁰⁹⁾U.S. Department of Energy, Energy Information Administration, *Consumption and Expenditures 1987, Part II: Regional Data* (January 1990).

a whole.^{\110\}

**TABLE G
ELDERLY HOUSEHOLD ENERGY CONSUMPTION
POOR VS. NON-POOR**

	HEAT WITH OIL	HEAT W/ GAS/ELEC.
NON-POOR:	\$1,185	\$1,033
POOR:	\$1,083	\$ 871

The Washington Center for Metropolitan Studies (WCMS) found similar results, not taking into consideration age.^{\111\} Low-income households in 1975, WCMS found, had annual electric use 55 percent less than all households (60.6 MBTU vs. 94.2 MBTU) and paid 48 percent less per year (\$188 vs. \$278).^{\112\} Low-income natural gas customers used 24 percent less than all households (109.8 MBTU vs. 136.3 MBTU) and paid 23 percent less (\$182 vs. \$224).^{\113\} For natural gas customers, the comparison between income ranges^{\114\} was even more stark. The WCMS found the following natural gas usage patterns:

^{\110\}*Double Jeopardy: The Impact of Energy Taxes on Low-Income Households*, National Council of Senior Citizens (1988).

^{\111\}*Colder--Darker*, Washington Center for Metropolitan Studies (1977).

^{\112\}In a study of its low-income customers in the Connecticut Light and Power service territory, Northeast Utilities (CL&P's parent company) found that: "the overall mean annual energy consumption level (kWh) is lower for the low-income respondents (5,525 kWh) than for the respondents in other income groups (8,624 kWh). Forty-one percent of the low-income respondents use less than 4,000 kWh per year, while only 16 percent of the respondents in other income groups use less than 4,000 kWh per year.* * *the relationship continues for the monthly comparisons. The low-income households consume about one-third less electricity monthly when compared to the typical CL&P responding household." Northeast Utilities, *A Preliminary Analysis of Low-Income Households in the CL&P Service Territory*, at 21 - 22 (1983).

^{\113\}The U.S. Department of Energy, Economic Regulatory Administration, Office of Petroleum Operations, relied upon, and quoted, these figures in its report *Low-Income Energy Assistance Programs: A Profile of Need and Policy Options* (July 1980).

^{\114\}This contrasts to the comparison between the poor and the total population average.

**TABLE H
NATURAL GAS CONSUMPTION BY INCOME RANGE**

Income:	<\$14,000	\$14,000-\$20,500	\$25,000+
Avg. ann. MBTU:	110.1	137.4	190.5
Avg. ann cost:	\$182.70	\$228.30	\$328.00
Avg. price/MBTU:	\$ 1.66	\$ 1.66	\$ 1.72

The Syracuse Research Corporation relied on WCMS work to report the following electric usage characteristics:^{115\}

**TABLE I
ELECTRIC CONSUMPTION BY INCOME RANGE**

INCOME	Low-income	\$14,000-\$20,500	\$25,000+
ELECTRICITY	60.6 MBTU	111.3 MBTU	137.5 MBTU

These national figures are supported by a variety of local studies. A Philadelphia study, based on the 1985 American Housing Survey, found as follows:^{116\}

^{115\}Syracuse Research Corporation, *Low-Income Families and High Energy Costs: An Economic Study* (1978).

^{116\}Direct Testimony and Exhibits of Eunice Grier, *Re. Philadelphia Gas Works*, on behalf of The Public Advocate (July 1989).

**TABLE J
AVERAGE MONTHLY GAS BILL
BY INCOME RANGE (PHILADELPHIA)**

MONTHLY INCOME	AVG MONTHLY GAS BILL
<\$500	\$71
\$500-\$999	\$75
\$1000-\$1499	\$93
\$1500+	\$95

A 1987 study of Delaware fuel assistance households made similar findings. That study concluded that "LIHEAP households tend to consume near the minimum requirement for their dwelling type."¹¹⁷ The University of Delaware study found the relationship between income and energy use to be as follows:

**TABLE K
AVERAGE ENERGY CONSUMPTION (MMBTU)
BY INCOME RANGE (DELAWARE)**

GROSS INCOME	MILLION BTU OF USE
\$1-4000	99.16
\$4001-5500	102.97
\$5501-7000	110.96
\$7001-8500	118.38
\$8501+	117.40
AVERAGE	107.39

The finding that poor households use less energy for **heating** is consistent throughout the nation. According to the U.S. Department of Energy,¹¹⁸ for example, natural gas bills, where gas is used as the primary

¹¹⁷*Energy Needs and Costs of Low-Income Households: A Preliminary Profile of Delaware LIHEAP Clients*, Center for Energy and Urban Policy Research, University of Delaware (1987).

¹¹⁸U.S. Department of Energy, Energy Information Administration, *Consumption and Expenditures 1987, Part II: Regional Data* (January 1990).

heating source, decline as income declines for each region of the country:¹¹⁹⁾

**TABLE L
NATURAL GAS BILLS BY INCOME
WHERE GAS IS PRIMARY HEATING SOURCE**

INCOME \$(000)	NE	MA	ENC	WNC	SA	ESC	WSC	MT	P
Average:	\$738	\$743	\$562	\$464	\$533	\$384	\$354	\$424	\$327
<\$10	\$700	\$651	\$520	\$422	\$465	\$370	\$320	\$360	\$288
\$10-19.9	\$757	\$650	\$511	\$445	\$459	\$338	\$318	\$426	\$269
\$20-34.9	\$662	\$704	\$509	\$451	\$567	\$376	\$379	\$410	\$271
\$35+	\$813	\$892	\$592	\$531	\$604	\$472	\$409	\$496	\$398

Similar results have been found for fuel oil bills where fuel oil is the primary heating source:

**TABLE M
FUEL OIL BILLS BY INCOME
WHERE FUEL OIL IS PRIMARY HEATING SOURCE**

INCOME \$(000)	NE	MA	ENC	WNC	SA	ESC	WSC	MT ¹²⁰⁾	P
Average:	\$634	\$597	\$496	\$398	\$397	NA	NA	NA	NA
<\$10	\$550	\$466	NA	\$314	\$430	NA	NA	NA	NA
\$10-19.9	\$513	\$590	\$510	NA	\$474	NA	NA	\$247	NA
\$20-34.9	\$599	\$497	\$454	\$518	\$430	NA	NA	\$170	NA
\$35+	\$753	\$799	\$524	NA	\$557	NA	NA	\$166	NA

Finally, DOE found electric bills (for houses using electricity as their primary heating source), to vary inversely with income:

**TABLE N
ELECTRIC BILLS BY INCOME**

¹¹⁹⁾The regions include: NE=New England; MA=Mid-Atlantic; ENC=East North Central; WNC=West North Central; SA=South Atlantic; ESC=East South Central; WSC=West South Central; MT=Mountain; and P=Pacific. The States in each Census region are set forth in Appendix A.

¹²⁰⁾Due to a scarcity of data, this data is for the entire western region, not simply the Mountain States Region. In the Tables, the term "NA" means that DOE reported that insufficient data existed to determine statistically reliable results.

WHERE ELECTRICITY IS PRIMARY HEATING SOURCE

INC \$(000)	NE	MA	ENC	WNC	SA	ESC	WSC	MT	P
Average:	\$1,055	\$1,186	\$1,259	\$1,117	\$1,123	\$1,001	\$958	\$1,026	\$640
<\$10	\$543	NA	\$1,159	NA	\$381	\$706	\$803	\$732	\$576
\$10-19.9	\$788	\$826	\$1,074	\$973	\$412	\$909	\$714	\$786	\$587
\$20-34.9	\$1,404	\$1,136	\$1,103	\$977	\$364	\$1,017	\$1,076	\$928	\$689
\$35+	\$1,313	\$1,449	\$1,606	\$1,597	\$454	\$1,317	\$1,083	\$1,335	\$862

The variance in energy costs as a function of income becomes even more apparent when *total* household energy bills are examined, rather than simply heating bills. For example, DOE found that total energy bills, when gas is used as the primary heating source, varied inversely with income:

TABLE O
TOTAL HOUSEHOLD ENERGY COSTS
WHEN NATURAL GAS IS PRIMARY HEATING SOURCE

INC \$(000)	NE	MA	ENC	WNC	SA	ESC	WSC	MT	P
Average:	\$1,220	\$1,329	\$1,113	\$1,053	\$1,171	\$990	\$1,104	\$923	\$800
<\$10	\$1,028	\$983	\$988	\$808	\$955	\$756	\$839	\$716	\$601
\$10-19.9	\$1,196	\$1,139	\$990	\$967	\$942	\$895	\$938	\$901	\$594
\$20-34.9	\$1,129	\$1,266	\$1,072	\$1,054	\$1,191	\$1,084	\$1,253	\$886	\$717
\$35+	\$1,409	\$1,683	\$1,364	\$1,329	\$1,445	\$1,286	\$1,462	\$1,175	\$1,002

Similar results were found for total energy bills when fuel oil is used as the primary source of heat:

**TABLE P
TOTAL HOUSEHOLD ENERGY COSTS
WHEN FUEL OIL IS PRIMARY HEATING SOURCE**

INC. \$(000)	NE	MA	ENC	WNC	SA	ESC	WSC	MT	P
Average:	\$1,284	\$1,299	NA	NA	\$1,185	\$1,189	NA	NA	NA
<\$10	\$985	\$942	NA	\$851	\$1,058	NA	NA	NA	NA
\$10-19.9	\$1,111	\$1,194	\$1,363	NA	\$1,162	NA	NA	NA	NA
\$20-34.9	\$1,209	\$1,172	\$1,282	\$1,241	\$1,238	NA	NA	NA	NA
\$35+	\$1,584	\$1,758	\$1,380	NA	\$1,357	NA	NA	NA	NA

Finally, DOE found total energy bills for houses using electricity as their primary heating source, to vary inversely with income:

**TABLE Q
TOTAL HOUSEHOLD ENERGY COSTS
WHEN ELECTRICITY IS PRIMARY HEATING SOURCE**

INC. \$(000)	NE	MA	ENC	WNC	SA	ESC	WSC	MT	P
Average:	\$1,084	\$1,217	\$1,300	\$1,159	\$1,142	\$1,017	\$994	\$1,058	\$683
<\$10	\$543	\$942	\$1,172	NA	\$799	\$717	\$842	\$748	\$565
\$10-19.9	\$881	\$1,194	\$1,089	\$993	\$888	\$922	\$732	\$821	\$579
\$20-34.9	\$1,404	\$1,172	\$1,172	\$1,034	\$1,141	\$1,030	\$1,116	\$960	\$669
\$35+	\$1,338	\$1,758	\$1,645	\$1,643	\$1,474	\$1,343	\$1,124	\$1,371	\$804

Indeed, in every state but Alaska (where bills are virtually the same over income levels), the energy bills for low-income families (with a head of household younger than 60) are lower than for their counterparts with higher incomes.

TABLE R
TOTAL ENERGY COSTS BY INCOME AND AGE
STATE-BY-STATE ANALYSIS

insert table

In sum, energy consumption for low-income households tends to be less than energy consumption for households with moderate and upper incomes as well as less than average consumption for the population as a whole. These patterns are consistent across both geographic regions and states. Finally, this pattern of energy consumption has held true over time. Neither the relatively poorer housing stock inhabited by low-income households nor the relatively older and more inefficient heating systems result in low-income energy use equal to or greater than either that of the population as a whole or that of particular higher income categories.

2. Reasons for Low Usage by the Poor.

The relatively lower energy use for low-income families can be explained by low-income household characteristics. Moreover, a complete understanding of the components of household energy use help explain why home heating might have impacts on total consumption that are more limited than might otherwise be expected.

While home heating costs are a major component of a household's annual natural gas bill, other end uses contribute significantly as well.¹²¹ As a result, changes in home heating costs have a proportionately smaller effect on changes in total energy costs. Columbia Gas of Pennsylvania, for example, explained the components which make up a typical natural gas bill (for a household that heats with natural gas). According to Columbia Gas, the average household uses the following amounts of natural gas each year for the following end uses:

**TABLE S
RESIDENTIAL GAS USE BY END USE**

END USE	USE LEVEL (MCF)	PCT OF TOTAL
HEATING:	87.9	68%
HOT WATER:	34.5	27%
COOKING:	6.0	5%
TOTAL:	128.4	100%

¹²¹Natural gas is discussed here only because that is the data which is available.

As can be seen, hot water and cooking use make up nearly one-third of total natural gas consumption. Moreover, since *that* consumption tends to remain constant over income levels, those differences which do appear are likely attributable to the space heating component.

Given this data, it is not surprising that low-income households do not *ipso facto* have --simply because of old housing stock and heating units-- the higher consumption often assumed. A substantial part of the energy cost incurred by the poor is not affected by these characteristics.

Even within the heating component of a low-income energy bill, low-income characteristics tend to support a finding of lesser rather than greater energy use as compared to the population as a whole. A primary cause of this phenomenon is the fact that low-income households tend to be renters living in multi-unit buildings with per dwelling unit energy consumption less than the total population average and certainly less than single family detached dwellings.

Low-income households tend to be renters who live in multi-unit buildings rather than owners of single family detached homes. The National Consumer Law Center has consistently found this to be the case in studies of LIHEAP populations around the country:

**TABLE T
LOW-INCOME HOUSEHOLDS AS RENTERS (%)**

	DATE	PERCENT RENTERS
WISCONSIN: ^{\122\}	1985	72%
RHODE ISLAND: ^{\123\}	1986	77%
MARYLAND: ^{\124\}	1987	73%

^{\122\} National Consumer Law Center, *Evaluation of Wisconsin Gas Company's Proposal for A Guaranteed Service Plan* (1985).

^{\123\} National Consumer Law Center, *Percentage of Income Plans: Final Report to the Low-Income Task Force of the Rhode Island Public Utilities Commission* (1986).

^{\124\} National Consumer Law Center, *Evaluation of Maryland's Winter Heating Protection Program* (1987).

	DATE	PERCENT RENTERS
MINNESOTA: ^{125\}	1986	29%
MAINE: ^{126\}	1988	67%
PHILADELPHIA: ^{127\}	1989	72%

The U.S. Department of Energy, in its Residential Energy Consumption Survey (RECS) previously cited, found a dramatic relationship between rental status and energy consumption. The DOE reported that for every region, as well as for the country as a whole, this relationship existed:

TABLE U
RESIDENTIAL CONSUMPTION: RENTER VS. HOMEOWNER
BY PRIMARY HEATING SOURCE

	ALL EN. RENT	ALL EN. OWN	GAS RENT	GAS OWN	OIL RENT	OIL OWN	ELEC. RENT	ELEC. OWN
COUNTRY:	\$ 819	\$1,221	\$ 816	\$1,218	\$ 977	\$1,397	\$ 746	\$1,264
NEW ENGL:	\$ 964	\$1,386	\$1,088	\$1,417	\$ 933	\$1,415	\$ 727	\$1,799
MID-ATL:	\$ 945	\$1,489	\$1,001	\$1,483	\$ 927	\$1,566	\$ 810	\$1,504
EAST NO. CENTRAL:	\$ 881	\$1,277	\$ 844	\$1,273	\$1,254	\$1,306	\$ 954	\$1,475
WEST NO. CENTRAL:	\$ 820	\$1,159	\$ 785	\$1,177	NA	\$1,232	\$1,084	\$1,197
SOUTH ATL:	\$ 909	\$1,243	\$ 951	\$1,311	\$1,123	\$1,213	\$ 869	\$1,282

^{125\}National Consumer Law Center, *Evaluation of Minnesota Fair Share Pilot Program* (1986).

^{126\}National Consumer Law Center, *An Evaluation of Low-Income Utility Protections in Maine: Fuel Assistance and Family Crisis Benefits*, Volume III, (July 1988). This figure looks only at households who defaulted on winter payment arrangements.

^{127\}Direct Testimony and Exhibits of Eunice Grier, *Re. Philadelphia Gas Works*, on behalf of The Public Advocate (July 1989).

	ALL EN. RENT	ALL EN. OWN	GAS RENT	GAS OWN	OIL RENT	OIL OWN	ELEC. RENT	ELEC. OWN
EAST SO. CENTRAL:	\$ 746	\$1,099	\$ 737	\$1,139	NA	\$1,199	\$ 718	\$1,171
WEST SO. CENTRAL:	\$ 800	\$1,204	\$ 855	\$1,200	NA	NA	\$ 733	\$1,357
MOUNTAIN:	\$ 773	\$1,018	\$ 770	\$986	NA	NA	\$ 776	\$1,252
PACIFIC:	\$ 571	\$ 935	\$ 563	\$ 976	NA	NA	\$ 545	\$ 885

The National Consumer Law Center, and others, has found this relationship between higher heating bills and rental status as well:

**TABLE V
HOME ENERGY BILL: HOMEOWNER VS. RENTER
SELECTED STATES**

	HOMEOWNER BILL	RENTER BILL
WISCONSIN	\$1,091	\$ 974
RHODE ISLAND	\$ 912	\$ 733
MARYLAND¹²⁸⁾	\$ 905	\$ 632
MINNESOTA	\$1,177	\$ 940
PHILADELPHIA	\$ 984	\$ 900

In reviewing these analyses, it is important to remember that tenancy unto itself is not associated with lower energy use. Instead, tenancy tends to be associated with the type of dwelling unit: single family detached or multi-family.

¹²⁸⁾This report looks at apartments versus single family detached homes. Badua, et al., *Energy Needs and Costs of Low-Income Households: A Preliminary Profile of Delaware LIHEAP Clients*, Center for Energy and Urban Policy Research, University of Delaware (1987).

When measured directly, the difference between the energy use in single family detached dwellings and multi-unit dwellings is even more stark. The U.S. Department of Energy reported in its RECS:

**TABLE W
HOME ENERGY BILL BY DWELLING TYPE
AND PRIMARY HEATING SOURCE**

	ALL EN. 1-UNIT	ALL EN. 2-UNIT+	GAS 1-UNIT	GAS 2-UNIT+	ELEC 1-UNIT	ELEC 2-UNIT+
COUNTRY:	\$1,218	\$ 771	\$1,204	\$ 775	\$1,287	\$ 694
NEW ENGL:	\$1,506	\$ 950	\$1,481	\$1,033	\$1,560	\$ 748
MID-ATL:	\$1,527	\$ 941	\$1,484	\$1,022	\$1,528	\$ 765
EAST NO. CENTRAL:	\$1,292	\$ 798	\$1,284	\$ 800	\$1,457	\$ 748
WEST NO. CENTRAL:	\$1,162	\$ 714	\$1,170	\$ 708	\$1,258	\$ 890
SOUTH ATL:	\$1,246	\$ 816	\$1,313	\$ 829	\$1,311	\$ 803
EAST SO. CENTRAL:	\$1,080	\$ 667	\$1,101	\$ 661	\$1,168	\$ 675
WEST SO. CENTRAL:	\$1,145	\$ 724	\$1,149	\$ 750	\$1,287	\$ 714
MOUNTAIN:	\$1,041	\$ 683	\$1,008	\$ 691	\$1,307	\$ 661
PACIFIC:	\$ 936	\$ 529	\$ 955	\$ 518	\$ 929	\$ 560

So, too, did NCLC find this relationship:

**TABLE X
HOME ENERGY BILL BY DWELLING TYPE**

	1-UNIT	3+-UNITS
WISCONSIN	\$1,132	\$ 677
RHODE ISLAND	\$ 885	\$ 726
MINNESOTA	\$1,177	\$ 746

Unlike the stereotype of the poor living in a huge rambling uninsulated house with an old and inefficient heating system, the more accurate picture of a low-income household is one where a family rents a multi-family dwelling which, even if energy inefficient, is small enough and has sufficient natural insulation arising from multi-unit dwellings to use less energy than the single family detached homes owned by households with more moderate means.

SECTION C. THE POOR OF PENNSYLVANIA: ENERGY BURDEN STATISTICS.

Given the lower utility bills of lower income households *vis a vis* higher income households, it cannot be concluded that it is inefficient housing, old furnaces and the like which "cause" an inability-to-pay. Nevertheless, research done by NCLC has drawn the connection, not surprisingly, between higher bills and arrears. In a 1988 study of payment plans done for the Maine Public Utilities Commission, for example, NCLC found a direct correlation between usage and arrears.¹²⁹ The Maine analysis found that "within the payment plan populations for both utilities studied,¹³⁰ households having the highest usage tend to have the higher arrears." * * * Two points of comparison are used to draw these conclusions:

¹²⁹National Consumer Law Center, *An Evaluation of Low-Income Utility Protections in Maine: Payment Arrangements for Maine's Electric Utilities*, Volume II, at 60 - 67 (July 1988).

¹³⁰The two utilities included Central Maine Power Company and Eastern Maine Electric Cooperative.

(1) total annual consumption; and (2) average monthly winter consumption.¹³¹

A "clear correlation" between total annual usage and the level of arrears was found for Central Maine Power Company. According to the Maine research, the average total arrears for Central Maine Power Company was \$48. "While households with an annual consumption greater than 16,000 KWH have an average arrears of \$88, for example, households with less than 5,000 KWH of use have an average arrears of only \$10."

The association held with winter consumption, the Maine study found. "Total arrears for customers with consumption over 2000 KWH were nearly twice the payment plan average (\$91 vs. \$48) and nearly triple the arrears of households at the lower consumption levels (\$91 vs. \$33). The breakpoint for particular payment problems occurs at a winter month usage of around 1300 KWH. Households falling into the band of from 1300 to 2000 KWH per winter month averaged total arrears of \$82, again substantially above the total payment plan population."¹³²

Similar results were found for the Rural Electric Cooperative. The average total arrears facing the Co-op's payment plans customers, the report found, was \$40. "In contrast to this average, however, is the sub-population of households with annual usage in excess of 16,000 KWH. Those customers had an average arrears of \$214, more than five times the total population average."¹³³

The association with winter usage and arrears was confirmed with the Co-op also. According to the Maine research, "the \$272 average arrears for persons with winter usage of more than 2000 KWH was nearly seven times the \$40 total payment plan population average; even at usage levels of from 1300 to 2000 KWH per month, the \$118 average arrears was nearly triple the total population average." At the opposite end of the spectrum, 18 of the 25 households with arrears of less than \$50 had monthly winter consumption of less than 700 KWH.¹³⁴

¹³¹Id., at 60.

¹³²Id., at 62.

¹³³Id., at 63.

¹³⁴Id., at 65.

The Maine report concluded that "the level of a household's consumption is highly correlated with the level of that household's arrears.* * * Payment plan households tend to be households which have a continuing mismatch between available resources and household expenses. They tend not to be customers for whom cash flow changes would be beneficial; rather an absolute shortfall in resources is apparent and continuing payment problems can be observed."^{135\}

Other studies have extended the analysis beyond the Maine findings. This research indicates that it is not the absolute level of consumption which is associated with arrears, it is the interplay between consumption and income.^{136\} This observation, for example, is supported by data from a study the National Consumer Law Center did for the Wisconsin Gas Company regarding the possible redistribution of LIHEAP benefits in Wisconsin.^{137\}

In Wisconsin, NCLC examined a new method of distributing LIHEAP benefits that would tie the level of LIHEAP to the burden which a household's energy bill posed as a percentage of income. Since the proposal involved a redistribution of the identical amount of funds, some households would lose some amount of benefits (called "participant losers") while other would gain some amount of benefits (called "participant gainers").

The average income of the participant gainers (\$5,834) was somewhat, but not substantially, different from that of the participant losers (\$6,213). The average bills, however, were. While the average bills for the participant gainers were \$1,370 per year, the average bill for the participant losers were only \$873 per year. The real difference, however, came in the burden which those bills represented to the households (as a percentage of income). In general, without the redistribution of LIHEAP examined by NCLC, the participant gainers spent 17.9 percent of their income on their annual natural

^{135\}Id., at 66.

^{136\}The notion that this is the key determinant is supported by an examination of the federal LIHEAP statute. In LIHEAP, Congress directed not that the greatest benefits go to those households with the highest bills, but rather to those households with the lowest incomes and the highest energy costs in relation to income, taking into account family size. 42 U.S.C. § 8624(b)(5) (1983 and 1990 Supp.)

^{137\}National Consumer Law Center, *Evaluation of Wisconsin Gas Company's Proposal for a Guaranteed Service Plan* (November 1985).

gas bills while the participant losers spent 8.9 percent of their income.^{\138\}

The difference in burdens was directly reflected in arrears. The participant gainers had an average arrears of \$560 while the participant losers had an average arrears of only \$229. Viewed from the converse perspective, the arrears were split between gainers and losers as shown in Table Y:

**TABLE Y
THE RELATIONSHIP BETWEEN ENERGY BURDEN AND ARREARS
WISCONSIN GAS COMPANY**

	TOTAL	% WITH DEBT OVER \$100	% WITH DEBT OVER \$300	% WITH DEBT OVER \$500	% WITH DEBT OVER \$750
GAINERS	47.8%	51.5%	58.0%	66.9%	78.1%
LOSERS	26.3%	25.4%	22.5%	16.9%	11.9%

Clearly, based on this information, it is possible to conclude that while there is a relationship between arrears and usage, as well as between arrears and income, the "truer" test of inability-to-pay is the burden which the energy bill poses as a percentage of income. **That** is the key indicator.

SECTION D. THE POOR OF PENNSYLVANIA: MOBILITY.

The National Consumer Law Center believes there is an additional factor to consider in a low-income household's inability to pay. Low-income customers tend to be a very mobile population. A 1984 study by the National Social Science and Law Center (NSSLC) considered the mobility of low-income households in Pennsylvania to ascertain the impacts of telephone hook-up charges. NSSLC found that compared to the roughly twelve percent of the total population that changed residences each year, nearly one-quarter (23 percent) of the low-income population moved. Disproportionately represented in the "mover" households are recipients of public assistance, minorities, and female-headed households. (Attached as Appendix B).

Households which have recently established service have poorer utility payment records than those who are more stable. A study by the National Consumer Law Center for the Maine Public Utilities Commission looked at the

^{\138\}Id.

households for whom a disconnection of service was sought during the winter of 1986 - 1987.^{\139\} Of that population, NCLC found that nearly 60 percent of the households initiating service on and after August 1st failed to make a payment of any sort toward their utilities bill.^{\140\} Moreover, of that population, nearly 40 percent of the households who obtained service after August 1st had their service disconnected that winter. According to NCLC: "it can be concluded that the households initiating service on or after August 1, 1986 represent a more serious shutoff risk than those households having a record of service."^{\141\} The failing of the NCLC report in Maine, however, was in not recognizing the potential reasons behind this exposure to disconnections for households who had recently moved. It may well be, in other words, that **the very act of moving**, contributes to an inability to pay.

Columbia Gas of Pennsylvania certainly finds that its Budget Plus customers tend to be households who have recently connected to the system. It is possible, for example, to take a look at the tenants in the sample of 3,907 Columbia Gas Budget Plus households discussed throughout these comments^{\142\} (engaging in the assumption that it is less likely that a home owner would easily move). There were 1,991 tenants in the sample. Forty percent of those tenants (N=678) had a connect date on the Columbia system of 1989 or later.^{\143\} A distribution of the connect dates for tenants is set out below.

TABLE Z DISTRIBUTION OF YEARS IN WHICH BUDGET PLUS TENANTS CONNECTED SERVICE

^{\139\}In Maine, there is no absolute moratorium on winter disconnections. A utility, however, must obtain the consent of the PUC's Consumer Assistance Division before a winter disconnection.

^{\140\}National Consumer Law Center, *An Evaluation of Low-Income Utility Protections In Maine: Winter Requests for Disconnect Permission*, Volume I, at 32 - 33 (July 1988).

^{\141\}*Id.*, at 34. "In addition," NCLC continued, "Maine utility companies might conclude that those households with a record of twelve or more months of service are facing an episodic inability to pay and may wish to temper their collection practices by that recognition." *Id.*

^{\142\}A random sample of 3,907 Columbia Gas Budget Plus customers was drawn to serve as the basis for evaluation in that company's 1990 rate case.

^{\143\}The study was prepared in March 1990 for presentation in April 1990. Thus, a connect date of 1989 was very recent.

YEAR	ALL HOUSEHOLDS	TENANTS
BEFORE 1985	1135	358
1985	255	142
1986	280	165
1987	380	241
1988	568	389
1989	829	644
1990	43	34
TOTAL:	3490 ^{\144\}	1973

What is disturbing in this scenario is the notion that utility collection practices, unto themselves, can be a major factor in drawing low-income households in Pennsylvania into a cycle of "forced mobility." Columbia Gas, for example, files reports with the Bureau of Consumer Services each fall pursuant to Rule 56-100. These reports look at the extent to which households that have been disconnected within the previous twelve months remain without heating service. The Columbia Gas reports indicate that from January 1, 1989 through November 30, 1989, 1,807 "heat related properties" had their service terminated for nonpayment. As of December 13, 1989, 897 of those "heat-related residential properties" had not been reconnected. In turn, 380 of those 897 (42 percent) were vacant premises, indicating the household had moved subsequent to the shutoff. Similar results were experienced in 1988. From January through November, 1988, 1,902 households had service disconnected for nonpayment. As of December 13, 1988, 1,041 of those households were not reconnected. In turn, 439 of those 1,041 (42 percent) represented vacant premises.

This data cannot be viewed in isolation from the discussion above. It is possible and necessary to conclude from this data that there is substantial mobility on the part of the low-income customers of Columbia Gas. Moreover, it is possible to conclude that it is the very act of utility disconnection which contributes to forcing households into this pattern of mobility. Finally, it is

^{\144\}Since not all of the total sample reported a "connect date," this total is less than the total sample.

possible to conclude that the very act of forced mobility makes it less likely that low-income households will be able to make regular timely payments toward their home energy bills.

Similar results are found with other Pennsylvania utilities. A summary listing of the premises which were found "vacant" at the start of the winter heating season after an electric disconnection during the years 1988 and 1989 is presented in Table AA below:

**TABLE AA
PREMISES FOUND VACANT AFTER ELECTRIC DISCONNECTION
1988 AND 1989**

	1988		1989	
	SHUTOFFS	VACANT	SHUTOFFS	VACANT
DUQUESNE LIGHT	1,701	133	1,369	173
PENELEC	3,326	665	3,802	832
PENN POWER	940	190	933	183
PP&L	541	142	2,945	568
MET ED	614	130	509	115
PECO	18,405	982	21,999	1,644
WEST PENN	5,812	602	5,372	219
UGI	701	75	735	19
TOTAL	32,040	2,919	37,664	4,194

A summary listing of the premises which were found "vacant" at the start of the winter heating season after a natural gas disconnection during the years 1988 and 1989 is presented in Table BB below:

**TABLE BB
PREMISES FOUND VACANT AFTER NATURAL GAS DISCONNECTION
1988 AND 1989**

	1988		1989	
	SHUTOFFS	VACANT	SHUTOFFS	VACANT
PEOPLES	4,069	616	3,973	450
NAT'L FUEL	2,488	367	2,937	406
PG&W	944	73	1,188	88
UGI	2,243	200	2,669	232
EQUITABLE	1,845	291	2,840	279
TOTAL ^{\145\}	13,491	1,986	15,414	2,963

Low-income mobility will contribute to poor payment records primarily because the mobility, itself, is costly. In addition to the actual cost of moving, the low-income household faces the costs of rental deposits, telephone connection fees, bank fees on minimum balances, and the other expenses associated with changing residences. As a result, household income that would otherwise have been available to devote to current utility bills is instead siphoned away for the costs of moving.

Low-income households which are forced into a pattern of mobility, also, have less likelihood of entering into successful Level Billing Plans (sometimes called Budget Billing Plans), under which bills are paid in 12 equal monthly installments.^{\146\} Here again, without recognizing the significance of the observation, in Maine, NCLC discovered how low-income mobility serves, itself, to perpetuate low-income energy problems.^{\147\} In its Maine report, NCLC quoted Central Maine Power Company (CMP) as saying: We (CMP) support the intent to establish a predictable and

^{\145\}Includes Columbia Gas figures.

^{\146\}It is believed that these plans assist low-income households in budgeting. Moreover, these plans take the peak off of high winter heating bills.

^{\147\}In Maine, there is the Special Payment Arrangement (SPA) process. Under an SPA, a household pays less than its full winter monthly bill, and then makes-up the difference in levelized payments over the summer. The levelized payments include two components: (1) the winter shortfall divided by the number of non-heating months; and (2) the estimated non-heating consumption divided by the number of non-heating months.

manageable payment plan for customers. However, due to a number of factors, we find that the payment amounts that we determine with estimated figures for future use need adjustment several times during the term of the special payment arrangement. * * * After just a couple of months into summer payments, the levelized payment figure may be adjusted to accommodate actual as compared to estimated usage. This is especially true when the Company has limited usage history on which to base the estimate.

(emphasis added).^{148\} NCLC agreed, noting that for the households with recently established service, "a utility may be hard-pressed to develop dwelling-specific, household-specific, estimates of future energy use* * *."^{149\} As a result, the budgeting benefits, in particular, which should arise from such plans can not.

The diversion of low-income funds to payments associated with a change in residence hurts the household, the utility, and the utility's non-low-income ratepayers. Because of these additional payment obligations, everyone loses. As discussed in detail above, one distinguishing factor of a low-income household is the fact of the limited corpus available to pay month-to-month utility bills. It is easy to trace the impact of adding yet one more necessary expense to the household's responsibilities. Assume that the household has an arrears of \$500; the cost of moving to avoid paying that arrears is \$250. After the process of changing residences, therefore, the total financial obligation owed by the customer is \$750 (\$500 arrears plus \$250 in moving expenses). The household is assumed to be capable of making only a partial payment of \$400. The customer pays the \$250 in moving expenses thus leaving sufficient funds to make a payment of \$150 to the utility. This leaves a total arrears after the change of residence \$350.^{150\}

^{148\}National Consumer Law Center, *An Evaluation of Low-Income Utility Protections in Maine: Winter Requests for Disconnect Permission*, at 19 - 20 (July 1988).

^{149\}Id., at 20.

^{150\}This hypothetical assumes the best of conditions for the utility: that the household moves in search of more affordable energy bills but stays in the utility service territory and acknowledges the old debt even at the new address.

As can be seen, forcing the household into changing residences does not serve the best interests of all customers. In this illustration, the customer is \$250 worse off. She started by owing \$500 and now owes \$350, despite having exhausted her ability to make payments to the utility. The utility is \$250 worse off. It started with the customer \$500 in debt and willing and able to make a \$400 payment; that would have left a \$100 arrears. Instead it has a customer \$350 in arrears (with no further ability to make payments). The remaining ratepayers are worse off. Instead of devoting its limited resources to paying the bill for consumption, the low-income household has devoted its \$400 in resources to paying the cost of moving, leaving the initial arrears (minus a limited payment) to be potentially passed on through bad debt.

SECTION E. THE POOR OF PENNSYLVANIA: URBAN/RURAL POVERTY.

The potential for payment-troubled customers to pose major collection programs is as real for rural utilities as it is for utilities serving major urban centers. Indeed, the plight of the rural poor can be substantial. According to one recent national study, by 1987, "a person living in a nonmetropolitan area (was) almost as likely to be poor as someone living in the central city of a metropolitan area."¹⁵¹ Moreover, compared to 1978, poverty rates had risen as much in rural areas as in the nation's central

¹⁵¹Kathryn Porter, *Poverty in Rural American: A National Overview*, Center on Budget and Policy Priorities (August 1989). Porter noted that: "In 1987, the poverty rate was 16.9 percent in nonmetro areas --higher than the 12.5 percent poverty rate in metropolitan areas and almost as high as the 18.6 percent poverty rate in central cities." *Id.*, at 3.

cities.^{\152\} In general, nearly two-fifths of all poor people, including the rural poor,^{\153\} have income below half the poverty level.^{\154\}

The rural poor tend to disproportionately include the elderly and families with children. Children in nonmetropolitan areas have poverty rates as high as the poverty rates for children living in central cities.^{\155\} The nonmetro elderly (those 65 and older) are another group for whom poverty rates are as high or higher than for their central city counterparts.^{\156\}

In sum, there can be little question but that the presence of this significant poverty population portends significant and ongoing problems with payment-troubled customers for providers of *rural* energy.

SECTION F. THE IMPACT OF NON-CASH POVERTY BENEFITS

The impacts of non-cash benefits in lifting low-income households out of poverty has substantially decreased during the 1980s, according to a study by the Center on Budget and Policy Priorities.^{\157\} Among the findings made by the Center, in its national study, include:

oBy 1985, the number of families with children who had incomes (before cash benefits) that fell below the poverty line had risen to 6.321 million. Yet while the number of families with below-poverty incomes was rising, the number of those families lifted out of poverty by government benefit

^{\152\}Id., at 4. "Between 1978 and 1987, poverty rates in both nonmetro areas and central cities rose by more than one-fifth --from 13.5 percent to 16.9 percent in nonmetro areas, and from 15.4 percent to 18.6 percent in central cities."

^{\153\}This includes 38.6 percent of those in nonmetro areas and 40.4 percent of those in central cities. Id., at 10.

^{\154\}This represents an annual income of below \$4,528 for a family of three. Id. at 10.

^{\155\}Id., at 9. "In nonmetro areas, nearly one-quarter of all children (23.1 percent) are poor, compared to a poverty rate of nearly three out of ten (29.6 percent) among children living in central cities."

^{\156\}Id., at 10. "In 1987, the poverty rate among elderly people living in nonmetro areas --15.6 percent-- was not significantly different from the poverty rate for elderly people in central cities --14.3 percent."

^{\157\}Center on Budget and Policy Priorities, *The Decreasing Effectiveness of Anti-Poverty Programs: 1979 - 1985* (November 1986).

programs was falling. Only 735,000 families, 11.6 percent of the families who would otherwise have been poor, were removed from poverty by benefit programs in 1985.^{\158\}

oHad government benefit programs had the same anti-poverty impact in 1985 as in 1979, then 458,000 fewer families with children would have been poor in 1986.

oThere were 1,505,000 more families with children living in poverty (after all cash benefits were counted) in 1985 than in 1979. The decline in the anti-poverty effectiveness of government cash benefit programs accounted for 458,000 more families living in poverty in 1985 than in 1979, 30 percent of the total increase in poverty among families with children during this period.

oAn additional 720,000 families with children were poor in 1985 than in 1979 because of the lessened impact of the government's non-cash benefit programs.^{\159\} Fully half of the increase in poverty since 1979 among families with children is due to the decline in the effectiveness of these government programs in lifting families from poverty.^{\160\}

The Center on Budget and Policy Priorities study is attached as Appendix C.

SECTION G. TELEPHONE PENETRATION RATES.

Most people believe that universal telephone service is the standard in the United States. Yet large portions of the low income population cannot afford telephone service in their homes, and this number has grown since divestiture, as the cost of basic service continues to rise. In 1988, while 75 percent of all white households with incomes less than \$10,000 had telephones, only 66 percent of black households and 59 percent of Hispanic

^{\158\}This is a decrease from 18.9 percent of all families who would otherwise have been poor who were removed from poverty by government benefit programs in 1979. Id., at 2.

^{\159\}Id., at 3.

^{\160\}Id., at 4.

households had telephone service.^{\161\} While fewer than one out of 100 upper income families did not have a telephone, roughly 30 out of 100 low income families did not.

Nor are telephone penetration patterns racially income-neutral. While the national average penetration rate for telephone service is 90+ percent, the penetration rate for black households (regardless of income) is only 80 percent.^{\162\} The penetration rate for Hispanic households (regardless of income) is only 80 percent. This racial inequality carries over into the elderly population. Among homeowners, only three percent of older whites are without telephones, compared to eight percent of their black and Hispanic counterparts. Likewise, only eight percent of older white renters do not have telephones, compared to 19 and 18 percent, respectively, of older blacks and Hispanics.

The pay telephone has always been assumed to be the "poor person's response" to the lack of a telephone in the home. When all else fails, the low income person can simply make a trip to the local convenience store, or to the phone booth on the corner, to place a quarter telephone call. Increasingly, however, access to affordable local pay telephone calls is becoming a thing of the past. Pay phones are being restricted or removed from many poorer neighborhoods, to discourage drug dealing^{\163\}, and those that are available are frequently busy.

Lacking access to affordable, convenient telephone service has direct impacts on the ability of the poor to retain their energy utility services. In a

^{\161\}Current Population Survey, Table 1. March 1990, US Department of Commerce, Bureau of the Census. Total population has penetration rate of 93.3% of telephones in the home.

^{\162\}Current Population Survey, Table 3, March 1990. U.S. Department of Commerce, Bureau of the Census. While penetration for all white households is 94.6%, the rate for blacks is 83.8% and the rate for Hispanics is 84.9%.

^{\163\}Drug dealers generally prefer to use pay phones that allow them to remain anonymous and make calls difficult to trace. Many communities are targeting the restriction or elimination of pay phones as one means to curtail drug dealing. Pay phones are being restricted to outgoing calls only, and push button phones, a prerequisite for many call-routing systems, are being replaced by rotary phones. On June 4, 1990, for example, a Los Angeles City Council panel approved a plan that would authorize telephone companies to place restrictions on pay telephones in drug-infested neighborhoods and remove the phones altogether if all else fails. The proposal was supported by representatives of both GTE and Pacific Bell, the two major phone companies in the city.

1988 study conducted by NCLC for the Maine Public Utilities Commission¹⁶⁴, it was discovered that 80 percent of the Maine households whose energy service was disconnected during the winter months lacked telephone service. The lack of telephone service was found to jeopardize continuing energy service by denying the household an opportunity to contact the utility so as to enter into payment plans, make contact with social service agencies to receive public assistance and to otherwise respond to the household's inability to pay.

SECTION H. RECOMMENDATIONS

One major question underlying utility credit and collection processes is how to segregate those households who can pay but don't from those households who can't pay. The above analysis suggests that two factors working in conjunction with each other operate to place utility bills in the unaffordable range and create the "can't pay" class: (1) low incomes; and (2) high bills in relation to that income. The label created to describe the confluence of those two factors is "*energy burden*". A household's energy burden is measured in terms of the household energy bill as a percentage of income. The Pennsylvania Commission should adopt "energy burden" as so defined as the measure of the likelihood that a household will over the long-term demonstrate an inability to pay in a consistently full and timely fashion.

It is possible to conclude based on the discussion above that households who live at or below 150 percent of the Poverty Level can be expected to be the households for whom this "energy burden" measurement is most meaningful. It is further possible to conclude that those households represent the customers from whom it is unreasonable to expect to collect the full utility bill. Accordingly, the customers who should be offered the EAP, as discussed below, are those households who live at or below 150 percent of poverty *and* whose energy bills exceed a certain percentage of their income. As proposed below, those households should be offered the opportunity to enter into an EAP plan so that utilities can maximize the collection of revenue from these households while minimizing collection expenses.

In calculating incomes for these households, it is evident that the receipt of government assistance has a small and substantially decreasing value.

¹⁶⁴National Consumer Law Center, *An Evaluation of Low-Income Utility Protections in Maine: Winter Requests for Disconnect Permission*, at 16 - 19 (July 1988).

Households who receive public assistance (such as AFDC, or Food Stamps) should not be treated differently than other households *not* receiving such benefits.

Based on the above discussion, it is apparent that Pennsylvania's rural utilities are likely to have as substantial a problem as the state's more urban utilities. The PUC should expressly consider how the programs that are applicable to a PECO or an Equitable or a Columbia Gas can and should be modified, if at all, so as to be applicable to the state's smaller rural utilities as well.

The Pennsylvania Commission should consider steps to stabilize the residence situation of low-income payment-troubled households. Given the direct and immediate impacts that the disconnection of service has on "forced mobility," as well as the direct and immediate impact that forced mobility has on the ability of a customer to make continuing current payments toward her utility bill, the phenomenon of forced mobility should be eliminated to the extent practicable.

Given an inability to eliminate the problem of forced mobility, the Commission should address its attention to the mechanisms necessary to minimize the impact of forced mobility on other programs designed to reduce uncollectibles. The means of estimating usage for 12 month Level Billing Plans should be refined such that usage estimates are made more accurate and less variable over time. Means of estimating energy savings from the installation of conservation measures need to be refined such that households who face the most substantial payment troubles, and thus face the highest incidence of forced mobility, can be eligible for energy (and thus dollar) saving conservation/weatherization programs.

While the touchstone of the regulatory response to uncollectibles and inability to pay is the EAP, the Commission must address the inability to pay problems of both those households who are marginally *ineligible* for EAP or, in contrast, may be eligible for EAP but who are unable or unwilling to apply for EAP. At the least, these households should be offered payment plans similar to the "Special Payment Arrangement" that has been so successful for the

Maine public utility commission.^{165\} Through the SPA process, high winter bills are reduced, with the reduction in bill deferred and "made up" during the more affordable summer (i.e., non-heating) months.

Finally, the Pennsylvania commission should direct each of the state's utilities to engage in a detailed review of their credit and collection practices to determine to what extent there may be hidden barriers to participation in payment plans, EAPs, budget billing and the like. The Commission should require each utility to judge its own efforts by a designated check list, including but not limited to:

- (a) are there ways in which we unconsciously exclude households who lack ready access to telephones;
- (b) are there ways in which we unconsciously exclude households who lack ready access to transportation;
- (c) are there ways in which we unconsciously exclude households who cannot read or who cannot write?
- (d) are our processes both educationally and culturally appropriate *to the population which we seek to reach.*

^{165\} See generally, National Consumer Law Center, *An Evaluation of Low-Income Utility Protections In Maine: Payment Arrangements for Maine's Electric Utilities*, Volume II (July 1988).

PART III: LOW-INCOME PAYMENT PATTERNS.

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Low-income households that cannot pay unaffordable utility bills will make few if any payments at all. This result should not be surprising. A low-income customer who believes that she is facing the termination of service regardless of whether she owes all or merely some portion of her outstanding bill will likely use her scarce resources to pay for other pressing life necessities.

SECTION A: SEASONAL PAYMENTS.

The loss of low-income households as customers (in April or May) because of large unpaid winter arrears is not a rational response to minimizing uncollectible accounts. This loss may occur for either of two reasons: (1) the household is involuntarily disconnected for nonpayment or large bills accrued during the winter; or (2) the household voluntarily disconnects its service during the warm weather months only to seek reinstatement or restoration of service for the next winter heating season.

In either case, the loss of these customers comes just at the time that current monthly bills are reduced to the point where households can make current payments plus some incremental payment toward their arrears. Data from Philadelphia Gas Works (PGW) illustrates this problem.¹⁶⁶ When one examines the number of PGW's residential customers, by month, for each of the last several years, it becomes evident that *every year*, PGW loses roughly 14,000 to 17,000 residential accounts during the summer months, only to gain those accounts back by the following December and January. Each of those lost accounts represents a lost revenue stream to apply against arrears for the Company. As Table CC shows, this lost revenue stream comes at the time when bills are most affordable, even when an increment is added to retire arrears.

¹⁶⁶As noted below, while it is recognized that Philadelphia Gas Works (PGW) is not a utility regulated by the Public Utility Commission, because of the substantial empirical work that has been done on low-income energy problems on the PGW system, PGW is used in this report as being legitimate Pennsylvania data.

**TABLE CC
AFFORDABILITY OF PGW DEFERRED PAYMENT AGREEMENTS
BY MONTH**

	MONTH BILL	MONTH ARREARS	MONTH TOTAL BILL	MONTH INCOME	TOTAL AS INC %
JAN.	\$114.67	\$22.21	\$136.88	\$698.33	20%
FEB.	\$100.76	\$22.21	\$122.97	\$698.33	18%
MARCH	\$105.20	\$22.21	\$127.41	\$698.33	18%
APRIL	\$72.57	\$22.21	\$94.78	\$698.33	14%
MAY	\$42.69	\$22.21	\$64.90	\$698.33	9%
JUNE	\$27.55	\$22.21	\$49.76	\$698.33	7%
JULY	\$22.24	\$22.21	\$44.45	\$698.33	6%
AUGUST	\$21.56	\$22.21	\$43.77	\$698.33	6%
SEPT.	\$20.50	\$22.21	\$42.71	\$698.33	6%
OCT.	\$31.67	\$22.21	\$53.88	\$698.33	8%
NOV.	\$45.57	\$22.21	\$67.78	\$698.33	10%
DEC.	\$104.64	\$22.21	\$126.85	\$698.33	18%

Rather than accepting this drop-off in customers during the warm weather months, Pennsylvania utilities should establish a payment plan process that provides incentives for delinquent households to remain on the system during the warm weather months when combination bills (heating plus non-heating) will be lower and more affordable. By encouraging households to make payments while utility service is affordable during the summer, rather than dropping off the system until heating becomes necessary during the winter, the utilities will serve to increase the revenue they generate toward the payment of arrears. By accepting the drop-off during the summer, and being required to offer service during the cold weather months, a utility serves only at the time when it is *least likely* to receive full payments of even current bills, let alone full payment of current bills plus some additional payment toward arrears.

SECTION B: DEFERRED PAYMENT PLANS.

1. Pennsylvania Data.

Payment plans in Pennsylvania are simply not working. Consider the results from the following Pennsylvania utilities:

1. Columbia Gas: The Budget Plus payment process has largely failed Columbia Gas as a means to address the problems of low-income households. An examination of Budget Plus households for Columbia Gas found that energy bills that were unaffordable for households before those households entered into a Budget Plus plan remained unaffordable under Budget Plus. This can be seen in several ways. For example, the success of Budget Plus can be measured by the number of Plans that are canceled because of non-payment. In addition, the success can be measured by the extent to which Budget Plus households can stay current on their Plans. The observations below are based on 1989 data provided in the payment plan reports filed by Columbia Gas with BCS. Data is taken from 1989 since that is the only complete year for which data is available.

Budget Plus payments are simply not being made by Columbia Gas customers. In calendar year 1989, Columbia Gas had an average of 13,390 heating participants in its Budget Plus payment plans each month. On average, 4,404 of those accounts (33 percent) were "delinquent." Similarly, Columbia Gas had on average \$8.2 million subject to Budget Plus agreements each month. Of that money, \$3.5 million (43 percent) was delinquent.

These delinquent accounts do not represent "short-term delinquencies." There are long-term failures with Budget Plus as well. In 1989, roughly 18 percent of the Budget Plus Plans (2,409 of 13,398) were "canceled" each month. During the last five months of 1989 (August - December), however, the average was 40 percent cancellation per month (4,267 of 10,683) (as opposed to an average of seven percent [1,082 of 15,323] for January through July). On average, 22 percent of the dollars subject to Budget Plus plans (\$1.8 million of \$8.2 million) were subject to canceled Budget Plus plans each month in 1989. For August through December, the canceled dollars averaged 46 percent

(\$2.9 million of \$6.4 million) while the canceled dollars averaged only 10 percent (\$0.93 million of \$9.5 million) in January through July. The fact that a substantial percentage of Budget Plus plans have recent start dates, as discussed above, again lends credence to the notion that participating households cannot maintain these plans and, as a result, enter into consecutive Budget Plus agreements.

2. Other Budget Plus Programs: The Columbia Gas experience is by no means unique. Indeed, it is the norm for Budget Plus payment plans to fail rather than to succeed. In response to Commission inquiry, the Pennsylvania utilities reported the success rate of their Budget Plus plans.¹⁶⁷ Those responses are set forth in Table DD below:

**TABLE DD
PERCENTAGE OF BUDGET PLUS CUSTOMERS
WHO MAINTAINED THEIR PAYMENT ARRANGEMENT**

COMPANY	SUCCESS RATE (%) 1987	SUCCESS RATE (%) 1988	SUCCESS RATE (%) 1989
UGI	33.3%	32.9%	36.6%
PECO¹⁶⁸	11.4%	11.5%	28.3%
NATIONAL FUEL GAS	N/A	N/A	N/A
PENN POWER	N/A	N/A	N/A
MET EDISON¹⁶⁹	31.5%	63.9%	61.3%

¹⁶⁷This came in response to inquiries in Section G, question 3.

¹⁶⁸PECO reported that it "does not identify the individual customers who successfully maintain payment arrangements. However, we do track the overall success rate of special payment arrangements." IRR-APP-B-G.3

¹⁶⁹Metropolitan Edison does not separately track the success rate of Budget Plus customers from Current Plus customers. Moreover, its use of the Budget Plus process is quite limited, involving 615 accounts in 1987, 360 accounts in 1988, and 430 accounts in 1989.

PENN P & L	N/A	See n. Error! Bookmark not defined.	\170\
PENELEC	29.3%	26.3%	25.9%

3. Equitable Gas: In the recent *Equitable* decision,^{\171\} the Pennsylvania Public Utility Commission found that "arrearages associated with the prospective EAP participants range between \$9 million and \$10 million. Those EAP-eligible customers who currently have payment arrangements either negotiated by BCS or the Company pay on average little more than 50 percent of the presubscribed amount. Equitable's ratepayers face the possibility of an uncollectible arrearage of \$4.5 million to \$5 million for these same customers."

4. Philadelphia Gas Works: The extended payment plan historically offered by the Philadelphia Gas Works is called its "5 and 2" plan. Through this payment plan process, a household is required to make a downpayment of five percent of the arrears. The household is then required to make payments equal to two percent of the arrears for 25 months, thus retiring one-half (50 percent) of the arrears. The remainder is forgiven. At all times, the household is responsible for paying its current bill. From October 1985 through March 2, 1989, 73 percent of all 5 and 2 plans had been broken (i.e., had sufficient numbers of nonpayment that they had been abrogated). Indeed, the results of the 5 and 2 program were not at all encouraging. In 1988, alone, the last year for which complete data is available, 58 percent of the 5 and 2 plans entered into were broken; 75 percent were either broken or defaulted. Overall, from October 1985 through March, 1989, PGW's 5 and 2 customer made fewer than

^{\170\}PP&L reported that it "does not maintain separate statistics for the budget billing 'plus' method. The Company stated "the following statistics are representative of the total population. During 1989, 110 plans were paid in full; four were canceled or defaulted. During 1988, 103 plans were paid in full; 15 were canceled or defaulted.

^{\171\}*Pennsylvania Public Utility Commission v. Equitable Gas*, Docket No. R-901595, Decision and Order, at 71 (November 21, 1990).

six out of every 25 required payments.

Several reasons exist for these poor payment records. First and foremost, each payment plan requires as one essential part that the household make total payments toward current bills. Budget Plus, for example, requires full payment toward current bills from households that have a recognized negative ability to pay. In this regard, even Budget Plus seeks the impossible.

In general, the payment-troubled households of Columbia Gas households are being asked to pay an unreasonable portion of their income toward their home energy bills even under Budget Plus. As a result, such payments are simply not being made. The distribution of monthly Budget Plus payments for Columbia Gas as a percent of income is set out in Table EE below. It is important to remember that the burden in Table EE is tied to total income.¹⁷²⁾ The Table does not consider expenses in any fashion.

**TABLE EE
COLUMBIA GAS BUDGET PLUS PAYMENTS
AS PERCENT OF INCOME**

INCOME PERCENT	NO. ACCOUNTS	PERCENT	CUMULATIVE PERCENT
0	0	0%	100%
1	0	0%	100%
2	16	1%	100%
3	44	2%	99%
4	98	3%	98%
5	156	5%	95%
6	177	6%	89%
7	224	8%	83%
8	244	8%	75%
9	192	7%	67%

¹⁷²⁾ Moreover, LIHEAP is applied in such a way by Columbia Gas as not to represent a supplemental income source to be used toward Columbia Gas payments.

INCOME PERCENT	NO. ACCOUNTS	PERCENT	CUMULATIVE PERCENT
10	162	6%	60%
12	294	10%	55%
15	287	10%	44%
20	291	10%	34%
25	139	5%	24%
30	58	2%	20%
40	41	1%	18%
50	8	0%	16%
60	3	0%	16%
70	12	0%	16%
80	5	0%	15%
90	0	0%	15%
100	0	0%	15%
\$0 INCOME	439	15%	15%
TOTAL:	2890		

The same is true elsewhere. PGW's payment plans, for example, do not adequately account for a household's inability to pay. As demonstrated in Table CC above, for example, PGW routinely requires a low-income household to pay more than it can possibly afford through its payment plan process. Table CC looks at the monthly payments required for a household who has the average LIHEAP arrears in 1989 (spread over 25 months), has the average residential bill in 1989, and has the average income of households at or below 150 percent of poverty. It is evident that this average household frequently simply does not have sufficient funds to make these payments. In four of the twelve months, the household has payments equal to roughly 20 percent of her income.

Moreover, even Table CC does not tell the entire story. The Table assumes, for example, for ease of analysis, the **average** household on a 5 and 2 plan. If, instead, a household has income below the average, consumption above the average, or arrears above the average, the adverse situation will be exacerbated. Moreover, the situation will be particularly exacerbated to the

extent that a household has any two or more of these attributes (below average income, above average consumption, above average arrears) in combination.

2. DATA FROM OTHER STATES.

Payment plans that require households to make an equal monthly payment toward their arrears, while maintaining payments on total current bills, most often pose no win situations for low-income households, the National Consumer Law Center found in its study of Maine payment plans. The two components which go into any deferred payment plan are (1) the installment payment toward the arrears; and (2) the current payment toward the current monthly bill.^{\173\} As a result, the combination of equal monthly payments toward arrears plus current bills creates an inescapable dilemma for the low-income households, NCLC found.

If (the low-income households) enter into a payment plan early in the winter, they not only commit themselves to pay their installments each month, but they commit themselves, as well, to paying their entire current winter bills in full as they come due. If, on the other hand, the household waits until the end of the winter before entering into a payment plan, it will have higher arrears and a shorter payback time with which to cope.^{\174\} Either strategy, therefore, poses serious problems. A failure to make any given payment in full will be considered to be a default on the payment plan.^{\175\}

The high payments required in payment plans, NCLC found in Maine, pose "at least three problems."

oFirst, the payment plans were generally entered into during the winter months. "The higher payments are thus required at the same time customers are *also* seeking to pay winter heating bills, whether or not those

^{\173\}National Consumer Law Center, *An Evaluation of Low-Income Utility Protections in Maine: Payment Arrangements for Maine's Electric Utilities*, at 39 - 49, 55 - 59 (July 1988).

^{\174\}In Maine, the arrears must be paid before the start of the next winter heating season.

^{\175\}*Id.*, at 55.

heating bills are made to the same energy vendor (as the payment plan is made with)."^{176\}

oSecond, the higher payment plan payments are required almost immediately after the person enters the plan. "The household was, however, presumably forced into the plan by an inability to pay in the first instance. A response to that inability which immediately *increases* (emphasis in original) the payment obligation has little to commend itself."^{177\}

oFinally, under the regular payment arrangement process in Maine,^{178\} the household is required to pay its entire current winter monthly bill in addition to the installment payments in order to comply with the plan. No benefit arises from making partial payments during the winter, the time that payment troubles are likely to be the greatest.^{179\}

Several remedies were recommended in Maine.^{180\} Rather than requiring *immediate* payment of current bills plus equal installments to retire arrears, a more adequate response might involve the deferral of all or part of the household's payments for some period of time to permit the household to put its finances in order. Second, equal monthly installment payments might be coupled with levelized payments toward current bills over the year (rather than requiring each total current monthly bill to be paid as it become due). Third, NCLC recommended, in lieu of levelized payments for current bills, a utility might consider variable installment payments toward arrears, with smaller payments in the winter and larger payments in the summer. Finally, incentives must be created for households to make partial payments, even if total payments are not possible. Just as paying something (and reducing the debt somewhat) is better than paying nothing from the perspective of the household, receiving something (though not everything) rather than receiving nothing is better from the perspective of the utility.

^{176\}Id., at 58. Simply because the heating bills are owed to a fuel oil dealer rather to the utility, in other words, "does not make them cease to be a drain on winter incomes." Id.

^{177\}Id., at 58.

^{178\}Maine also has a "special payment arrangement" process whereby winter bills are billed at below cost with the shortfall being made up during the summer.

^{179\}Id.

^{180\}Id., at 58 - 59.

SECTION C. PAYMENTS UNDER A WINTER MORATORIUM.

Data from Pennsylvania indicates that the state's winter moratorium has little impact on whether households develop greater arrears during the heating months. The conclusion is, in other words, that a household's winter arrears would be no lesser without a winter moratorium than they are with the moratorium.

An October, 1983 Pennsylvania PUC Bureau of Consumer Services (BCS) study found that average overdue bills are a low in November and rise to a high point in March or April.¹⁸¹ "The apparent relationship of this pattern to Public Utility Commission regulations is obvious. That is, arrearages are greatest at the end of the Commission's winter termination restrictions* * *and have been reduced to their lowest point immediately prior to the introduction of those restrictions for the following year."

BCS, however, then dismissed the relationship between high arrears and *the existence of the moratorium*. Seasonal fluctuations in arrears, BCS found,

are substantial only for heating accounts. Arrearages for non-heating accounts show only minor season fluctuations.* * *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.

BCS concluded:

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

¹⁸¹Joseph Farrell, *Utility Payment Problems: The Measurement and Evaluation of Responses to Customer Nonpayment*, at 19 (October 1983).

problems.^{\182\}

These Pennsylvania conclusions are corroborated by information developed in Maine. Data from Maine indicates that winter shutoff restrictions have very little impact on whether households continue to make utility payments during cold weather months, particularly for households who have maintained service for longer than twelve months.^{\183\} The Maine study looked at all households for whom Maine's electric utilities sought a winter disconnection of service for nonpayment. The study found that "there is not a readily apparent trend of households avoiding the disconnect process through use of the winter protections."^{\184\}

For example, the Maine study found, there are *not* substantial numbers of households who "enter Maine utility systems immediately prior to the winter moratorium period, make one or more nominal payments, and then stop paying for the duration of the winter heating season."^{\185\} According to the study, fewer than five percent of the households making payments made their "last payment" within 60 days of the date on which they initiated service.

A population did exist in Maine, that is reported as having made no payment toward their utility service since the date service was initiated. The report found that "as logic would dictate, these households are concentrated in the recent service applications."^{\186\} An extremely small percent (less than 10%) of households with an initial service date preceding August 1st before the winter heating months when shutoff protections existed had made zero payment.^{\187\}

Indeed, the Maine study found, "one of the primary indicators of persistence in paying arrears, or in working to make arrangements to have it

^{\182\}Id., at 19.

^{\183\}National Consumer Law Center, *An Evaluation of Low-Income Utility Protections in Maine: Winter Requests for Disconnect Permission*, Volume I, at 29 - 30, (July 1988).

^{\184\}Id., at 29.

^{\185\}Id., at 30.

^{\186\}Id.

^{\187\}Id.

paid, is the date of initial service.^{\188\} The study looked at two subpopulations from the total population:^{\189\} (1) those households having a connect date after August 1st before the heating season; and (2) those households having a connect date of before December 31st of the immediately previous heating season. "The difference between the two sets of households is striking."^{\190\} The study found:

Nearly 60 percent of the households initiating service on and after August 1, 1986 (56 percent) failed to make a payment of any sort toward their utility bill. As can be expected, this ratio of nonpayment is to be contrasted to a non-payment ratio of those households having service before December 31st; only three of those households (three percent of the total number of households in that subpopulation) made no payment ever.

The study continued:

Even within the `older' group, however, payments were made subsequent to August 1st. Only five of these households made their last payment before August 1 and 60 of these households (or roughly 60 percent), notwithstanding the pendency of a shutoff notice and a request for permission to disconnect, had made payments subsequent to January 1, 1987.

The study concluded:

The older accounts, too, were more likely to have sought to make arrangements for their bills. Nearly seven of ten of the requests for permission for the older accounts were denied because the households had made some payment, had obtained public assistance, or

^{\188\}Id., at 32.

^{\189\}Remember, the population being studied was the population for whom a winter disconnection was sought by an electric utility.

^{\190\}Id., at 32.

had entered into a payment arrangement. A substantial, yet significantly smaller number of the requests for the more recent accounts were denied for the same reasons.^{\191\}

It is not possible to determine, the Maine research said, "whether there exists a population of utility customers in Maine who year-after-year go through a process of having their utility service connected in the summer months and disconnected in the winter months upon nonpayment of bills during the time when heating costs compete for scarce household resources. "Even if such recycling was socially desirable (an assumption not accepted), however, the repeated termination and reconnection of service is certainly an expensive method of debt collection."^{\192\} Rational public policy, the report finally concluded, "should eschew any acceptance of such a process. The goal of public policy should be to provide households with a way out of the box created by their poverty. * * * Acquiescence to repeated connections and disconnections should be expressly rejected."^{\193\}

SECTION D. RECOMMENDATIONS

The purposes of a payment plan of any sort are two-fold: (a) to assist the household in maintaining service; and (b) to preserve a revenue stream to the affected utility, both to gain payment for the arrears and to continue payments toward current bills. The efficacy of payment plans should be measured by those two purposes.

Most payment plan options now offered by Pennsylvania utilities fail these two tests of legitimacy. It is clear from the above discussion that many Pennsylvania households have insufficient income to make full and timely payments of current utility bills. Their nonpayment is not a function of poor money management; nor is it a function of misplaced priorities. Their nonpayment is not a function of winter moratoria. Their nonpayment is not a function of a lack of desire in any fashion. Rather, their nonpayment is simply the result of an ongoing chronic unavoidable mismatch between household income and the expenses necessary for living.

^{\191\}Id., at 32 - 33.

^{\192\}Id., at 34 - 35.

^{\193\}Id., at 35.

As a result of this recognition, it is possible to reach several conclusions regarding the type of payment plan that can respond to this inability to pay. Twelve month level Budget Billing Plans are not the answer for these households. Their problem is not one of the winter heating spike in bills. Deferred payment plans for arrears are not an answer. These households can not afford to pay *current* bills, let alone current bills plus some increment toward arrears, even over some substantial period of time. Consolidated debt plans under the terms of a credit counselor are not the answer. Not even a credit counselor can spread \$4,000 in income far enough to cover \$9,000 in expenses.

What is necessary is an affordable payment plan that will set current bills at some affordable level. What is needed is a plan that will recognize the harsh reality of a chronic inability to pay. What is needed is a payment plan that collects what it can while foregoing the remainder. What is needed is the Energy Assurance Program as proposed and discussed below. Accordingly, for the reasons outlined in this section, as well as for the reasons outlined below, the Pennsylvania PUC should adopt an Energy Assurance Program (EAP) for low-income households.

In addition to EAP, however, the Commission must consider options for those households who cannot (due to their ineligibility) or will not (for whatever reason) enter into the EAP offered by a utility. For these households, the Budget Plus process should be maintained as an attractive option to short-term deferred payment arrangements. Moreover, as recommended above,¹⁹⁴ a payment plan should be offered akin to Maine's Special Payment Arrangement whereby customers are offered the opportunity to defer portions of their winter bills to be paid over the summer months.

The Pennsylvania Commission should consider implementing incentives for payment troubled customers¹⁹⁵ to make continuing payments during the low cost summer months. It is during these months that current monthly bills are most affordable and that household payments are most likely to cover their entire current bill plus make some incremental payment toward retiring arrears. Without endorsing any one specific proposal, the Commission may wish to consider the efficacy of any one of a number of proposals: allowing a household to earn the forgiveness of late payment

¹⁹⁴See, note **Error! Bookmark not defined.**, *supra*, and accompanying text.

¹⁹⁵Heating customers in particular.

charges by making complete non-heating month payments; allowing the household to earn the forgiveness of one month of winter arrears payments by making complete non-heating month payments; and the like.

The disconnection of service to payment troubled households in the April - June time period, only to have those households reconnected again when their current bills again become so high due to heating costs that it is unlikely that such bills will be paid in a full and timely fashion (let alone paying current bills plus arrears) is not an adequate response to this problem. The Commission should explore new and innovative mechanisms for maintaining the service of households during the low cost non-heating months and, in so doing, maintaining that revenue stream both for the current bills and for the arrears.

PART IV: ENERGY ASSURANCE PROGRAMS

SECTION A: OVERVIEW

The goal of a public utility commission as to low-income rates is to have a utility collect the greatest proportion of a current bill that it can from low-income households while minimizing the costs of collection. Stating the issue in this fashion recognizes the warning of the Vermont Department of Public Service, when it said in 1990 that:

The Department's Basic Energy Needs Program (BENP) recognizes two harsh realities for the utility industry. First, charging a rate and collecting a rate are two separate actions. Simply because a utility charges a particular rate does not mean that the utility will ever collect that money from a low-income household. Second, even when a utility does collect the total bill from a low-income household, the utility often spends considerable sums in the very act of collection. The net stream of income is thus less than the total outstanding bill.¹⁹⁶

The Energy Assurance Program is set forth to address these dual problems: (1) an inability to collect some money at all; and (2) the need to expend considerable sums on the very process of collection for much of the rest.

The Energy Assurance Program (EAP) recognizes that some households simply do not have sufficient income to pay for the basic necessities of life, including energy. There is no question but that this inability to pay is a social problem. There is also no question, however, but that this inability to pay represents a *utility* problem. For these households, regardless of the number of disconnect notices that are sent, regardless of the number of times service is disconnected, regardless of the type of payment plan that is offered, there will be insufficient household funds to pay. A utility can recognize this conclusion, and seek to collect what it can while minimizing its collection expenses, or a utility can deny the conclusion and devote its time and energy and attention to what will prove to be fruitless collection endeavors.

In this sense, the reasoning of the Pennsylvania Commission in

¹⁹⁶*In Re. Investigation into Design and Implementation of Low-income Energy Programs*, Docket 5308, Initial Brief and Argument of the Vermont Public Service Department (January 1990).

September, 1990, was sound when it directed Columbia Gas of Pennsylvania to implement a pilot EAP, stating: " * * *for the poorest households with income considerably below the poverty line, existing initiatives do not enable these customers to pay their bills in full and to keep their service. * * *Consequently, to address realistically these customers' problem and to stop repeating a wasteful cycle of consecutive, unrealistic payment agreements that cannot be kept, despite the best of intentions, followed by service termination, then restoration, and then more unrealistic agreements, we believe that new approaches like * * *the OCA's proposed EAP program should be tried."^{197\}

The EAP is not simply sound social policy. It is also based on sound regulatory principles. A utility is required to operate with all reasonable efficiencies. This is part and parcel of the obligation to provide least-cost service. Accordingly, Pennsylvania's utilities should pursue all reasonable means of minimizing total revenue requirement, including the adoption of innovative collection techniques. The requirement that utility activity contribute toward the provision of least-cost service pervades every aspect of a utility's business including its collection of revenue from those households who are unable to pay.

It is important to recognize that the purpose of the EAP is not to serve as a social program providing rate discounts to low-income households. Rather, the purpose of the EAP is to recognize, in advance, those households who will likely find it impossible to pay their utility bill on a regular, timely basis and to collect the maximum amount of revenue from those households in the most cost-efficient and cost-effective way possible. Under the EAP, Pennsylvania's utilities collect the *entire* bill from households who are likely to be able to pay their entire bill. The rate relief is offered only to those for whom it can reasonably be determined the entire bill will not be paid.

The EAP is explicitly designed to collect the entire bill from those households who are able to pay their entire bill. If, because of relatively higher income or relatively lower utility bills, the designated percent of a household's income (plus LIHEAP) will exceed its annual bill, the household will receive no benefit from the EAP. In those instances, the utility bill is deemed "affordable" and the participating utility will collect the entire fully-embedded rate. Only in those instances where the household, due to low-incomes or high bills, faces an energy bill that exceeds the designated percent of its income do we conclude that it is reasonable to expect payment problems in the near and

^{197\}*Pennsylvania Public Utility Commission v. Columbia Gas Company of Pennsylvania*, Docket R-891468, Decision and Order, at 159 (September 19, 1990).

long-term and offer the EAP as an alternative collection process for those bills.

Accordingly, to characterize the EAP as a "rate program" is to misconceptualize both the purpose and design of the EAP. While the EAP does involve a prospective adjustment in the rates charged (recognizing that those rates will not be paid), the EAP is intended to be a collection device. It is a means of collection that will maximize the receipt of revenue from customers who cannot afford to pay their bills while at the same time minimizing all of the expenses associated with delinquent payments.

SECTION B: THE COMPONENTS OF AN EAP.

- An Energy Assurance Program (EAP) should have three components:
- 1.A process by which participants make payments toward current bills based on a percentage of their income. The recommended percentages are seven percent toward heating and three percent toward non-heating.^{\198\}
 - 2.An earned credit provision by which households will earn credits to retire a portion of their pre-program arrears over a three year period.
 - 3.A conservation education program directed specifically toward EAP customers.

Through these three components, the EAP is offered as an efficient and effective collection mechanism for those households who will not likely be able to pay their bills in a timely and full fashion. Households who are defined to be unable to pay are those households who meet **both** of two criteria:

- 1.They live at or below 150 percent of the Federal Poverty Level; and
- 2.Their utility bill exceeds seven percent of their income (if a heating customer) or three percent of their income (if a non-heating customer).

These eligibility criteria are not tied to some social policy of who merits assistance through low-income energy rates. Rather, the criteria are intended

^{\198\}These percentages might vary up or down as between utilities. It is recommended below, however, that in no instance should the percentage contributions exceed eight percent for heating and four percent for non-heating.

to be used as a surrogate for a case-by-case determination of inability to pay. The use of a surrogate for a case-by-case determination should be explained. The EAP is offered as an efficient and effective collection mechanism for those households who will not likely be able to pay their bills in a timely and full fashion. Both of these tests --(1) efficient; and (2) effective-- are intended to have meaning.

Perhaps a utility would be better able to target an EAP rate to all households who are unable to pay, but to no households other than those unable to pay, through a case-by-case determination of need. To do so, however, would require individual interviews with all potentially eligible households. The question, therefore, is whether the marginal increase in effective targeting merits the time and expense to be devoted to the process. The answer quite clearly is no. In the overwhelming majority of cases, the individualized interviews will reach the same conclusion that is reached by the EAP categorical eligibility criteria laid out above: that households meeting these two criteria are unable to pay their bills.

Under the EAP, the households who are defined to be unable to pay their bills in a full and timely fashion are those households who meet both of two criteria: (1) they live at or below 150 percent of the Federal Poverty Level; and (2) their utility bill exceeds the designated percent of their income. If either criteria goes unmet, the household will not be eligible for EAP.

SECTION C: COST-JUSTIFICATION

The EAP is set forth as a cost-justified response to low-income energy problems. However, EAP does not have to result in savings that more than offset the costs of the program for its adoption to be justified. The appropriate analysis is whether EAP does a *better* job of collecting revenue than the available alternatives. The issue is not whether there is a cost to EAP but rather whether the cost of EAP is more or less than the cost of the alternative collection mechanisms. If the EAP collects the same amount of money as the disconnection process but costs less, the EAP should be adopted.

In evaluating the cost-justification of EAP, it is important to remember that EAP does not *create* the costs of low-income inability-to-pay, but instead merely recognizes them. The costs of low-income inability to pay already exist: through collection expenses; through working capital; through bad debt. EAP aggregates those expenses into one "pot": the difference between the household payment and the fully-embedded cost. Nevertheless, those costs would be there, EAP or not. The point of EAP is that, by explicitly recognizing

these costs, a program can be designed to minimize them.

In this fashion, EAP should **minimize total revenue requirement** rather than expanding it. Accordingly, no inter-ratepayer subsidy occurs. Under the disconnection process, every time the utility incurs an expense to seek collection from Ratepayer B, Ratepayer A pays. Every time the utility incurs a bad-debt expense attributable to Ratepayer B, Ratepayer A pays. To lower total revenue requirement, and thus to be cost-justified, EAP need only be less expensive than these alternatives.

The expenses associated with present collection efforts can be considerable. In some instances, even when not easily identifiable, they redound to the substantial cost of the participating utility. One example of a substantial collection expense not historically considered is the lost time value of money associated with Budget Plus payment plans. This lost time value was examined in the recent Columbia Gas rate case.

Columbia Gas enters into Budget Plus payment plans that can be of significant length in terms of months and even years. For example, on the one hand, thirty percent of the sample studied involved Budget Plus plans of three years or less; on the other hand, 24 percent of the sample involved Budget Plus plans of 10 years or more. A distribution of plan lengths for Columbia Gas is set out in Table FF.

**TABLE FF
DISTRIBUTION OF BUDGET PLUS PLANS
BY LENGTH (IN MONTHS)**

LENGTH OF PLANS IN MONTHS	DISTRIBUTION	PERCENT
12	327	8%
24	439	11%
36	397	10%
48	414	11%
60	347	9%
72	310	8%
84	250	6%

96	207	5%
108	155	4%
120	127	3%
240	585	15%
360	206	5%
360+	143	4%
TOTAL:	3,907	100%

One "expense" associated with the Budget Plus payment plan, therefore, arises from the fact that a dollar collected today is worth more than a dollar collected tomorrow. As a result of the Budget Plus payment plans, in other words, Columbia Gas loses the time value of the arrears subject to these plans.

This loss manifests itself in a direct and substantial way. In the event that Columbia Gas must borrow money to fill its short-term capital needs, the loss shows up as a working capital expense. In contrast, even when Columbia Gas need *not* borrow money to provide the revenue (the payment of which is deferred through Budget Plus Plans), the loss shows up as an opportunity cost. If the money *had* been collected rather than deferred through Budget Plus, the prudent utility manager would have invested that revenue and obtained a rate of return on it.

The loss can be substantial. Before looking at the actual figures, however, it is necessary to explain the process that is occurring. This can best be done by hypothetical. In so doing, it is necessary to make several assumptions. First, assume that the arrears subject to the Budget Plus plan in this hypothetical is the average Budget Plus arrears for Columbia Gas: \$614 in December 1989. Second, assume further that these arrears are owed by a household who lives at or below 150 percent of poverty and thus most likely has a "negative ability to pay." In that instance, Columbia Gas would require a minimum payment of five (5) dollars. The length of the payment plan in this hypothetical would be 123 months (\$614 divided by \$5/month equals 123 months). The assumed discount rate is 12 percent, a not unreasonable hypothetical weighted cost of capital for a public utility today. In this hypothetical, the Net Present Value of the stream of \$5 payments over 123 months would be \$362. Through the Budget Plus payment plan process, therefore, Columbia Gas would lose the value of roughly \$252 of the original

\$614 debt, even if the Budget Plus plan is completed.

This loss of time value can translate into millions of dollars in lost funds for the utility. In response to Data Request OTS-RE-31-D in its 1990 rate case, Columbia Gas indicated that as of June 1989, it had \$10,730,049 in outstanding arrears subject to Budget Plus plans. The company reported that it had 4,318 households owing \$4.541 million, with an average Plan period of 165 months; 3,563 households owing \$1.814 million with an average Plan period of 73 months; and 8,604 households owing \$4.374 million with an average Plan period of 68 months. Using the Columbia Gas requested rate of return of twelve percent (11.99), the Net Present Value of the stream of payments generated by those averages is \$6.828 million, a loss in time value of \$3.901 from the \$10.730 million nominal value over the life of the Plans.

There is one caveat to be placed on this analysis. It is important to note that the lost time value calculated above is the lost time value that arises only from the date of the payment plan. It does not incorporate the lost time value from the time the bill was first rendered to the time the customer enters into the Budget Plus plan. That time period can be substantial. Assuming that most of the 1989 average Columbia Gas Budget Plus arrears of \$611 was incurred in the winter months, Budget Plus arrears are, on average, more than six months old before entering the Budget Plus plan (\$611 average 1989 arrears divided by 1989 average monthly winter bill of \$97 = 6.3 months).^{\199\}

In sum, when households cannot pay their utility bills, there are both direct and indirect expenses incurred by the utility as a result. It is these expenses which translate the social problem of poverty into a business problem for the utility. On the one hand, there are the direct expenses of credit and collection expenses, bad debt, payment plan negotiations and the like. On the other hand, there are the expenses of the lost time value of money when arrears are paid back over a substantial period of time. The EAP seeks to minimize these expenses while maximizing the collection of revenue. A listing of the types of cost savings that will be engendered by implementation of an EAP is set forth in Table GG.^{\200\}

^{\199\}It is reasonable to assume most Budget Plus plans are entered into in the winter months. Of the 3,907 sample plans studied for Columbia Gas, 3,460 were entered into in the months of December through April; 2,720 were entered into in the March through April period. In contrast, a total of only 76 of the 3,907 plans were entered into during the June through August period.

^{\200\}This list is in no way intended to be comprehensive.

**TABLE GG
COST-SAVINGS ATTRIBUTABLE TO EAP**

1.	Credit and collection savings
2.	Bad debt
3.	Working capital expenses
4.	Deposit maintenance
5.	Regulatory expenses
6.	Payment plan negotiations
7.	Credit agency fees
8.	Lost time value of payment plans
9.	Low-income mobility
10.	Better conservation savings

SECTION D: INCREASED REVENUES

In addition to the decreased expenses associated with EAP, a participating utility will experience increased gross revenues as well. Even though the billed amount will decrease, the amount of revenue actually collected will increase. The concept behind this statement is simple: it is better to collect 95 percent of a \$70 bill ($\$70 \times .90 = \67) than it is to collect 50 percent of a \$100 bill ($\$100 \times .50 = \50).

Net revenue will result in even more positive benefits to the utility under an EAP. A collection of \$50 in revenue under fully embedded rates results in only \$30 in benefit to the utility if the process of collection, itself, costs \$20. In contrast, the EAP revenue is collected in a costless fashion by making home energy bills affordable to the household in the first place. As a result, when the utility collects its \$67 under EAP, it nets \$67.

Increased revenue will arise for the utility, as well, by maintaining customers during times that otherwise such customers would, voluntarily or involuntarily, have been disconnected from the system. Note that in Philadelphia, for example, Philadelphia Gas Works loses roughly 14,000 to

17,000 residential accounts during the summer months,^{\201\} only to gain those accounts back by the following December and January. Each of those lost accounts represents a lost revenue stream for the Company. In contrast, the EAP being operated by PGW kept those households on the system during those warm weather months. In addition, more than 70 percent of the participating households were current over those months^{\202\} while more than 90 percent were either current or less than three months behind.^{\203\} This is particularly promising from the perspective of generating revenue that otherwise would be lost because the warm weather month EAP payments for the PGW sample represented \$127,051 in income while the fully embedded bill represented \$128,432.^{\204\} Accordingly, during the warm weather months, when in the absence of EAP PGW would have lost these customers altogether, PGW instead billed and collected most of its revenue.

This PGW experience illustrates the major fallacy in seeking to disconnect households who fall behind in their bills rather than trying to keep these households on the system through reduced rates. Removing a nonpaying customer from the utility system does not necessarily result in the least-cost provision of service to all remaining ratepayers. Whenever a customer's service is disconnected, two things happen. First, the company avoids the variable cost of delivering that unit of energy to the household. Second, the company forgoes the revenue that *would have been* collected from the household but for the disconnection of service. To the extent that the revenue would have exceeded the variable cost of delivering the energy (whether it be gas or electricity), other ratepayers lose a contribution toward the payment of the fixed charges of the company. In this instance, the disconnection of service leaves remaining, paying, customers worse off than had the disconnection not occurred.

In general, there is an advantage to all ratepayers from keeping as many households on the system as possible. So long as households pay the

^{\201\}Some of these accounts are involuntarily disconnected due to nonpayment. Other households voluntarily let their service lapse only to reconnect for the winter heating months.

^{\202\}Response Analysis Corporation, *Energy Assurance Program: Quarterly Report on Program Status: 3rd Quarter, 1990*, at 14, prepared for Philadelphia Gas Works (November 1, 1990).

^{\203\}*Id.*, at 13.

^{\204\}*Id.*, at 16.

variable costs of delivering the energy they consume, other ratepayers are no worse off. To the extent that households pay anything beyond the variable cost of the energy they consume, they are making a contribution toward the fixed costs of the system and all ratepayers are better off than they would have been had those households been disconnected. It could thus well be cost-effective to the utility, and to all remaining ratepayers, to provide payment-troubled customers with an incentive to make some partial payments (even if full payment cannot be made) by deciding *not* to disconnect so long as the customers continue to pay more than the variable cost of providing service.

Unfortunately, many times people react to nonpayment by assuming that disconnection of service to the nonpayers results in least-cost service. That assumption, however, is not *a priori* correct. Table HH below sets out a hypothetical that reveals the fallacy in this assumption. This Table assumes the simplest system possible, a system with two natural gas ratepayers identical in all respects except that Ratepayer 1 (RP1) is about to be disconnected and Ratepayer 2 (RP2) is not. Average annual consumption is 120 MCF. The variable price is \$0.42 per CCF (\$504 for 1200 CCF) and the retail price is \$0.70 per CCF (\$840 for 1200 CCF). Ratepayer 1 is facing an involuntary disconnection of service due to nonpayment. In this hypothetical, the utility agrees not to disconnect RP1 so long as that ratepayer pays an amount equal to \$0.46 per CCF (\$552 for 1200 CCF) toward her natural gas bill.

**TABLE HH
THE RATE IMPLICATIONS OF NOT DISCONNECTING
NON-PAYING CUSTOMERS**

FULL BILL	VARIABLE BILL	REDUCED BILL	FULL CONTRIBUTION	REDUCED CONTRIBUTION	DIFFERENCE
\$840	\$504	\$552	\$336	\$288	\$48
RATEPAYER 1: WHO IS A NONPAYING CUSTOMER. RATEPAYER 2: WHO IS A PAYING CUSTOMER.					

What this Table shows is that there are two ways to look at the operation of this utility collection policy. The first is to look at what RP1 is paying under the reduced bill vis a vis what that ratepayer would have paid if she paid her full bill. Viewed from this perspective, there is a \$288 shortfall and Ratepayer 2 is \$288 "worse off." The RP2 bill under the utility policy is \$1,128 (\$840 full bill +

\$288 shortfall from Ratepayer 1).

The second way to look at the utility's policy is to recognize that if RP1 was removed from the system permanently as a nonpayer, RP2 would have to pay the entire amount of what had been RP1's contribution toward fixed costs. In this hypothetical, if Ratepayer 1 is disconnected for nonpayment, Ratepayer 2's bill would be \$1,176 (\$840 full bill + \$336 lost contribution).

Clearly, therefore, the disconnection of service to Ratepayer 1 is not without a very real monetary cost to Ratepayer 2. Indeed, in this instance, Ratepayer 2 is \$48 better off by having Ratepayer 1 remain on the system, paying less than the full bill, than by having Ratepayer 1 disconnected.

If low-income customers cannot afford to pay their current bill in full, the utility should accept something less than full payment. If such customers pay a sufficient portion of their future bills so as to cover their variable costs plus make some contribution, disconnection should not occur. In this instance, remaining ratepayers cannot lose. If the household on this system does not make regular payments, the household loses the right to be free from disconnection. If the household *does* make payments, remaining ratepayers have obtained some contribution toward the fixed costs of the system, which fixed costs would otherwise have been payable in toto by the remaining ratepayers.

The Philadelphia Gas Commission endorsed this reasoning when it adopted the Philadelphia Gas Work's (PGW's) Energy Assurance Program (EAP). The Commission stated in its November 1989 order:

"The recommended energy assurance program recognizes that:

- (a) low-income customers do not have enough money to pay their fully-embedded cost of service; and
- (b) without a program to address these issues, these customers will pay nothing or will pay only some portion of their fully-embedded bill; and
- (c) in either case, PGW loses the full contribution to its fixed cost; and
- (d) this occurs whether or not the household is ultimately permanently disconnected; and
- (e) special pricing arrangements are good for all ratepayers, since the energy assurance program encourages more low-income customers to remain gas customers and to make some payments toward their bills, which payments

are better than no payments at all."^{1205\}

For this approach to work, the utility must structure the payment obligations to recover the variable costs of the system plus make some contribution from the customer class paying through EAP. In essence, this proposal is no different than the treatment that many states accord their large natural gas and telecommunications customers who have the ability and inclination to engage in bypass. In effect, these residential customers who, because of their inability to pay their utility bill, would be disconnected from the utility system and forced to move to alternative sources of home energy, would be treated as opportunity sales by the utility. If the program is structured so that it will recover the variable costs of delivering natural gas to program participants, all other ratepayers on the system are no worse off because of the program. To the extent that the program can be structured to make some contributions toward fixed costs, other ratepayers benefit from keeping those customers on the system.

The Pennsylvania Commission, in its *Equitable* decision,^{1206\} appropriately reached this same conclusion, when it held:

Even assuming hypothetically that EAP participants would be benefitted at the expense of other ratepayers, that "subsidy" would be warranted by the Commission's previous endorsement of the principle of maximizing margin or contribution. Under this principle, sales to EAP customers are justified as long as the rates recovered the incremental cost of serving the customer plus some contribution toward fixed costs. According to *Equitable's* uncontested evidence, EAP is projected to recover the average commodity cost of gas when both the participants' direct payments (at the minimum 8% of household income) and assistance funding (for which they are required to apply under the Company's proposal) are considered.^{1207\}

^{1205\} *In Re. Proposed Revisions to the Customer Service Regulations of the Philadelphia Gas Works*, Decision and Order (November 3, 1989).

^{1206\} *Pennsylvania Public Utility Commission v. Equitable Gas Company*, Docket R-901595, Decision and Order (November 21, 1990).

^{1207\} *Id.*, at 71 - 72.

Moreover, the *Equitable* decision correctly noted:

Flexible pricing reflects an identical policy objective of maximizing a utility's revenues. The Commission's approval of Equitable's Gas Rate 5 in 1982 is a case in point. That rate enabled Equitable to sell gas to industrial and other large users at a rate less than the otherwise applicable retail tariff upon proof that the customer had an available alternate fuel supply source that was cheaper than the regular retail tariff. (citations omitted). In the *UGI* case, the commodity cost of gas was specifically established as the floor rate.

For these reasons, the creation of EAP does not constitute unreasonable rate discrimination, and instead, is in the public interest.^{208\}

A recent review of the EAP program being piloted by PGW found that EAP customers will, through a combination of their LIHEAP and households payments,^{209\} easily pay the variable costs of providing service. The variable costs in this review were defined to be the avoided commodity costs determined for purposes of calculating industrial interruptible rates plus the marginal customer costs.^{210\} The calculation is set forth in Table II below:

TABLE II
EAP PARTICIPANTS ABILITY TO PAY VARIABLE COSTS
PHILADELPHIA GAS WORKS (1990)

Cost that average EAP customer must pay to cover variable cost of providing service

^{208\}Id., at 72.

^{209\}The total customer payment must be considered. That total payment has two components: (1) the household percentage of income payment; and (2) the household's LIHEAP payment.

^{210\}These include only the cost of meter reading and billing.

AVOIDED COST*	MONTH	AVG USE**	MONTH	SUB-TOTAL VARIABLE BILL ***	MARGINAL CUSTOMER CHARGE****	TOTAL VARIABLE BILL *****
\$2.0149	sept 87	2.51	sept 87	\$5.06	\$3.89	\$8.95
\$2.1243	oct 87	4.49	oct 87	\$9.54	\$3.89	\$13.43
\$2.2362	nov 87	7.36	nov 87	\$16.46	\$3.89	\$20.35
\$2.3882	dec 87	11.06	dec 87	\$26.41	\$3.89	\$30.30
\$2.6580	jan 88	17.48	jan 88	\$46.46	\$3.89	\$50.35
\$2.5738	feb 88	15.72	feb 88	\$40.46	\$3.89	\$44.35
\$2.2086	mar 88	13.94	mar 88	\$30.79	\$3.89	\$34.68
\$1.8327	apr 88	9.4	apr 88	\$17.23	\$3.89	\$21.12
\$2.5601	may 88	6.29	may 88	\$16.10	\$3.89	\$19.99
\$2.1045	jun 88	3.79	jun 88	\$7.98	\$3.89	\$11.87
\$2.1740	jul 88	2.67	jul 88	\$5.80	\$3.89	\$9.69
\$2.2432	aug 88	2.54	aug 88	\$5.70	\$3.89	\$9.59
					ANNUAL SUM:	\$275
					AVG MONTH:	\$22.89

*PGW response to Data Request RS-119

**Exhibit PA-50.

***Column 1 x Column 3.

****Bruce Oliver, Public Advocate rate design witness

*****Column 5 + Column 6.

In sum, the total benefit of an EAP to a utility must thus consider both aspects of the problem. First, the EAP will likely decrease expenses in a variety of ways. Second, the EAP will likely increase revenues for the utility. Either result individually, or the two results in tandem, represent real and tangible benefits to the utility and all of its ratepayers.

SECTION E: RESULTS FROM EXISTING PROGRAMS

The Energy Assurance Program, in the form proposed for Pennsylvania, has been implemented only one place on a pilot basis: for Philadelphia Gas Works (PGW). That program to date, however, has shown outstanding success. By November (six months into the program), an aggregate of 71

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percent of all EAP customers were *totally current* on their EAP bills. In comparison, 95 percent were either totally current or less than three months behind. Of the households who had been on the program three or more months (N=709), 462 (65 percent) were totally current.

No question exists but that before beginning to "jump for joy," caution should be noted that the Quarterly Report (November 1990) notes several times that the existing PGW data is too limited from which to draw conclusions. Nevertheless, consider that these very preliminary figures come from a program where:

- o47 percent of its participants live at or below 50 percent of poverty; and

- o12 percent of its participants entered the program owing \$2500 or more in arrears; 47 percent entered the program owing \$1000 or more in arrears; and 75 percent entered the program owing \$500 or more in arrears.

Moreover, consider that the alternative to the EAP for Philadelphia Gas Works is its 5 and 2 payment plan program. Again noting the caveat mentioned above regarding the limited data, it is possible to compare Table 3-7 in the Third Quarter Report with experience in the 5 and 2 program. The experience with 5 and 2 was provided in response to Public Advocate Data Request 219 in the 1989 PGW customer service proceeding. That comparison reveals that:

- oFrom October 1985 through March 2, 1989, 73 percent of all 5 and 2 plans had been broken (i.e., had sufficient numbers of nonpayment that they had been abrogated);

- oIn 1988, alone, the last year for which complete data is available, 58 percent of the 5 and 2 plans entered into were broken; 75 percent were either broken or defaulted.

- oFrom October 1985 through March, 1989, PGW's 5 and 2 customer made less than 6 out of every 25 required payments.

This early PGW data well illustrates the basic concept of the EAP. There is no question but that the EAP will result in a continuing shortfall between the households' monthly payments under EAP and the fully-embedded cost of providing service. Moreover, there is no question but that *some* households will not make even their EAP payments. The real issue

with EAP, however, is whether the shortfall is greater with EAP than without EAP. The real issue is whether more people keep more current, making more payments, under the EAP than under the existing alternatives to EAP. Since the shortfall under EAP will be less, it represents an improvement over existing collection alternatives.

Again note the limitation of the PGW report. The report quite rightfully states in a number of places that the results represent participation by a limited number of households for a relatively limited period of time (six months). Inadequate experience thus exists from which to draw conclusions as to the operation of the EAP. Nevertheless, there are three observations in particular to make about this early PGW data.

- oFirst, the relatively successful payment results of EAP participants in the warm weather months is particularly promising. These warm weather months in Philadelphia, as elsewhere, are the months in which EAP percentage of income payments come closest to being equal to or in excess of actual monthly bills. It is during these months that it is hardest to convince participating households that EAP is a "good bargain" and that they should continue to make their monthly percentage of income payments.
- oSecond, it is during these warm weather months that low-income households are least concerned about defaulting on their utility bill payments and thus losing service.
- oFinally, experience in other states has indicated that even of those households that break their EAP agreement, when the option arises either of "curing" those missed payments and continuing in the program another year, or of refusing to cure those payments and becoming ineligible for the subsequent year, most households who have broken their plans will bring their payments sufficiently up-to-date to continue on the EAP. That will likely happen in the PGW program as well.

The PGW experience reflects the experience in other programs called Percentage of Income Payment Plans (PIPPs). Through a PIPP, household payments toward their home energy bills are set at a reasonable percentage of household income. As a result, in Rhode Island, for example, PIPP resulted in an improvement in payment patterns for both the gas and the electric

companies. At the end of the first program year, when an evaluation of the program was performed, instead of having 55 percent of its pre-PIPP LIHEAP households three or more months behind on their unaffordable bills, Providence Gas had 95 percent of its PIPP households totally current or only one month behind. Similarly, instead of having 45 percent of its LIHEAP households three or more months behind, Narragansett Electric had 95 percent of its PIPP households either totally current or only one month behind.¹²¹¹

Experience in from the Clark County (Washington) Public Utility District is nearly identical. Clark County has implemented what it terms its "Guarantee of Service Program" (GOSP). Through that program, household payments are set at no more than nine percent of household income. That utility reported in April 1990:

The change in customer payment practices is best illustrated by the following statistics: Out of 1,966 GOSP participants, 86 customers were removed from the plan for default. 161 customers were two months past due. This equated to an overall success rate of 76 percent of GOSP customers who were *completely current* in their obligation. 87 percent were one payment or less in arrears. When you consider that 67 percent of all those entering the plan had a delinquent balance, the results are impressive.¹²¹²

In sum, programs whereby household utility payments have been set equal to an affordable percentage of income have seen dramatic increases in the extent to which participating households have kept current on their monthly payments. Increased revenue and decreased collection costs have resulted. Indeed, in the three programs discussed above, as opposed to the nearly universal presence of arrears by participants before the programs began, virtually every household was either totally current or only slightly behind. By setting payments at an affordable percentage of household income, the actual receipt of those payments by the affected utility was greatly enhanced.

¹²¹¹John Rao, *The Rhode Island Percentage of Income Plan: Benefits to the Poor, the Utility and the State* (November 1988).

¹²¹²Clark Public Utilities, *GOSP Evaluation: Nov. 1, 1988 - Nov. 1, 1989* (February 1990).

SECTION F: THE ADVANTAGES OF EAP OVER A LIFELINE RATE.

At first blush, the notion of providing a straight discount seems attractive. It is administratively simple. It is a means to provide substantial benefits to low-income households. If one is to create a low-income benefit program, a Lifeline rate involving an across-the-board discount seems better than the more complex EAP. This thesis, however, is rejected.

The purpose of the EAP is simply not to provide rate relief to all low-income customers. Rather, the purpose of the EAP is to recognize in advance those households who will likely find it impossible to pay their utility bill on a regular, timely basis and to collect the maximum amount of revenue from those households in the most cost-efficient and cost-effective way possible. Under the EAP, a utility collects the *entire* bill from households who are likely to be able to pay their entire bill. The rate relief is offered only to those who we can reasonably determine will not pay their entire bill.

When viewed from this perspective, it is possible to determine the advantage of the EAP and the failure of a straight low-income rate program. A uniform discount (whatever the size of the discount) bears no rational relationship to collection savings (and, indeed, is not designed to bear any relationship to collection savings). Providing a 30 percent discount to a household with a monthly bill of \$50, in other words, is probably unnecessary to obtain payments while providing a 30 percent discount to a household with a \$150 bill is probably insufficient to obtain payments. In both of these cases, the discount is provided with no reasonable expectation that there will be any offsetting savings in expenses and with no reasonable expectation that there will be any enhancement of the revenue stream that is generated as a result.

In sum, the EAP is offered as a new and useful mechanism to assist Pennsylvania utilities to avoid or to minimize uncollectible accounts. The EAP is intended to be a collection device. It is offered as a mechanism to maximize the collection of revenue while minimizing collection expenses. Through the EAP, Pennsylvania's utilities will pursue the least-cost provision of service in the credit and collection arena.

What Pennsylvania is being asked to do is to undertake the same type of redefinition of utility service that it undertook in the decades of the 1970s and 1980s with conservation. Just as the Commission recognized then that there were demonstrably better, and less expensive, mechanisms of providing electricity and natural gas service to customers than through the production of new sources of energy, and the construction of new central station capacity,

the Commission is being asked today to recognize that there is a demonstrably better, and less expensive, mechanism for collecting revenue from payment-troubled customers than the process of disconnecting service, entering into deferred payment plans and the like.

Pennsylvania utilities should always be open to ways to accomplish old tasks in new and less expensive ways. Just as the metamorphosis of natural gas and electric companies into full service energy corporations occurred in the energy production area, there is now a need for the metamorphosis of credit and collection activities into EAP types of programs.

The Commission has previously approved the EAP in concept in the recent *Equitable* and *Columbia Gas* decisions. Through this proceeding, the Commission should extend those decisions and direct the remaining Pennsylvania utilities to offer EAP to their payment-troubled customers. To do so represents a rare "win-win" situation for both the low-income consumers, the utilities *qua* utilities, and all utility ratepayers.

As has been demonstrated throughout this report, the adoption of EAP truly addresses the problems of the poor in a direct and meaningful way. The EAP addresses those problems in a manner that no other program can. The EAP represents good regulation, good business, and good social policy.

SECTION G: RECOMMENDATIONS.

The Pennsylvania Commission should direct the implementation of Energy Assurance Programs (EAP) on a statewide basis. While the Commission should not establish detailed regulations governing the structure and operation of such EAPs, there should be general guidelines. The Commission should determine and order that each EAP should have three components, including:

- 1.A process by which EAP participants will make payments toward current bills based on a percentage of income. While the Commission should not direct the adoption of any particular percentage, the determination should be made that household percentage of income payments should not exceed eight percent for heating and four percent for non-heating.^{1213\}

^{1213\}The *recommended* percentages are seven percent for heating and three percent for non-heating. These figures are intended to be absolute caps.

2. An earned credit (or arrearage forgiveness) provision by which households will earn sufficient credits to retire all or a portion of their arrears^{\214\} over a period of time. This component may include a household payment toward these pre-program arrears not to exceed five dollars (\$5) a month.^{\215\} The time over which the arrears are retired should not be dictated either. Again, however, a cap should be established (not to exceed three years).
3. A conservation education program directed specifically to EAP customers.

^{\214\} If a utility chooses not to require a monthly household payment, all arrears will be subject to forgiveness. If the utility chooses to require a household payment, it is the entire original arrears minus the household payments that is subject to forgiveness.

^{\215\} The *recommended* household payment is three dollars a month. This figure is intended to be an absolute cap.

PART V: LIHEAP PARTICIPATION.

It is axiomatic among persons who design programs to deliver public benefits to the poor that the tasks of informing potential clients and securing their acceptance and participation are of major concern. As one Ohio review of a variety of energy assistance programs concluded: "almost by definition, poor and elderly persons are likely to be less able than others to cope with their situations, seek help when it is needed, or respond to programs of assistance when these are made available."^{216\}

The Weld report concludes that there are two aspects to providing effective public assistance. The report states: "aid should be accessible to potential users and accepted by them if the program is to be fully effective."^{217\} This two-fold "accessible" and "acceptable" analysis translates into ensuring that potential recipients can be successful "both in learning about possible sources of assistance and in actually completing all procedures required to receive aid."^{218\} From a program perspective, the actual *tasks* to be accomplished include certifying eligibility, gaining visibility for the program, and securing acceptance by potential clients.

A number of studies have given greater meaning to these general observations. This Part will examine the Pennsylvania data first and then review other state and national studies on why eligible households *do* and *do not* participate in a variety of public benefit programs. The purpose is to respond to why Pennsylvania households do not participate in LIHEAP and to offer guidance on what actions the Public Utility Commission might take, recognizing that the PUC does not administer LIHEAP, to remedy that failure.

^{216\}Edric Weld, *Energy Assistance Programs and Pricing Policies in the Fifty States to Benefit Elderly, Disabled or Low-Income Households*, prepared by Cleveland State University, Institute of Urban Studies, for Ohio Energy Credits Advisory Committee (1979).

^{217\}Weld, *supra*, at p. 2.15.

^{218\}Id.

SECTION A: REASONS FOR LIHEAP NONPARTICIPATION.

1. Pennsylvania Energy Assistance.

The primary source of energy assistance in Pennsylvania is provided through the Low-Income Home Energy Assistance Program (LIHEAP).^{\219\} In Pennsylvania, the administration and disbursement of LIHEAP funds (both subsidy and crisis) is generally handled by the state Department of Public Welfare's county offices.^{\220\} In addition, "local agencies, non-profit organizations, and utility companies act as points of contact for consumers in need and make referrals to the county assistance offices."^{\221\}

Hyman found that there has been a substantial increase in consumer awareness of energy assistance programs since 1981. The proportion of consumers who are aware of the existence of an energy assistance program and can name a specific program nearly doubled from 1981 (26%) to 1985 (46%). The results are summarized below:

**TABLE JJ
AWARENESS OF ENERGY ASSISTANCE IN PENNSYLVANIA**

AWARENESS	1981 (%)	1985 (%)
Unaware of Energy Assistance:	47	14
Aware but could not Provide Name:	27	40
Aware and Did Provide Some Name:	26	46
N=	460	500

^{\219\}Drew Hyman, *Consumer Budget Priorities and Utility Payment Problems in Pennsylvania*, prepared by Consumer Services Information System Project (Penn State University) for the Pennsylvania Public Utility Commission (1988).

^{\220\}Id., at 19 - 20.

^{\221\}Id., at 20.

These Pennsylvania figures can be seen from the converse side, however. The Penn State study found that "while most consumers indicate awareness of energy assistance, in general, their knowledge is not sufficient to allow them to act. Almost half of those who say they 'know about' energy assistance cannot name a single program."²²² As can be seen from the above Table, fifty-four percent are either aware of energy assistance but cannot name a specific program or are unaware of any programs in 1985.²²³ The Penn State report concludes:

While the level of awareness has improved considerably in recent years, these findings raise questions about the uninformed majority. People who are unaware of programs or cannot name an agency which they can contact for assistance most likely do not have effective access to help when they need it.²²⁴

The Penn State report made several findings, including:

o Consumer knowledge of the existence of energy assistance and conservation programs "is not very extensive. * * * Most consumers do not have effective knowledge about those programs which exist."²²⁵

o It is the responsibility of the Public Utility Commission, the Pennsylvania Department of Public Welfare, and utility companies to inform payment-troubled customers of their options and possible sources of assistance.

o It is not possible, however, for state agencies or public utility companies to "require" consumers to use information nor can they force consumers to apply for assistance.

o The low level of knowledge about the various options available to consumers raises a question as to whether some consumers are

²²²Id., at 22.

²²³The knowledge problem is receding somewhat, however. This figure is down from 74 percent in 1981.

²²⁴Id., at 22.

²²⁵Id., at 27 - 28.

being denied access to the assistance network because their knowledge is incomplete.

oConsumer education can fill in the missing gaps in consumer knowledge and teach consumers to use the information available to them in an effective manner.

The concept of advancing "effective knowledge" on the part of consumers is one contribution the Pennsylvania research has made to developing appropriate outreach. "Effective knowledge" involves not only conveying information, but teaching consumers how to use that information as well. According to the Pennsylvania work, consumers must know how to act upon the information they are given. Despite the comprehensive treatment of consumer participation in the LIHEAP program (and company "hardship funds") in the Penn State study, the study misses some important observations found by other researchers. Other work is outlined below.

2. New York Energy Assistance

Most *elderly* poor in New York did not know of, and did not use, the existing energy "intervention programs" designed for their benefit.^{1226\} Noting that "no intervention program can be effective unless it is known and used," the New York study sought to determine "the degree to which (the sample of elders studied) was aware of and utilized these programs."^{1227\}

The Unseld report found that "fewer than 20% of the sample were aware of the SCIP^{1228\} or weatherization programs."^{1229\} On the one hand, the study

^{1226\}A January 1978 report identified three programs that existed at that time: (1) the Special Crisis Intervention Program (SCIP) funded by the Community Services Administration and administered through the New York State Department of Social Services (aimed at elderly homeowners); (2) the Supplemental Security Income (SSI) Emergency Assistance for Adults, a program aimed at resolving, *inter alia*, energy emergencies for SSI recipients; and (3) the Community Services Administration Weatherization Program funded by CSA and administered by the New York State Department of State (aimed at low-income homeowners with poorly insulated homes).

^{1227\}Charles Unseld, *The Impact of Rising Energy Costs on the Elderly Poor in New York State*, at 61, prepared by Welfare Research, Inc. for the New York State Energy Office (January 1978).

^{1228\}SCIP is the special crisis intervention program.

^{1229\}*Id.*, at 62.

explained the low SCIP participation, notwithstanding "intensive outreach and heavy media advertising," by noting the "brief time available for advertising and implementing the program." On the other hand, the study noted simply that "the CSA weatherization program *also* had relatively low visibility despite extensive advertising and outreach campaigns."^{230\}

In contrast to SCIP and CSA weatherization, the SSI Emergency Assistance program was "much more widely known" in New York, with nearly one-half of the sample noting awareness of the program. The report postulated that this knowledge was "probably because (the SSI-EEA program) is ongoing and participants may have utilized it for problems other than those that are energy related."

The report expressed surprise at the "low degree of knowledge" of the energy assistance programs, "given our relatively informed and active sample, most of whom had had contacts with senior centers." It concluded that "any programs directed at this population must be accompanied by specialized, skillful advertising and outreach in order to be effective."^{231\}

^{230\}Id., at 62.

^{231\}Id., at 62.

**TABLE KK
AWARENESS AND USE OF
EXISTING ENERGY ASSISTANCE PROGRAMS
REPORTED BY PERCENTAGE OF POPULATION**

PROGRAM	AWARENESS	PARTICIPATION
SCIP	18.8%	5.1%
SSI-EAA	46.4%	5.8%
CSA WEATHERIZATION	17.8%	0.8%

The New York study examined why households in the senior citizen sample did not use existing energy assistance programs. Those reasons are set forth below:

**TABLE LL
RESPONDENTS' REASONS FOR *NOT* USING
EXISTING ENERGY ASSISTANCE PROGRAMS (BY %)¹²³²¹**

REASONS	SCIP	SSI-EAA	WEATHERIZATION
NOT ELIGIBLE, NOT QUALIFIED	38.1	51.6	24.2
TOO PROUD	12.7	14.6	4.8
DIDN'T KNOW HOW TO APPLY	3.2	4.4	4.8
NUISANCE	3.2	0.6	1.6
DIDN'T THINK IT APPLIED TO ME	20.6	21.5	17.7
OTHER	17.5	9.5	22.6

The New York report looked in particular at the attitudes of the elderly

¹²³²¹Represents percentage of these individuals who had heard about but did not use the programs (SCIP N=54; SSI-EAA N=160; Weatherization N=67).

toward energy assistance.^{1233\} The study reported two "separate but related phenomenon" regarding the elderly: (1) substantial numbers of the elderly poor perceive themselves as ineligible for such programs; and (2) a sizable minority appear to attach a stigma to the use of any government "hand-outs." The report concludes as to the elderly:

It is quite likely that both of these attitudes derive from the fact that the elderly poor have frequently *become* poor with age. (emphasis in original). The newly poor have a long history of self-reliance and independence and quite often take pains to distinguish themselves from the welfare population. Programs that appear to present 'something for nothing' are difficult for many of them to accept. It appears, too, that many elderly perceive these programs as 'welfare' and thus as inappropriate for them --despite acknowledged need.^{1234\}

Identifying households who have "become poor" as populations in need of special outreach, identifying the advantages of tying energy assistance to programs addressing other needs also, and identifying media advertising as being inadequate unto itself as a means of outreach are all lessons to be learned from the New York elderly energy assistance study effort.

3. Maine Energy Assistance.

The lack of telephone service by low-income households can serve as a barrier to participation in low-income energy programs. The state of Maine has adopted a unique approach to the winter payment problems of low-income customers. Rather than adopting a "pure" winter moratorium, whereby disconnections of service are absolutely prohibited for income-eligible customers from November through April, Maine has adopted a two-pronged approach to winter shutoffs. The first prong requires utilities to make a reasonable effort to make personal contact with customers who are \$50 or more in arrears.^{1235\} This "personal contact" may occur either by telephone or

^{1233\}Id., at 66.

^{1234\}Id., at 66 - 67.

^{1235\}Chapter 81, sec. 17.D and Sec. 17.A.2, Maine P.U.C. Rules.

by a premise visit.^{\236\}

The second prong is a system of payment plans. The Maine commission requires most utilities^{\237\} to offer eligible customers^{\238\} an opportunity to enter into a Special Payment Arrangement. Under this plan, a customer may pay less than the full amount of winter bills as they become due; the difference is then "made-up" in equal increments paid during the non-heating months.^{\239\} In the event that (1) no personal contact is made with the customer, or (2) personal contact is made and the customer and utility fail to agree on a payment plan, or (3) a payment plan is agreed to but is subsequently broken, a utility may seek to disconnect service even during the winter months so long as it first seeks and obtains approval from the Maine PUC's Consumer Assistance Division.^{\240\}

A recent report for the Maine PUC, prepared by the National Consumer Law Center, found that these rules operated, however unintentionally, to exclude a discrete population of low-income households.^{\241\} The report found that 70 percent of the households for whom a winter disconnection was sought,^{\242\} and 80 percent for whom a winter disconnection was granted,^{\243\} lacked **telephone** service in their home. The study found that the homes without telephones did not have greater arrears than the remaining population.^{\244\}

^{\236\}Chapter 81, sec. 17.B.9, Maine P.U.C. Rules.

^{\237\}Utilities with fewer than 10,000 residential customers are exempt. Chapter 81, sec. 18.O, Maine P.U.C. Rules.

^{\238\}An "eligible customer" is defined to be a customer who "is not able to pay for utility service in accordance with the terms of the bill without exposing the customer or other members of the customer's household to the probability of deprivation of food or other necessities for health or life." Chapter 81, sec. 17.A.5, Maine P.U.C. Rules.

^{\239\}Chapter 81, sec. 17.A.4, Maine P.U.C. Rules.

^{\240\}Chapter 81, sec. 17.I.2, Maine P.U.C. Rules.

^{\241\}National Consumer Law Center, *An Evaluation of Low-Income Utility Protections in Maine: Winter Requests for Disconnect Permission*, at 16 - 18 (July 1988).

^{\242\}*Id.*, at 16.

^{\243\}*Id.*, at 19.

^{\244\}Indeed, exactly the opposite was found. On average, the population without phones had \$158 in arrears

The study found instead that the structure of the utility's collection procedures worked to exclude these households that lacked telephones. It found that a statistically significant difference existed in the number of "no-phone households" that arranged to make full or partial payments, that obtained public assistance, and that entered into payment plans.^{1245\} The study concluded:

It would appear that households which lack telephone service do not have the same ability to undertake the basic activities necessary to maintain home heating. They cannot contact social service agencies for public assistance; nor can they contact their utility to make payment plan arrangements.^{1246\}

Based upon this analysis, the Maine PUC was urged to eliminate the source of exclusion from the energy assistance programs: heavy reliance upon telephone collection techniques. However unintentional, the unconscious assumption regarding the presence of telephones was serving as a barrier to participation in low-income energy payment solutions by a substantial segment of Maine's low-income population.

4. Elderly Participation in LIHEAP

A recent national study by the Center on Budget and Policy Priorities examined specifically why elderly households did not participate in the LIHEAP program.^{1247\} This report, too, noted the reluctance of elderly households to accept what are perceived to be public welfare payments.^{1248\} However, the (. . . continued)

at the time of the original disconnect notice issued by the utility while the population as a whole had \$170 in arrears. Similarly, at the time the utility sought permission to disconnect in the winter, the average arrears for the "no-phone" population was \$189 while the average arrears for the total population was \$210. *Id.*, at 17.

^{1245\}*Id.*, at 18.

^{1246\}*Id.*

^{1247\}Kathryn Porter, *Participation by the Elderly in the Low Income Home Energy Assistance Program*, prepared by Center on Budget and Policy Priorities for the American Association of Retired Persons (AARP) (December 1989).

^{1248\}*Id.*, at 26.

report noted other substantial barriers to participation, as well, including:

- oDifficulties in obtaining access to the program. "In some areas, transportation to offices that accept applications may be a problem, especially for the elderly. For those who are homebound or socially isolated, getting to an office may be nearly impossible."²⁴⁹
- oLimitations on time periods for accepting applications. Many states have very short time periods within which to apply for LIHEAP assistance. And, with decreasing LIHEAP funds, time periods are being reduced even further. Seven states reduced the time period for applications in FY 1988. About one third of the states shortened the application period in FY 1989.²⁵⁰
- oA lack of program trust. A study of methods for marketing energy conservation programs to the elderly, this report noted, found that "many of the elderly did not *trust* the programs." (emphasis added).²⁵¹ Some seniors, the report noted, "were reluctant to accept weatherization assistance because of previous experiences with fraudulent home repair organizations."²⁵² The report found that in designing outreach efforts, "the specific informational techniques used were less important than the amount of trust potential participants had in the sponsoring organization."²⁵³

5. Vermont Food Stamps

The study of Food Stamp participation and nonparticipation can be instructively reviewed for purposes of trying to derive lessons for the offer of

²⁴⁹Id., at 25.

²⁵⁰Id., at 25.

²⁵¹Id., at 26, citing, Linda Berry, et al., *Marketing and Design of Residential Conservation Programs for the Elderly*, Oak Ridge Laboratories (February 1988).

²⁵²Id.

²⁵³Id., at 29 and 30.

public assistance programs in general. The State of Vermont recently completed a study of reasons households offer for not participating in the Food Stamp program in that state.^{\254\}

The offer of low-income energy assistance must be aware of the frequency of persons with limited education who will seek to participate in such a program. Failing to account for that factor may prevent such participation. For example, the application forms for the Food Stamp program in Vermont were a major barrier to participation. The participants, according to the Vermont researchers, "viewed the 12-page application form as complex and overwhelming."^{\255\} The report continued:

there were several participants* * *in particular who were very open about their lack of education (4th grade or less), and their inability to complete the forms without assistance. Regardless of educational level, however, the participants felt the instructions were not clear and that the wording of several questions on the application form was confusing.^{\256\}

Persons providing energy assistance must be particularly sensitive to the needs of the first time participant. For example, the Vermont Food Stamp report found, "there were several participants who mentioned that ***the first time*** (emphasis in original) the monthly reporting form arrived in the mail, they had been confused about what was expected."^{\257\} Moreover, according to the Vermont report, "a lack of knowledge about how or where

^{\254\}Sandage Advertising & Marketing, *Food Stamp Program: Focus Group Research Report*, at 6, prepared for Vermont Department of Social Welfare (1989).

^{\255\}*Id.*, at 8.

^{\256\}*Id.*, at 8.

^{\257\}*Id.*, at 7

to get problems resolved had resulted in several families losing their eligibility.^{1258\}

Even households who knew where to go for problem solving were not always capable of acting upon that knowledge. According to the Vermont report, "for the Orange County participants, both the Barre and White River Junction offices were long distance toll calls, which made it a hardship to seek assistance by telephone."^{1259\}

In sum, according to the Vermont research, "the major barriers to initial or continued participation" in the Food Stamp program included: (1) the hostile attitude of Department of Social Welfare (DSW) staff; (2) the complexity of the application form; and (3) the lack of assistance for questions and problems.

6. National Food Stamp Data

National Food Stamp data can be reviewed, as well, to determine whether lessons can be derived for other assistance programs.^{1260\} Why low-income households do not participate in the Food Stamp program nationwide was the subject of a U.S. General Accounting Office (GAO) study in 1988.^{1261\} The GAO found an estimated participation rate of 43.8 percent in 1986, based on annual data, down slightly (but not significantly) from the roughly 46.1 percent in 1979. As GAO said, in both years, slightly more than half of all eligible households eligible for Food Stamps did not participate in that program.^{1262\} "Despite substantial outlays in the Food Stamp program," GAO said, "there is concern that some households eligible

^{1258\}Id., at 7.

^{1259\}Id., at 8 - 9.

^{1260\}Unfortunately, research into the reasons for nonparticipation in public assistance program has been confined almost exclusively to the Food Stamp program. Other public programs must, therefore, often draw their conclusions from Food Stamp research.

^{1261\}General Accounting Office, *Food Stamps: Reasons for Nonparticipation* (December 1988).

^{1262\}Id., at 13.

for the Food Stamp program and in need of its benefits are not participating in the program."^{263\}

The GAO found that about half (50.7 percent) of the eligible nonparticipants had misperceptions regarding their eligibility for the program.^{264\} Of those households who thought they were ineligible, more than half (53 percent) mistakenly believed that their income or assets were too high to entitle them to receive Food Stamps (39 percent) or that some other program requirement precluded their participation (14 percent).^{265\} An additional 25.7 percent who thought they were ineligible reported that they were not eligible because they did not need Food Stamps.

The presence of income variation contributes to this phenomenon, GAO said. If a household, in other words, applies for and is denied assistance one or more times when its income is in fact too great for the household to be eligible, it may not reapply when income decreases to the point of passing eligibility criteria. Special efforts thus must be made to reach households with income variations.

In contrast are those households who believed themselves to be eligible for Food Stamps but nevertheless did not apply. More than eight of ten (82.8 percent) eligible nonparticipants who thought they were or might be eligible did not even *try* to get Food Stamps in 1986. Roughly one-third (30 percent) of these households believed that they did not need Food Stamps. Another one-third reported that "perceived administrative `hassles' and physical access problems accounted for their failure to participate in the program."^{266\} The proportion of households who cited "administrative hassles" increased to more than 25 percent in 1986 (from less than 18 percent in 1979).

A subsequent GAO study categorized Food-Stamp-eligible but nonparticipating households into three major categories: (1) households with

^{263\}Id., at 8.

^{264\}Id., at 14 - 15.

^{265\}Id., at 16 - 17.

^{266\}Id., at 20 - 21.

an expressed lack of desire for Food Stamps, either because of their perception of a lack of need or because of their personal attitude toward receiving welfare benefits; (2) households with a lack of, or incorrect, information about the Food Stamp program, including incorrect information about eligibility requirements and a lack of information about how to apply for benefits; and (3) households with perceived or actual access or program problems. These last households included households who had negative perceptions about program administration, experienced program administrative "hassles," were told they were ineligible by welfare officials, or either perceived they had, or actually had experienced physical access problems while attempting to secure benefits.^{1267\}

GAO found that reasons for nonparticipation varied based on demographic factors. The highest probability that nonparticipation arose because of a lack of desire for Food Stamp benefits, GAO said, came with households receiving Social Security benefits, those containing elderly eligible households, and "all groups of white households that contained currently or formerly married individuals."^{1268\} The groups most likely to cite a lack of information about the Food Stamp program included most categories of households headed by single individuals.^{1269\} Finally, GAO said, the groups most likely to report problems ("real or perceived") with the Food Stamp program or access problems as their major reason for nonparticipation were households that participated in SSI or other public welfare programs; households headed by nonwhite widowed, divorced or separated individuals; nonwhite single males; and households containing nonwhite married couples.^{1270\}

GAO concluded that the demographic analysis was significant for policymakers. According to the GAO:

From a policy viewpoint, an informed decision on the part of an

^{1267\}General Accounting Office, *Food Stamp Program: A Demographic Analysis of Participation and Nonparticipation*, at 15 (January 1990).

^{1268\}*Id.*, at 19.

^{1269\}These include households headed by white single men and women and those households headed by nonwhite single females. *Id.*, at 19.

^{1270\}*Id.*, at 19.

eligible household not to participate in the program is not an issue. Lack of information about the program, however, and at least some program and access problems can and should be remedied.^{\271\}

The GAO said that "since more than three fifths of the eligible households gave these reasons for nonparticipation --36.8 percent gave a lack of information, and 25.0 gave program or access problems as reasons for nonparticipation-- it is clearly important to address those problems."^{\272\}

SECTION B:WAYS TO INCREASE PARTICIPATION THROUGH TARGETED UTILITY OUTREACH.

One major problem with decreasing LIHEAP funds involves the resulting pinch placed on administrative dollars. By statute, no more than ten percent of a state's LIHEAP appropriation can be devoted to administration. Accordingly, for every \$1 million reduction in LIHEAP, the state loses \$100,000 in administrative funds. Unfortunately, the stafftime for intake, income certification and the like does not vary with the size of a check made out to a LIHEAP recipient. Given constant staff funding requirements, or expansions necessary to keep salaries apace with inflation, other areas must be found to absorb the cuts.

As a result, as LIHEAP administrators struggle to meet ever decreasing budgets, some very important aspects of the program face increasing budget cutbacks. One of those areas is outreach. Given recent decreases in LIHEAP participation rates, however, it is particularly troublesome that outreach is one of the few areas where administrative dollars can be reduced. Utility-financed outreach efforts can help fill this gap.

A utility is well-suited to provide assistance in the outreach area. The thesis of this proposal is that, while most utilities view their data processing as a mere accounting system, in reality, it is a valuable data base as well. The wealth of information maintained in existing utility systems can be tapped through simple analyses described herein to make educated determinations of

^{\271\}Id., at 22.

^{\272\}Id., at 22.

who might benefit from LIHEAP assistance. Targeted outreach directed toward those potential beneficiaries would thus be in order.

To more fully comprehend this proposal for targeted utility outreach to promote LIHEAP, a basic understanding of a utility's customer data base is necessary. This section is to introduce certain aspects of a public utility's (natural gas or electricity) customer data base and to explain how that data base can be used in outreach efforts. It is necessary to keep in mind that not every utility will be the same; however, they will most likely be substantially of the form discussed herein. The Section is divided into two parts: Sub-section 1 will describe particular information a utility is likely to maintain on each of its customers. Sub-section 2 will suggest ways in which this information could be used in a utility outreach effort promoting LIHEAP participation.

1. THE DATA RECORDS

It is not profound to recognize that a local utility keeps extensive records on each of its customers. Perhaps by better understanding the contents of those records, those records can be used to the advantage of low-income households in devising targeted outreach efforts to households which might benefit from the receipt of LIHEAP benefits. Given the millions of dollars received by utilities from LIHEAP each year, to require the assistance of utilities with outreach is appropriate.

Utilities maintain three types of records which would be helpful in designing outreach efforts. The first involves "treatment histories." The second involves "vintaging" of arrears. The third involves a series of dates that are important for each customer.

a. Treatment History

A utility's "account treatment" involves those actions which a utility takes to collect its bills each month. Accounts are often "treated" in a hierarchical fashion. A typical treatment hierarchy might involve the following four steps, with each step involving a more stringent collection technique:

1.A reminder notice

2.A shutoff notice

3. A "final" notice
4. A termination of service

A utility tracks a customer's "treatment history" in its data processing files. The utility might retain this history, depending on the utility, for 13 to 24 months or more. In its data base, the utility will record the highest treatment level experienced by the customer for a given month. Given the progressively more stringent nature of the treatment steps, a record of a high treatment level necessarily implies the presence of all "lesser included" treatment steps. Thus, for example, if a utility records a "final notice," that record necessarily implies that the household account has received the "treatment steps" of a reminder notice and a shutoff notice as well.

A utility will assign a numerical code to each treatment step for purposes of recordkeeping, with a higher number representing a more stringent treatment measure. So, for example, a typical utility data base code might look something like this:

- 0=No treatment (i.e., bill paid in full and on time)
- 1=Reminder notice sent
- 3=Shutoff notice sent
- 5=Final notice sent
- 7=Service terminated for nonpayment

Treatment histories are kept on a rolling basis. Thus, in the instance where a utility keeps 13 months of history, in February of 1990, the company would add February to the file and delete the treatment history for January 1989. In each succeeding month, the most recent month is added and the oldest month deleted from the file.

An illustration might further help explain. Let's assume that we have a utility with three customers: 1, 2 and 3. The following treatment histories are for the calendar year 1989 (with January being in the left most field). The utility data records on treatment histories would look like this:

Ratepayer 1: 111105700011
Ratepayer 2: 301350333333
Ratepayer 3: 555571000013

The following discussion does two things with these records: (1) it explains what the records say on their face; and (2) it explains some of the conclusions/deductions one might reasonably draw from these particular records.

1. **Facial information**: The following information appears on the face of the treatment histories which appear above.

a. **Customer 1**: This person received reminder notices in January through April. This customer received a "final notice" in June and was actually disconnected in July. It is not possible to know whether the household remained disconnected in August through October or whether the customer was reconnected and paid the bill in full and on time during those months. (Some utilities, however, will also keep a disconnect/reconnect date, as discussed below, so it is possible to separately check whether and when the household was reconnected). The treatment in November and December makes clear that the customer had service reconnected by that time and that the household received "reminder notices" in each of those months.

b. **Customer 2**: This customer received shutoff notices in every month but February, March, May and June. The household was paid in full and on time in February and received a reminder notice in May but was paid in full in June. We know that the "O" in February and June represents a paid bill (and not a month in which the household was disconnected and off of the system) because a shutoff would have been represented by a "7" in January and May.

c. **Customer 3**: This person received a reminder notice in June and November; a shutoff notice in December; and final notices in January through April. The household had service disconnected in May. Given the reminder notice in June and no further disconnections, we know the household was reconnected after the May disconnection and remained current on each monthly bill through October.

2. **Deductive information**: Beyond the information that is apparent on the face of the treatment histories, a number of deductions can be reached from those histories as well. It is up to each individual to decide which deductions are "reasonable":

a. **Customer 1**: This is a person who is not in chronic trouble with her energy bills. To allow a payment to slide so as to get a reminder notice may be as much a personal money management technique as anything else. Customer 1 is the classic case of a catastrophic occurrence. It is impossible to tell whether it was an unexpected expense (such as a major illness) or the temporary loss of a job or the like. Whatever the financial crisis, however, it is possible to conclude that it was serious enough to push a household that had experienced no prior significant payment troubles to the point of an actual disconnection for nonpayment. Once the crisis passed, the payments returned to normal.

b. **Customer 2**: This customer is in chronic payment trouble with her utility bill, receiving shutoff notices virtually every month. The household is likely a low-income household skating on the thin ice of economic viability. This household likely applied for, and received, LIHEAP. LIHEAP benefits are generally actually received in December and January. This household also likely received an "emergency crisis" grant in May or June, thus allowing the June bill to be paid in full. This is a household for whom a payment plan or a budget plan (with leveled equal monthly payments) won't help. The household needs public assistance, not level payments.

c. **Customer 3**: This is a household with chronic winter payment troubles. There is no evidence of a LIHEAP or crisis payment. If such payments were obtained, the household's energy bill is so large that the benefits were swamped by the current bill. The household should thus be placed on a priority conservation/weatherization list in that event. The household likely took advantage of a winter moratorium to maintain winter service despite nonpayment and despite repeated shutoff notices. In

May, after the moratorium lapsed, the high bills and arrears caught up with the household and service was disconnected. It is reasonable, also, to assume one of two alternative theories about this household's finances. First, the household could be sufficiently close to the economic edge that, while the low summer bills pose no problem, the higher winter bills are simply unaffordable. Second, the household could have seasonal employment, which unfortunately ends with the advent of winter. The loss of income combined with the high winter bills, pushes the household into a nonpayment situation. Household 3 may well be the type of household who could benefit from a levelized budget billing plan.

The PUC, of course, in consultation with the state LIHEAP agency, local utilities and consumer groups, may define "payment-troubled" to meet its own criteria. There is no objective determination of "payment-troubled." Whether targeted mailings are made to households with 10 shutoff notices, or with a certain sized arrears, or with some other characteristic in particular is not the point. Rather, the lesson to be learned is that utilities have an array of useful information that can be readily accessed for the benefit of both the utility and its payment-troubled households.

Having introduced the concept of treatment histories, this Section will shortly come back to discuss the significance of such data collection for LIHEAP outreach.

2. Arrears Vintaging

All arrears are not alike on a utility bill. Most utilities keep track of their arrears by vintage. A typical utility places arrears into one of three categories:

- o31 - 60 days overdue
- o61 - 90 days overdue
- o91+ days overdue.

Clearly, households with larger and older arrears are considered more problematic than households with smaller or newer arrears. For example, a household with a 90-day arrears of \$300 is likely to be of more concern to a utility than a household with a 30-day arrears of \$400.

It is important to understand how a utility company bills and collects its accounts. A universal principle is that payments are applied to bills on a first-in, first-out basis. Again, perhaps an illustration can best help explain. Assume our Ratepayer, let's call her A, has received the following bills for the six months of January through June:

January	\$126.42
February	\$134.18
March	\$ 87.66
April	\$ 65.00
May	\$ 48.18
June	\$ 22.41

She began with a balance of zero dollars, so the only arrears are current arrears. Let's assume that Ratepayer A made the following payments:

January	\$96.42
February	\$20.00
March	\$ 50.00
April	\$ 50.00
May	\$ 48.18
June	\$ 22.41

The arrears would be as follows:

	BILL	PAYMENT	ARREARS
JANUARY	\$126.42	\$ 96.42	\$ 30.00
FEBRUARY	\$134.18	\$ 20.00	\$144.18
MARCH	\$ 87.66	\$ 50.00	\$181.84
APRIL	\$ 65.00	\$ 50.00	\$196.84
MAY	\$ 48.18	\$ 48.18	\$196.84
JUNE	\$ 22.41	\$ 22.41	\$196.84

The household, however, is not considered "as well off" in June as in April, even though the amount of the arrears is the same. The *vintage* of arrears would be as follows:

	TOTAL	30-60 DAYS	61-90 DAYS	91+ DAYS
JANUARY	\$30.00	\$ 30.00	\$ 00.00	\$ 00.00
FEBRUARY	\$144.18	\$134.18	\$ 10.00	\$ 00.00
MARCH	\$181.18	\$ 87.66	\$ 94.18	\$ 00.00
APRIL	\$196.84	\$ 65.00	\$ 87.66	\$ 44.18
MAY	\$196.84	\$ 48.18	\$ 65.00	\$ 83.66
JUNE	\$196.84	\$ 22.41	\$ 48.18	\$126.25

As can be seen, while at first glance, this person may seem to be holding her own in recent months, in the eyes of the company, the debt is becoming older and, therefore, more in jeopardy of ultimate nonpayment.

Utilities may track the vintage of arrears in one of two ways. First, the vintage of the oldest arrears might be given a code and tracked for 13 to 24 months or more (again, depending on the utility). Thus, a utility might code its arrears as follows: 30-60 days=1; 60-90 days=3; 91+ days=5. Under such a coding, the hypothetical Ratepayer A would have the following arrears history:

JANUARY	1
FEBRUARY	3
MARCH	3
APRIL	5
MAY	5
JUNE	5

Given first-in, first-out accounting, with its policy of always applying payments to the oldest bills first, absent a disconnection of service, a household having an older arrears (e.g., 91+ days) will *a/ways* have the newer arrears as well. Thus a 91+ days code will necessarily imply the presence of 30-60 day arrears as well as 60-90 day arrears.

The second means of recording arrears vintages is to track the actual dollars of the most recent month's arrears by vintage. Thus, in our example, under this method, in July, the utility would record the arrears as being \$22.41, \$48.18, \$126.25.

On occasion, there will be a utility which tracks vintages both ways in its customer data files. Most often, this utility will track vintages both ways for the past three months, but will use only a code for the arrears stretching back further than that.

3. Important Dates.

A utility will keep three dates in its data files, two of which are important for purposes of LIHEAP outreach. (The third is discussed simply because of its propensity to cause confusion). The three dates are: (1) the meter date; (2) the in-service date; and (3) the disconnect/reconnect date. Each will be briefly addressed below.

1. Meter date: This date is the date that the present meter was installed in a particular premises. It has significance for ratemaking, but not for any customer service purpose. The importance of this date for discussions here lies in what it is not. It does not indicate anything about how long the current customer has been taking service. The meter date, in other words, is tied to the premises, not to the customer. The meter date is not the same as the

in-service date.

2. **In-service date**: This is the date on which the current customer first began service at the particular service location. Several important aspects of this date are worth noting. First, if the household is disconnected and reconnected, the in-service date does not change. The collection activity is reflected in the disconnect/reconnect date discussed below, as well as in the treatment history discussed above. Second, if the household is disconnected and then has service re-established in a different name (e.g., a spouse, child, or other relative), there will be a new in-service date. The utility will consider it a new account with a new customer. Finally, if a household changes addresses, there will be a new in-service date. The in-service date, in other words, is for service at a particular location. It does not indicate the length of time a customer has been receiving service from a particular company, but rather the length of time the customer has been receiving service *at that address*.

3. **Disconnect/reconnect date**: This will likely be recorded as one date. If there has been no disconnection or reconnection in the past 12-months, the field will either be blank, or will be filled with zeroes. If there has been a disconnection and/or reconnection, it must be determined whether the customer is currently on the system. If the customer is active, the date will be the date of reconnection. If the customer is inactive, the date will be the date of disconnection. The date will only refer to the most recent disconnection and/or reconnection. If there has been more than one disconnection/reconnection in the immediately preceding twelve months, the older ones will not be reflected. (Remember, however, that the presence of disconnections will always appear in the treatment history discussed above.)

2. UTILITY LIHEAP OUTREACH

Utilities can use the information available in their present data files to engage in LIHEAP outreach targeted to vulnerable populations. As can be seen, utilities have information available that allows them to identify households that might particularly benefit from the receipt of LIHEAP benefits.

While utilities should always make annual mailings to past recipients of LIHEAP benefits, the following are examples of more sophisticated targeting.

The utility outreach contemplated herein might entail direct mailings to households with designated characteristics.

1. **Winter treatment history**: Defining "winter" as October through April, a utility could send outreach letters to any household that received two or more disconnect notices in the past winter season. The utility would simply identify, in other words, those households with a code of "3" or above in two or more of the winter month treatment history records.
2. **Annual treatment history**: The utilities could send outreach letters to any household with a minimum annual treatment history. For example, if the sum of the 12-months of codes exceeds 30 (or any other figure deemed appropriate), that household would receive a LIHEAP outreach letter. A similar approach could be taken for the winter treatment history as well. If the sum of the treatment codes for the six winter months (November through April) exceeded a designated level, that household would receive special outreach efforts.
3. **Shutoff in treatment history**: The utilities could send an outreach letter to any household experiencing an actual disconnection of service within the past 12 months. The utilities would simply search their treatment history records and extract those accounts which have a "7" appear. Those households would receive an outreach letter.
4. **Annual 90-day arrears**: The utilities could send an outreach letter to any household that maintained a 90-days arrears in six or more months (or whatever other threshold is deemed appropriate). The utility would identify, in other words, what months have a "5" in the arrears vintaging fields. If there are six or more fields with a "5" or higher, that household would receive a special LIHEAP outreach letter.
5. **Pre-winter arrears**: A different way to use arrears involves utilities which track the dollars of arrears, by vintage, for the most recent month (as discussed above). This utility might look at its customers in October each year. LIHEAP outreach letters would then be sent to customers based on either of two types of criteria. On the one hand, the utility could send an outreach letter to any customer with a 90-days arrears on the October bill.

On the other hand, the utility may wish to place a dollar floor on the arrears. In this instance, for example, outreach letters would go only to households with a 90-day arrears of \$100 or more.

6. **Spring shutoff**: A spring shutoff --defined as a shutoff in April or May-- can be determined from the "disconnection/reconnection" date in the utility data base. A spring shutoff may well indicate a household who relied upon a state's winter moratorium for protection during the heating months, but whose inability to pay could not be avoided when the moratorium lapsed. The presence of LIHEAP assistance might help this household bring its winter bills within an affordable range.

7. **In-service date**: To base a LIHEAP outreach effort on the in-service date is probably the least precise targeting of LIHEAP outreach. Nevertheless, a study for the Maine Public Utilities Commission, undertaken by NCLC, found that the overwhelming majority of households disconnected in the winter months in that state had an in-service date of August or later (preceding the winter). Moreover, in a 1985 study of the impacts of telephone connection charges, the National Social Science and Law Center found that: "in general, the data show that socio-economic differences exist between families who move and those who do not move. Households that move are disproportionately poor, are receiving public assistance, are headed by females, or are minority families." (While the purpose of the study was to determine whether telephone connection charges disproportionately affected the poor --which the study found they did-- the results of the study can be used for energy purposes as well). As discussed above, a move to a new residence established a new in-service date. Putting these two pieces of information together, it is reasonable to conclude that a LIHEAP outreach letter targeted to households with recent in-service dates (after August, for example) would likely find their way to households which are poor, receiving public assistance, are headed by female, or are minority families.

In each instance above, the means of targeting is intended to reach payment-troubled households. Engaging in the assumption that payment-troubled customers also tend to be low-income households, the above evaluation suggests that ways exist in which the utilities who receive substantial LIHEAP funds can use their own data bases to assist in LIHEAP

outreach efforts. Indeed, the data bases of these utilities can be used in such a way as to target outreach efforts to households who are likely to be eligible for LIHEAP and in particular need of this type of public assistance.

While this evaluation talks about the use of targeted "mailings" to utility customers, there is no reason why such a limit be placed on utility efforts. Indeed, to the extent that households might be illiterate or poorly educated, a reliance on written outreach materials alone is inappropriate.

SECTION C: RECOMMENDATIONS

Based on the above discussion, the Pennsylvania commission should direct the state's public utilities to become actively involved with specialized targeted outreach promoting participation in LIHEAP. In this regard, the Pennsylvania commission should find that blanket bill stuffers, whether annually or more frequently, are an insufficient utility effort to fulfil this obligation. The Commission should find that it is both necessary and appropriate for utilities to engage in LIHEAP outreach. It is necessary because such outreach is both beyond the fiscal and technical expertise of existing public institutions to provide. It is appropriate because such outreach can reasonably be expected to result in direct financial benefits to the utility engaging in such outreach.

More specifically, therefore, the Commission should direct Pennsylvania utilities to take further action in the following general areas:

1. LIHEAP Outreach.

1. **Outreach**: Public utilities should be directed to use their own accounting data processing records to identify payment-troubled customers. These customers should receive specific targeted outreach from the utilities promoting participation in the LIHEAP program.

2. **Education**: Public utilities should be directed to develop specific localized outreach/education campaigns that include a strong element informing households "what to do" in addition to informing them that help is available. The "what to do" should include specific telephone numbers, contact persons, and agency names for households to contact, including persons within the utility itself. Teaching

consumers how to use their knowledge that programs are available is important.

3. **Outreach**: Public utilities should be directed to submit to the Commission a filing indicating precisely how the company ties its LIHEAP outreach to other programs used by the target population. This filing should emphasize that LIHEAP is simply one part of a package of benefits that is available along with other utility programs including weatherization, budget billing, EAP, Budget Plus and the like.
4. **Outreach**: Public utilities should be directed to assist Community Action Agencies, the state, and other interested parties, in the development of outreach that is both "specialized" and "targeted." Specialized outreach directed toward the senior population is necessary, as is specialized outreach to the unemployed, to the recipients of public assistance (such as AFDC population) and the like. The utilities should be directed to submit to the Commission a filing indicating the populations that it has identified and the outreach that has been developed for each specific population.
5. **Outreach**: Public utilities should be encouraged to develop an outreach program that promotes LIHEAP as something other than a government benefits program. The stigma associated with public benefits, for example, tends to prevent the elderly and other "new poor" populations from applying.
6. **Targeting**: Public utilities should be directed in particular to develop and submit a program to target one specific population with a special message. The population is that population which has "become poor." The elderly, for example, may have become poor with age. There may be other "new poor," such as the unemployed, who have "become poor." These households frequently do not recognize their eligibility for LIHEAP. Moreover, the self-perception of these populations as not being the population to receive welfare benefits must be overcome.

2. LIHEAP Publicity.

1. **Publicity**: One goal of LIHEAP outreach should be to make the program "acceptable" to its intended clients. In addition to saying that "help is available," LIHEAP outreach should inform people why it is "okay" to seek out and accept LIHEAP benefits. Outreach should, in other words, serve to legitimize the program in the eyes of the low-income community.

2. **Publicity**: LIHEAP outreach should be directed as much toward creating name recognition for the local service provider as it is to explaining the program. Equating "help" with the name of the service provider is important, whether or not an exact knowledge of what the "help" would consist of is communicated.

3. LIHEAP Intake and Assistance.

1. **Intake and assistance**: LIHEAP intake and assistance must be physically accessible. Special efforts must be made to reach the elderly, the homebound, the socially isolated and households otherwise lacking transportation. Pennsylvania's utilities should be encouraged to provide technical and financial assistance to ensuring such access and to report such assistance to the Commission on a regular basis.

2. **Outreach and community relations**: LIHEAP outreach and community relations should be specifically designed with a view toward establishing trust with the community sought to be reached. Outreach, intake and community relations must be culturally and educationally targeted. The elderly, the working poor, minorities, and the like may all require a different message regarding why LIHEAP is both necessary and desirable. Pennsylvania's utilities should contract with grassroots local community organizations each year who are willing and able to provide community-based outreach and community relations. Special consideration should be given to those community organizations that reach specific target audiences (e.g., the elderly, minorities) in a unique fashion.

3. **The "trust potential"**: Utilities should be encouraged to funnel their LIHEAP outreach and community relations through specifically identified local community organizations. As one report noted: "the specific informational techniques used were less important than the amount of trust potential participants had in the sponsoring organization."
4. **Outreach, intake, education**: Utilities should be encouraged to develop specific outreach, intake and educational efforts to be directed toward first time LIHEAP users. Even while LIHEAP program requirements may be accepted and easily understood by households having previously participated, first time participants may face unique misunderstandings.

Clearly, Pennsylvania's public utilities have a role to play in implementing these recommendations. In addition to the targeted outreach program recommended above, based on the utility's own customer service data bases, the utilities are capable of supporting community organizations to help legitimize LIHEAP in the community, of helping develop appropriate "messages" for the disparate communities, in helping develop and pursue appropriate outreach and education and the like.

PART VI: LIHEAP AND OTHER ENERGY ASSISTANCE FUNDING

A legitimate fear of persons involved with seeking additional assistance for low-income households is whether such assistance would place in jeopardy existing federal LIHEAP benefits. The fear is well-grounded. While contrary to express statutory provisions, the existence of substantial "oil overcharge" funds was used as an excuse to freeze or decrease federal LIHEAP appropriations.

Nevertheless, there are creative sources of financing that a state Public Utility Commission can and should pursue. These are discussed below. The suggestions below are only that: suggestions. The discussion is intended to provide an overview of what creative and aggressive regulators can do. It is not intended to be a comprehensive listing of all possible sources of additional funding.

SECTION A. LEVERAGING AFTER THE 1990 LIHEAP REAUTHORIZATION.

In the reauthorization of the LIHEAP program by Congress in this past Congressional session,^{1273\} Congress enacted a new section which provides: "supplementary funds to States that have acquired non-Federal leveraged resources for" LIHEAP.^{1274\} The Commission in this proceeding can take an aggressive stand by directing Pennsylvania utilities to provide certain leveraged funds to the LIHEAP program.

The term "leveraged resources" is a defined term in the LIHEAP reauthorization statute. The statute provides that "leveraged resources" include benefits made available to "federally qualified low-income households." These can include, among other things resources that:

- (1) represent a net addition to the total energy resources available to State and federally qualified households in excess of the amount of such resources that could be acquired by such households through the purchase of energy at commonly available household rates; and

^{1273\}Augustus Hawkins Human Services Reauthorization Act of 1990, 101st Congress, 2nd Session, H.Rep. 101-816 (to accompany H.F. 4151).

^{1274\}Hawkins Human Services Reauthorization Act of 1990, at § 707 (creating "incentive program for non-federal resources" within LIHEAP).

(2)(A) result from the acquisition or development by the State program of quantifiable benefits that are obtained from energy vendors through negotiation, **regulation** or competitive bid;²⁷⁵ (emphasis added).

The statute provides that the share of leveraged federal funds is to be based upon a federally developed formula that "shall take into account the size of the allocation of the State under this title and the ratio of leveraged resources to such allocation."²⁷⁶

Clearly, providing for leveraged LIHEAP resources redounds to the benefit of all involved. By expanding the amount of LIHEAP benefits, receivables are reduced, working capital is reduced, uncollectibles are reduced, credit and collection expenses are reduced, and the like. This possibility should intrigue the Pennsylvania Public Utility Commission, since the Commission has a direct regulatory interest in minimizing the expenses of each public utility within its jurisdictional purview. Moreover, the prudent and efficient utility manager should act quickly to take advantage of this opportunity to leverage federal funds that would help pay the bills of customers whose bills might otherwise go unpaid. Since the Commission has an interest in enforcing prudent and efficient management, it should examine the proposals made below and direct the state's utilities to adopt them as a prudent managerial decision as well as sound public policy.

Pennsylvania's Commission as well as the state's utilities, low-income advocates and other interested parties have a unique window of opportunity to determine whether there are unique ways to bring additional federal dollars into Pennsylvania to help pay low-income energy bills. Given the overlapping interests of the PUC with the state LIHEAP agency in making sure that LIHEAP funds flow to Pennsylvania,²⁷⁷ this Commission should initiate a process through which to consider a variety of proposals as a means to leverage federal LIHEAP dollars. The following discussion is intended to be illustrative: to

²⁷⁵Id., at § 707(b)(2)(a).

²⁷⁶Id.

²⁷⁷It should be noted, too, that the additional benefits to be provided for leveraged state resources have been provided by Congress. The only issue is how those funds will be apportioned amongst the states. The apportionment formula is discussed supra, note **Error! Bookmark not defined.**

prompt further thinking about the types of creative mechanisms that can be pursued to generate the dollars necessary to obtain additional federal funding:

1. Unclaimed deposits.

Unclaimed utility deposits are a source for funds to be used to obtain federal matching dollars through the new LIHEAP leveraging provision. In this fashion, rather than letting this ratepayer supplied money escheat to the general fund, by using it to provide the match for LIHEAP leveraging, not only will the funds be returned to benefit the class likely to have paid them in the first place, but those funds can be increased through the federal leveraging provision.

In Arizona, which now requires unclaimed deposits to be used as a supplemental source of LIHEAP benefits, state officials estimate that from \$400,000 to \$600,000 *per year* will be generated. In Colorado, which enacted a similar provision in 1990, estimates are that unclaimed residential and commercial deposits will add \$300,000 to LIHEAP coffers.^{\278\}

It is reasonable to devote unclaimed deposits to low-income programs. Deposit refunds most often go unclaimed when households move and leave no forwarding address; it then becomes impossible for the utility to find these households. Those mobile households will tend to be poor. As discussed above, a study of Pennsylvania households by the National Social Science and Law Center (NSSLC) considered the mobility of low-income households.^{\279\} NSSLC found that compared to the roughly twelve percent of the total population that changed residences each year, nearly one-quarter (23 percent) of the low-income population moved. Disproportionately represented in the "mover" households are recipients of public assistance, minorities, and female-headed households.

2. Avoided credit & collection costs associated with LIHEAP Crisis funds.

A second source of funds for LIHEAP leveraging is obtained by looking directly at utility credit and collection expenses. First, there are collection expenses. Among those expenses are: (1) the cost of reminder and shutoff notices; (2) the cost of making personal contact (by phone or by premise visit)

^{\278\}An additional amount, hard to estimate according to Colorado officials, will be acquired from unrefunded interim rate increases.

^{\279\}That study is attached to this report as Appendix B.

prior to a shutoff; (3) the cost of disconnecting and reconnecting a nonpaying household's service; (4) the cost of negotiating payment plans; (5) the cost of collection agencies; and the like.

The calculation of the utility contribution would be as follows: If a utility's disconnection process can be short-circuited through a LIHEAP Crisis program grant, and the utility bills paid without the need for extensive collection activity, dollar savings should arise from the foregone need to pursue those credit and collection measures. These foregone expenses should be shared with the LIHEAP program, particularly under the federal statute providing additional LIHEAP benefits to states which leverage private funds.

The requirement that Pennsylvania utilities provide a sharing of these collection savings has an economic basis. Through the LIHEAP Crisis benefits, the utilities are able to avoid the process of disconnecting and reconnecting service to the participating household. In helping to avoid that disconnection, the LIHEAP Crisis program is saving the utilities certain expenses. By providing for a sharing of those avoided expenses, the LIHEAP Crisis program seeks only to recapture part of that forgone expense. So long as the sharing does not exceed what the utilities *would have spent* on the disconnect/reconnect process, the utilities are no worse off because of the sharing. Indeed, considering that the amount of the utilities' sharing would then be returned as an additional low-income grant through the leveraged federal LIHEAP funds, the utilities would see an immediate and substantial benefit.

3. Waived reconnect fees.

A third source of leveraged LIHEAP funds involves waived utility reconnect fees. It is axiomatic that frequently a utility is forced to disconnect a household's utility service in response to nonpayment. It is equally axiomatic, however, that households do not generally remain permanently disconnected. Accordingly, a typical utility spends from \$50 to \$100 on the two-step collection process of (1) disconnecting and (2) reconnecting the customer.

The utility could seek to collect the cost of that disconnection and reconnection process from the low-income household. That effort, however, is a risky proposition at best. Since the low-income household has a limited corpus from which to draw to make utility payments in the first place, if the utility succeeds in collecting the cost of disconnection and reconnection through a cost-based fee, all the utility has really done is to divert the household's limited resources from making current monthly payments to making payments toward

the reconnect fee.

If instead, the reconnect fee could be waived for LIHEAP households, that waived fee could be used as a private resource provided under the leveraging provisions of the 1990 LIHEAP reauthorization statute.

4. Waived late fees.

A similar analysis can be applied to utility late charges. In Pennsylvania, the state *now* requires utilities to waive late fees for LIHEAP customers. The fact that this waiver already exists does not detract from the fact that the amount of the waived charge could be packaged and presented to the federal government as a leveraged resource.

5. Arrearage forgiveness.

This report recommends that, as part of the Energy Assurance Program (EAP), the pre-program arrears of EAP participants be "forgiven" over a period of time. The amount of such forgiveness, to the extent that the EAP is provided to LIHEAP participants, should be reviewed to determine whether it can be designated a "leveraged resource."

SECTION B. LEVERAGING CRISIS BENEFITS THROUGH TITLE IV-A.

The Emergency Assistance Program (EAP)^{\280\} is a major source of supplemental funds available to assist families facing an energy crisis. State use of the Emergency Assistance Program for energy crises has the distinct advantage of leveraging state funds, and is particularly attractive in light of both the cuts in appropriations for LIHEAP in recent years, and the diminishing oil overcharge and other funds available to make up for those cuts.

E.A. is an optional program within a welfare program, AFDC,^{\281\} under which the federal government provides the states with matching funds (1:1) for short term help to AFDC and other needy families with children unable to meet emergency expenses. The types of emergencies covered by E.A. are matters of local discretion. Utility emergencies, however, are prominently mentioned in the statute's legislative history.^{\282\}

^{\280\}42 *U.S.C.* §§ 601, 603(a)(5), 606(e) (1983 and 1990 Supp.)

^{\281\}Aid to Families with Dependent Children.

^{\282\}*See e.g.*, S.Rep. No. 744, 90th Cong., 1st Sess. (1967), as reprinted in the 1967 *U.S. Code and*

In 1985, there were only five states that used EAP monies to assist households confronted with utility shut-offs or fuel shortages, or threats of either. As of June, 1990, however, roughly a dozen states have EAP plans approved by HHS which explicitly state their intent to use EAP funds to meet the needs caused by energy emergencies.¹²⁸³ In addition, Pennsylvania (along with two other states)¹²⁸⁴ have used a valuable variation on this theme, tapping the basic needs and special needs provisions of the statute.

E.A. monies can be generated in much the same way as additional LIHEAP funds are. Consider the following:

- a. **UNCLAIMED UTILITY DEPOSITS:** Unclaimed utility deposits are one source for funds used to match under Title IV-A. In this fashion, rather than letting this ratepayer-supplied money escheat to the general fund, by using it to provide the match for federal Emergency Assistance, not only will the funds be returned to benefit the class likely to have paid them in the first place, but those funds can be doubled through the federal match.

It is reasonable to devote unclaimed deposits to low-income programs. Deposit refunds most often go unclaimed when households move and leave no forwarding address; it then becomes impossible for the utility to find these households. Those mobile households will tend to be poor. As discussed above, a study by the National Social Science and Law Center (NSSL) considered the mobility of low-income households. NSSL found that compared to the roughly twelve percent of the total population that changed residences each year, nearly one-quarter (23 percent) of the low-income population moved. Households who are recipients of public assistance, households who are minorities, and households who are female-headed are disproportionately represented in the "mover" population. It is safe to assume, also, that these same households are

(. . . continued)

Congressional and Administrative News, at 3002, and H.Rep. No. 544, 90th Cong., 1st Sess. (1967), at 109.

¹²⁸³ Delaware, Georgia, Maine, Maryland, Massachusetts, Minnesota, Montana, Nevada, Ohio, Oklahoma, Oregon, and West Virginia.

¹²⁸⁴ Illinois and Michigan.

disproportionately represented in the population from whom deposits are demanded.

In sum, as federal LIHEAP assistance and oil overcharge funds dwindle, states may help pick up the shortfall between available assistance and need by using unclaimed deposits as a state contribution to obtain the federal match for an energy component to the Emergency Assistance program directed toward households with children. To do so would cost the utilities nothing: without such a use, these unclaimed funds would simply escheat to the state. Moreover, because of the dollar-for-dollar federal match, the available assistance obtained through the capture of these unclaimed funds would be doubled.

b. SHARED AVOIDED CREDIT AND COLLECTION EXPENSES: One source of funds for the Emergency Assistance Program is obtained by looking directly at utility expenses in the same fashion as with LIHEAP. If a utility's disconnection process can be short-circuited through an E.A. program grant, and the utility bills paid without the need for extensive collection activity, dollar savings should arise from the foregone need to pursue these credit and collection measures. In addition, if the household is in arrears, the receipt of Emergency Assistance will decrease revenue lag days. For each E.A. grant provided for a utility emergency for a Pennsylvania utility's household, that utility should share, on a 50/50 basis, the avoided collection costs with the E.A. program. In turn, those shared benefits can be returned to the utility through additional E.A. utility grants, along with the 1-for-1 federal matching grant.

The rationale for sharing these expenses is even stronger for E.A. than for LIHEAP. The grant of E.A. benefits directly and unequivocally prevents the need for the utility to engage in the expensive collection process. Emergency Assistance in Pennsylvania will not generally be provided for utility shutoffs unless the household has received a final utility shutoff notice. To prevent that shutoff is the whole purpose of an E.A. grant. Through the Emergency Assistance benefits, therefore, Pennsylvania's utilities are able to avoid the process of disconnecting and reconnecting service to the participating household.

To thus provide for a 50/50 sharing is "fair" for two reasons. First, in helping to avoid that disconnection, the E.A. program is saving the utility certain

expenses. By providing for a sharing of those avoided expenses, the E.A. program seeks simply to recapture part of the forgone expense. So long as the sharing does not exceed what the utility *would have spent* on the disconnect/reconnect process in the first place, the utility is no worse off because of the sharing. Second, considering that the amount of the utility's sharing would then be returned to the utility as an additional Emergency Assistance grant, along with a 1-for-1 federal match, the utility would see an immediate and substantial benefit by engaging in the savings.

One important component of minimizing utility uncollectibles is to aggressively seek out **new** sources of public assistance (i.e., other than LIHEAP) to provide to households that have particular payment vulnerability. One example of such assistance involves those funds available to households with children who face a variety of "emergency" situations. State use of the Emergency Assistance Program for energy crises has the distinct advantage of leveraging federal funds, and is particularly attractive in light of both the cuts in appropriations for the LIHEAP in recent years and the diminishing oil overcharge and other funds available to make up for those cuts.

SECTION C: RECOMMENDATIONS.

It has become clear in light of reduced LIHEAP funding that additional assistance must be generated for payment troubled households. It is in the interests not only of the households, but of the affected utilities, to seek such additional funding.

Congress has recognized this need by providing substantial incentives for states to develop "leveraged resources" to supplement federal LIHEAP benefits. Congress defined "leveraged resources" to include resources that are developed through "regulation." In addition to these LIHEAP incentives, the federal government has in place a program whereby "emergency" monies developed for families with children at the state level are matched 1-for-1 by federal funds.

The Commission should endorse in principle (with no endorsement of *particular* proposals at this time) the notion of utility funds, such as those discussed above, being used both as a source of "leveraged resources" and as a source of state matching Emergency Assistance funds.

Finally, the Commission, the Department of Public Welfare, the utilities, the Office of Consumer Advocate, local Legal Services offices, and other interested parties should join to seek ways to determine how Pennsylvania's

utilities can best take advantage of these programs of federal incentives and matching funds. To permit these federal programs to go unused, or to fail to seek new innovations in funding, should not be an option.

Finally, in these considerations, the Commission should seek to determine whether and to what extent *existing* policy decisions (such as the waiver of late payment fees for LIHEAP households) can be packaged to take advantage of the federal leveraging and matching funds programs. The fact that the waiver of late payment fees for LIHEAP households is already required under existing regulation does not detract from, nor should it bar, the claim of these waived fees as a "leveraged resource." The Commission should channel this existing program to the attention of the appropriate officials such that Pennsylvania can take advantage of the additional LIHEAP assistance.

PART VII: CONSERVATION AS A COLLECTION DEVICE

SECTION A: CONTROLLING UNCOLLECTIBLES THROUGH CONSERVATION.

Investment in weatherization and conservation measures is a strong tool to use in controlling uncollectible accounts. As discussed above, research has found a "clear correlation" between total annual usage and the level of arrears for Central Maine Power Company. According to the Maine research, the average total arrears for Central Maine Power Company was \$48. "While households with an annual consumption greater than 16,000 KWH have an average arrears of \$88, for example, households with less than 5,000 KWH of use have an average arrears of only \$10."

The association held with winter consumption, the Maine study found. "Total arrears for customers with consumption over 2000 KWH were nearly twice the payment plan average (\$91 vs. \$48) and nearly triple the arrears of households at the lower consumption levels (\$91 vs. \$33). The breakpoint for particular payment problems occurs at a winter month usage of around 1300 KWH. Households falling into the band of from 1300 to 2000 KWH per winter month averaged total arrears of \$82, again substantially above the total payment plan population."^{285\}

Similar results were found for Wisconsin Gas Company. In Wisconsin, NCLC examined a methods of distributing LIHEAP benefits that would tie the level of LIHEAP to the burden which a household's energy bill posed as a percentage of income. Since the proposal involved a redistribution of the identical amount of funds, some households would lose some amount of benefits (called "participant losers") while other would gain some amount of benefits (called "participant gainers").

The average income of the participant gainers (\$5,834) was somewhat, but not substantially, different from that of the participant losers (\$6,213). The average bills, however, were. While the average bills for the participant gainers were \$1,370 per year, the average bill for the participant losers were only \$873 per year. The real difference, however, came in the burden which those bills represented to the households (as a percentage of income). In general, without the redistribution of LIHEAP examined by

^{285\}National Consumer Law Center, *An Evaluation of Low-Income Utility Protections in Maine: Payment Arrangements for Maine's Electric Utilities*, Volume II, at 62 (July 1988).

LIHEAP, the participant gainers spent 17.9 percent of their income on their annual natural gas bills while the participant losers spent 8.9 percent of their income.^{1286\}

The difference in burdens was directly reflected in arrears. The participant gainers had an average arrears of \$560 while the participant losers had an average arrears of only \$229.

Wisconsin Gas Company has since implemented a pilot program explicitly designed to use conservation measures as a means to reduce the costs associated with delinquent payments and bad debt. The purpose of the study, Wisconsin Gas said, was "to examine the effects of Wisconsin Gas Company's Weatherization Program on the arrearages of low-income customers."^{1287\} Wisconsin Gas divided its study homes into two groups: (a) single family homes; and (b) two-family homes.^{1288\}

For single family homes, Wisconsin Gas experienced an overall therm savings of 23.4 percent.^{1289\} Moreover, therm savings based on heat load were computed. The company produced "an overall single family heat load savings rate of 30.7 percent" * * *^{1290\} Two-family homes generated similar results.^{1291\}

Wisconsin Gas found that not only did the program reduce arrears for households, but the company recognized significant savings from the program as well. According to the company, without the program, while only nine percent of the study group would have had arrears of \$100 or less without the program, 27 percent of the group would have annual arrears of \$100 or less

^{1286\}National Consumer Law Center, *Evaluation of Wisconsin Gas Company's Proposal for a Guaranteed Service Plan* (November 1985).

^{1287\}See, *Weatherization Arrears Savings*, Wisconsin Gas Company (April 1988).

^{1288\}The company stated, however, that "due to the integrated nature of two-family energy use and weatherization measures, two-family accounts were treated as one dwelling unit." *Id.*, at 1.

^{1289\}While the savings ranged widely between units, the company noted that 64 percent of the single family homes fell in the 10 percent to 35 percent savings range. *Id.*, at 2.

^{1290\}*Id.* Again, while the savings ranged widely between units, 60.2 percent of the single family homes fell in a range of 25 percent to 50 percent savings.

^{1291\}*Id.*, at 5. Over 70 percent of the dwellings fell in the 10 percent to 35 percent savings range.

following weatherization.^{\292\} Moreover, Wisconsin Gas found that it received a 20 percent return on its weatherization investment, strictly from the reduced nonpayment, and before considering traditional avoided costs, in the first year of the program.

In sum, Wisconsin Gas concluded from its study:

The study indicates that single family dwellings generated on average \$353 less **annual** arrears after weatherization. (emphasis added). For the two family group, weatherization reduced arrears \$502 **annually**. (emphasis added). Taken a step further, for 1,300 dwellings weatherized annually and split evenly between single and two-family jobs, over \$550,000 in billed arrears or approximately \$360,000 in gas cost would have been avoided.^{\293\}

Finally, Wisconsin Gas concluded, "within the parameters of this study, 20 percent of the study group would have generated \$0 or less annual arrears with weatherization as compared to 5 percent without. This reflects favorably on weatherization potential as an arrears eliminator."^{\294\}

The Wisconsin Gas study is attached as Appendix D.

Similar results can be obtained for electric companies. One *electric* company in Massachusetts, for example, has moved to implement an arrears control program using conservation as the mechanism. COM/Electric found that "from the analysis, a Bad Debt Program appears to be not only theoretically sound, but also empirically supported for electrically heated homes and for homes having electric water heaters. It also appears beneficial to offer the program to `other' homes in the Commonwealth service territory."^{\295\} According to SRC, "the main source of economic

^{\292\}Id., at 2.

^{\293\}Id., at 6.

^{\294\}Id.

^{\295\}Synergic Resources Corporation, *Evaluation of the Cost-Effectiveness of a Bad Debt Conservation Program: Final Report* (September 1988).

value to COM/Electric is the reduced carrying costs for late payments." SRC did not study collection costs.

SRC found for COM/Electric that the Bad Debt Conservation program had, from a system perspective (i.e., based upon system "avoided cost" savings), a benefit-cost ratio of 1.857 (for electrically heated homes), of 2.290 (for homes with electric hot water but not electric heat), and 1.944 (for all "other" --non-electric heat, non-electric hot water-- homes).

SECTION B. PROPER PROGRAM DESIGN.

It is not sufficient for a public utility to simply invest substantial sums of money in "a" conservation program, or set of conservation programs, without first undertaking a careful analysis of precisely what they hope to accomplish through such a program. Too often, conservation program designs tend to exclude rather than include low-income households and any hope of obtaining participation so as to reduce uncollectibles is lost.

Consider the case of Western Massachusetts Electric Company (WMECO). In a WMECO's 1987 rate case,^{\296\} the Hampshire Community Action Commission (HCAC), a local community action agency, challenged both the overall conservation planning of Western Mass Electric Company (WMECO) and the design of specific conservation programs. Both the planning and design components, HCAC argued, were marred by assumptions which, though perhaps unwittingly, nevertheless resulted in the *effect* of excluding low-income households from conservation programs.^{\297\} This exclusion, HCAC said, denied the opportunity for the poor to reduce their bills by reducing their consumption.^{\298\}

WMECO's energy conservation planning resulted in a *de facto* exclusion of the poor because of its failure to consider market barriers that were unique to the poor. Three barriers were discussed in particular. Hurdle rates, that annual return on investment required for a household to invest in conservation

^{\296\}87 P.U.R.4th 306 (Mass. DPU 1987); see also, *Re. Cambridge Electric Light Co.*, DPU-87-221-A, at 173 (Mass. DPU 1988).

^{\297\}"Although WMECO asserts that its programs are designed to be income neutral, HCAC contends that the effect of WMECO's programs, intended or unintended, is to exclude low-income customers." *Id.*, at 404.

^{\298\}*Id.*, at 417.

measures, were set at levels that ignored low-income data.^{\299\} In its conservation planning, WMECO assumed that any measure which met a hurdle rate of 30 percent would be implemented without financial assistance from the utility.^{\300\} According to evidence presented by HCAC, however, low-income hurdle rates reached up to 90 percent. Second, HCAC said, low-income households do not have access to investment capital for conservation measures, even if those measures are recognized by customers as providing economic benefits.^{\301\} If a household does not have \$400 to invest in a new appliance, in other words, it makes no difference that the new appliance would return a savings of \$500 to the household. Finally, low-income households have less education, which interferes with their ability to recognize the cost savings that conservation measures might induce.^{\302\}

For a utility effectively to design and offer DSM programs to its low-income customers, it should have a clear grasp of what market barriers prevent the implementation of those measures without utility assistance. The utility program, accordingly, would most rationally be designed to effect the removal of the identified market barriers. If, for example, the market barrier is an unreasonably long payback period, the utility may offer direct subsidies to shorten that period. If, in contrast, the market barrier is a lack of affordable investment capital, the utility may offer a low-interest/no-interest loan fund.

In 1987, the National Consumer Law Center (along with Northeast Utilities) put substantial effort into identifying what market barriers exist to the implementation of DSM measures by consumers. A list of the results of that effort is set forth below in Table MM:

^{\299\}Id., at 404.

^{\300\}Id.

^{\301\}Id.

^{\302\}Id.

TABLE MM
RESIDENTIAL MARKET BARRIERS

1.	Information access. Consumers do not have free access to information on capital/operating tradeoffs. There is an implicit cost in time and effort to obtain this information.
2.	Uncertain technologies. Consumers have little direct, first-hand experience with new technologies, particularly concerning performance, reliability and operating costs. Information may often be supplied by manufacturers whose credibility is suspect.
3.	Consumer credit. The ability to invest in DSM measures often depends on having access to credit. However, consumer credit is often limited by financial institutions that disregard the value of conservation investments.
4.	Lack of knowledge. Energy reductions are not always identifiable in the customer's bill. Accordingly, it is sometimes not possible for a customer to make a decision as to the economic viability of conservation programs.
5.	Unfavorable payback periods. Even though some conservation measures may be justified when viewed in light of systemwide savings, they may not be when viewed in terms of customer-specific savings.
6.	High initial capital cost. Even in the event that a measure is cost-justified in the long-term, if the initial capital cost exceeds the ability of a customer to finance, the program will not be implemented.
7.	Difficult installation. Just as there are implicit costs in time and effort to obtain conservation information, there are implicit costs of installation. As these costs go up, the extent of measures installed will go down.
8.	Limited or no commercial availability. Even if cost-effective, some demand side measures have a limited (or no) commercial availability to a utility's customers. Often, availability will follow demand, but demand, in turn, is dependent upon availability.

In addition to market barriers common to all residential ratepayers, however, low-income households have market barriers that are different from, and more extensive than, residential households in general. The result of these market barriers is to more severely restrict the availability of DSM

measures to low-income households than to residential households in general. A list of market barriers that make the direct benefits of conservation programs inaccessible to low-income households is set forth below in Table NN:

**TABLE NN
LOW-INCOME MARKET BARRIERS**

1.	Low income homeowners are reluctant to borrow, even interest-free, to invest in conservation.
2.	Low income homeowners have extremely high required returns on investment.
3.	Given their lack of liquidity, low income residents cannot hire a contractor as readily as those with greater means.
4.	Tenants have little or no incentive to improve the landlord's property.
5.	Tenants often have insufficient tenure at a particular service address to cost-justify conservation improvements.
6.	Landlords owning housing occupied by tenants whose electricity use is individually metered have little incentive to invest in conservation improvements.
7.	Lower income households generally have less education than higher income households and, as a result, are perhaps less aware of the cost savings that energy investments can produce. The lack of education could also make it more difficult to perform the calculations necessary to determine whether a conservation investment is advantageous.

As a result of this discussion, it is possible to conclude that a regulatory response to uncollectible problems must incorporate a component that offers special conservation programs to low-income households, using income and Poverty Level themselves as the factors upon which the targeting of the

programs is based. However, greater Commission oversight of the use of conservation as a means to control uncollectibles is necessary. Simply dumping money into low-income conservation programs will not unto itself effectively address the problems of low-income households. As a result, neither do these conservation expenditures help address the problem of utility uncollectibles and receivables.

Even aside from the level of investment, therefore, is the failure of Pennsylvania utilities to undertake any effort to identify the market barriers that prevent the poor from implementing conservation measures on their own. The Pennsylvania Commission should direct this state's utilities to explicitly identify low-income market barriers which prevent the poor from implementing conservation measures on their own, to submit their determination to the Commission for review, and to submit their plan which articulates precisely how the design of their low-income conservation programs is intended to overcome those market barriers.

SECTION C. CONSERVATION AND EAP.

Conservation is particularly effective in controlling costs when used in combination with the proposed Energy Assurance Program (EAP). Indeed, households participating in the EAP should be targeted for special conservation programs.

Under the EAP, participants pay a designated percent of their income toward their gas bills. The LIHEAP program also makes a contribution to those bills, the amount of which is ultimately limited by state and federal contributions to LIHEAP. A portion of the fully-embedded cost of providing a household service is covered by neither the household's payment nor by LIHEAP assistance.

For any individual EAP household, in other words, the household's payments and LIHEAP benefits do not fully cover the utility's fixed costs. Since the EAP payment remains constant, for each dollar reduction of variable costs, a greater contribution toward fixed costs is obtained. A reduction in usage reduces the costs of providing service to EAP customers and inures to the benefit of the utility's other customers. While it is true that the EAP participant may receive the benefit of increased comfort due to any conservation programs directed toward EAP participants, the real recipient of the benefits of such conservation programs are the other ratepayers. After all, the EAP participant's payment is a function of her income and thus remains the

same even if the household's energy usage decreases.

It is easy to see why conservation programs directed toward EAP participants provide particular benefits to the sponsoring utility. Assume that an EAP customer pays five percent (5%) of her annual income of \$10,000 (\$500) toward her utility bill. Further assume that the average EAP usage is 100 Ccf per month and that the fully embedded cost of serving EAP customers is \$1.00 per Ccf. Of this dollar, assume that \$0.50 covers variable costs and \$0.50 covers the company's fixed costs.

The customer uses no gas two months in the summer. If the customer were billed for the fully embedded cost of service, the customer would be asked to pay a total of \$1,000 per year, \$500 of which would represent variable costs and \$500 of which would represent fixed costs. The difference between the EAP customer's payment (including a LIHEAP grant of \$250) and the fully-embedded cost of service is as follows:

	EAP PAYMENT	FULLY-EMBEDDED COST	DIFFERENCE
TOTAL:	\$500+\$250	\$1,000	\$250

If the utility-sponsored conservation reduced the usage of the customer by 20 percent to 80 Ccf per month, the difference between the EAP customer's payment and the fully-embedded cost-of-service would shrink:

	EAP PAYMENT	FULLY-EMBEDDED COST	DIFFERENCE
TOTAL:	\$500+\$250	\$800	\$50

Not only does conservation result in a reduction in the difference between the EAP payment and the fully-embedded cost of service by \$200, but it results in an increase of that portion of the EAP customer's payment that will go to fixed costs.

	EAP PAYMENT	VARIABLE COSTS	FIXED COST CONTRIBUTION
PRE-DSM	\$750	\$500	\$250

POST-DSM	\$750	\$400	\$350
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Thus, conservation and other DSM measures targeted to EAP customers has the added benefit of increasing participation by pre-program participants by \$100. This reduces the share of fixed costs other ratepayers must lose.

An EAP program combined with an aggressive conservation investment program directed at EAP participants would yield significant benefits to participating utilities.

SECTION D. A NECESSARY IMPROVEMENT IN LIEURP.

The Pennsylvania Low-Income Energy Usage Reduction Program (LIEURP) is in need of modest reform. In addition to imposing the requirement discussed above that utilities specifically identify market barriers that inhibit low-income installation of energy conserving measures, the Pennsylvania Commission should consider the modification or elimination of the LIEURP requirement that households reside for twelve consecutive months in the same residence in order to be eligible for the program.

The residence requirement too frequently eliminates from eligibility the very households who are most in need of energy conservation assistance. The empirical data has been discussed above. According to the NSSLC study of Pennsylvania, 23 percent of low-income households move in any given year.³⁰³ Disproportionately represented are households receiving public assistance as well as households with female heads. According to a Penn State study of payment-troubled households, *these* are the households who are most often in payment trouble.³⁰⁴ Moreover, according to the 56-100 reports filed with BCS, a shutoff for nonpayment often results in the household abandoning its home and moving.³⁰⁵

These findings are not unique. Wisconsin Public Service, in particular, found that the low-income households who were in payment trouble tended to have the least stable residence situations. For the "Group 1" households

³⁰³ See, note **Error! Bookmark not defined.**, *supra*, and accompanying text.

³⁰⁴ See, note **Error! Bookmark not defined.**, *supra*, and accompanying text.

³⁰⁵ See, note **Error! Bookmark not defined.**, *supra*, and accompanying text.

(poor who blame selves), 24 percent had moved within the past year; 26 percent planned to move within the coming year, citing the unaffordability of housing as the reason for the move.^{\306\} Of the "Group 2" households (poor who are angry) Wisconsin Public Service studied, 36 percent had lived in their current home for less than six months; 42 percent planned to move within the year, again citing the unaffordability of housing as the reason.^{\307\}

In sum, to limit LIEURP assistance only to households who have a demonstrated stability in residence is to eliminate many of the households who most need the assistance. Reading the results of the Wisconsin Gas and Com/Electric studies regarding the usefulness of conservation as an arrearage control mechanism, together with the Penn State studies regarding the types of households who are often in payment trouble, together with the Wisconsin Public Service and NSSLC studies regarding the mobility of the types of households who are often in payment trouble, counsels in favor of this LIEURP modification.

SECTION E: RECOMMENDATIONS.

The Pennsylvania Commission should endorse the installation of conservation and weatherization measures as a collection device as well as a means to control uncollectible accounts. The Commission should direct the state's utilities to pursue pilot programs, modelled on the Wisconsin Gas program discussed in this Part, designed to determine whether the Wisconsin Gas results regarding the reduction of arrears, the reduction in uncollectibles, and the generation of conservation paybacks through such reductions can be replicated in Pennsylvania.

In sum, Wisconsin Gas concluded that a weatherization program for 1,300 dwellings annually (split evenly between one-family and two-family dwellings) would have generated over \$550,000 in avoided arrears. That result is too significant to be ignored in this proceeding to determine how to control uncollectibles.

The Pennsylvania Commission should, as well, direct each utility to undertake a study, to be submitted by a date certain, designed to identify the market barriers that prevent the implementation of residential cost-effective conservation programs without utility assistance. This study should further

^{\306\}See, note **Error! Bookmark not defined.**, *supra*, and accompanying text.

^{\307\}See, note **Error! Bookmark not defined.**, *supra*, and accompanying text.

identify with particularity the low-income specific market barriers. The filing with the Commission should address each market barrier identified and explain how the company has designed programs to overcome those barriers.

The Pennsylvania Commission should direct the state's utilities to develop conservation and weatherization programs targeted specifically to EAP participants. These conservation measures, as discussed above, offer particular benefits to the utility. Each utility should submit as part of its EAP program its plan for the identification and implementation of conservation measures for these EAP participants.

Finally, the Pennsylvania Commission should modify its LIEURP regulations so as to eliminate the requirement that households have 12 consecutive months of residence at the same premises in order to be eligible for LIEURP benefits. This requirement too frequently denies LIEURP benefits to those households most in need as well as to those households from whom the participating utility can gain the greatest reduction in arrears.

PART VIII: ARREARAGE FORGIVENESS

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SECTION A: PURPOSE OF THE PROGRAM.

Arrearage forgiveness is an essential component of any program to address the problems of payment-troubled customers and the uncollectible accounts that arise as a result. It makes little sense to rationalize the system of accounting for current bills if low-income households would nevertheless face unpayable burdens for pre-program arrears. An arrearage forgiveness program helps provide a program participant with a clean slate.

In approving an arrearage forgiveness program associated with the Rhode Island Percentage of Income Payment Plan (PIPP), the Rhode Island Public Utilities Commission noted the need for both elements of the program:^{308\} the percentage of income payment element to take care of current bills and the arrearage forgiveness element to take care of pre-program debts. These two program components, the Rhode Island Commission said, must be viewed "as a unified design and strategy."^{309\} What results, the Commission said, "should be synergism predicated upon the ability to erase previously incurred bills with current consumption patterns."^{310\}

Similar findings should be made in Pennsylvania. Under the newly formulated EAP program, as recommended by this report, since households should not incur new arrears, Pennsylvania utilities, too, will be able to retire old arrears and not face an ongoing exposure to unpaid debt.

Under an arrearage forgiveness program, the pre-program arrears for participating households will be reduced over a period of time. In a 36-month program, for example, for every payment made by a household toward its current energy bill, the participating utility will reduce the household's pre-program arrears by 1/36th. At the end of the 36 month period, therefore, a household will be "even," owing no current bill and having had the entire amount of pre-program arrears forgiven. In a sense, the utility and the state (through its regulators) "cut a deal" with the customer. If the customer keeps her affordable monthly bill current, she will be given a fresh start on her arrears.

^{308\}*In Re. Percentage of Income Pilot Program Petition, Filed by the Coalition for Consumer Justice*, Docket No 1725, Rhode Island Public Utilities Commission.

^{309\}*In Re. Percentage of Income Pilot Program Petition, Filed by the Coalition for Consumer Justice*, Docket No 1725, Decision and Order, at 7, Rhode Island Public Utilities Commission (January 1987).

^{310\}*Id.*, at 7.

Arrearage forgiveness is an important part of any program to bring low-income customers current *and to keep them current*. As discussed in detail above,³¹¹ in Pennsylvania (as elsewhere), the households who are in serious payment trouble are those households who are very poor, are likely to remain poor, and who have little discretionary expenses to eliminate in order to generate money to pay current utility bills, let alone arrears. Moreover, as discussed above, even Pennsylvania's Budget Plus payment plan, individually crafted so as to be "affordable" to participants, meets with near universal failure.³¹²

In fact, there is little chance that households in arrears will be able to successfully complete any payment plan designed to retire those arrears. Households having substantial arrears are in significantly "worse" shape than households without arrears. Those households in debt tend to have both less income and higher annual bills. The average annual energy burden they bear as a percentage of income is greater as well.³¹³

The National Consumer Law Center has studied arrearage forgiveness programs in a number of states.³¹⁴ Households simply have insufficient funds to absorb current bills plus arrears into their budgets, NCLC has found. The impact of "requiring" households to retire arrears in addition to paying current bills is to push total bills into unaffordable ranges. Even during the least expensive non-heating months, arrears push monthly household payments into the range of 15 - 20 percent of income. During the more expensive heating months, the average payment required to pay current bills plus arrears would reach an impossible 25 - 35 percent of income.

Moreover, as always, looking at the average masks the extremes where

³¹¹ See, notes **Error! Bookmark not defined.** - **Error! Bookmark not defined.**, *supra*, and accompanying text.

³¹² See, note **Error! Bookmark not defined.**, *supra*, and accompanying text.

³¹³ See, note **Error! Bookmark not defined.**, *supra*, and accompanying text.

³¹⁴ See, *The Redistribution of Fuel Assistance in Jefferson County (Kentucky): Balancing Equity, Affordability, Simplicity* (September 1990); *Fuel Assistance Alternatives for Utah* (June 1989); *Low-Income Utility Protections in Maine: An Evaluation of Low-Income Utility Protections in Maine: Fuel Assistance and Family Crisis Benefits*, Vol. III (July 1988); *An Evaluation of the Warwick (Rhode Island) Percentage of Income Payment Plan* (January 1988).

hardship really lies. NCLC recently found in a report for the City of Louisville,^{\315\} for example, that the distribution of energy burden as a percentage of income when payments for arrears are added to actual winter monthly energy bills resulted in the following: in November, one in seven households (14%) would be required to pay in excess of 40 percent of their income toward their home energy bills; in December, 32 percent would be asked to pay more than 40 percent of their income (with 18 percent being asked to pay more than 50 percent of their income). In both January and February, 12 percent of these households would be required to pay more than 40 percent of their income. "It is because of the futility of making such demands that an arrearage forgiveness program is proffered."^{\316\}

SECTION B: CUSTOMER PAYMENTS TOWARD ARREARS.

Despite the importance of an arrearage forgiveness component of a program to address the plight of low-income households, it is important, as well, for the program not to overreach its purpose. The intent of an arrearage forgiveness provision is to allow low-income households who have fallen "hopelessly" behind a fresh start. If a household, in contrast, is "only" one or two months behind, those are not the arrears sought to be addressed by this type of provision.^{\317\}

Moreover, it is reasonable to have households make some contribution toward their pre-program arrears. The goal is to have households pay what they can. It is important, however, not to attempt too much in this regard. If a utility seeks to collect more than what is affordable, it risks losing not only the unaffordable portion of the household contribution, but the affordable portion as well. If a household receives no benefit from making partial payments, no partial payments will be made.

A household contribution of \$3 per month for 36 months will significantly reduce a utility's exposure to forgivable arrears. NCLC has found in a number of studies that such a provision will tend to reduce the forgivable arrears by any where from 40 to 60 percent.^{\318\} In Vermont, for example, the household

^{\315\}See, *The Redistribution of Fuel Assistance in Jefferson County (Kentucky): Balancing Equity, Affordability, Simplicity* (September 1990).

^{\316\}Id.

^{\317\}Assuming that these months do not represent winter heating bills.

^{\318\}All that this means is that most households have arrears less than \$108.

payment reduced the total forgivable arrears exposure by more than fifty percent.^{\319\} The Vermont study found that the household would result in the payment of the *entire* pre-program arrears for a substantial number of accounts, ranging from a low of 42 percent of all delinquent accounts for Vermont Gas to a high of 59 percent for Green Mountain Power. Similar results have been found in Rhode Island,^{\320\} Utah,^{\321\} Maine^{\322\} and Kentucky.^{\323\}

Each dollar of additional customer contribution, however, yields smaller returns. An increase from \$3 per month to \$4 per month, for example, lowers the total exposure of a utility less than a move from \$2 to \$3.^{\324\} The increase in the required customer payment, in other words, results in substantially increased risk that no payment will be received while yielding only marginally increased benefits.

It is important to properly structure an arrearage forgiveness provision so as to encourage the retirement of arrears and not *vice versa*. Accordingly, the arrears subject to forgiveness should be the arrears that appear on a bill on a date certain. Historically, this has been the arrears appearing on the September bill. In this way, a household does not have the incentive to delay entering the EAP until spring, taking advantage of the winter moratorium in the meantime, so as to make the winter bills subject to the arrearage forgiveness provision.

SECTION C: WHO BEARS THE COST OF FORGIVEN ARREARS

^{\319\}Direct Testimony and Exhibits of Roger D. Colton, on behalf of the Department of Public Service, *In Re. Investigation and Implementation of Low-Income Energy Programs*, Docket 5308 (October 1989).

^{\320\}*An Evaluation of the Warwick (Rhode Island) Percentage of Income Payment Plan* (January 1988).

^{\321\}*Fuel Assistance Alternatives for Utah* (June 1989)

^{\322\}*Low-Income Utility Protections in Maine: An Evaluation of Low-Income Utility Protections in Maine: Fuel Assistance and Family Crisis Benefits*, Vol. III (July 1988).

^{\323\}*The Redistribution of Fuel Assistance in Jefferson County (Kentucky): Balancing Equity, Affordability, Simplicity* (September 1990).

^{\324\}This result is constant over the range of arrears. Thus, a move from \$4 to \$5 would result in a smaller reduction in arrears than a move from \$3 to \$4.

Having established all of the above, the fundamental issue of who bears the cost of the forgiven arrears must be addressed. The net cost of the arrearage forgiveness provision should be included in rates to be charged to all ratepayers. As used for other utilities participating in an arrearage forgiveness program, the "net costs" are to be determined by the following formula:

$$NC = FA - (OBD + ABD + CS + WCS + LTV + O)$$

where:

NC=	net costs of arrearage forgiveness
FA=	amounts of arrears to be forgiven
OBD=	amount of arrears forgiven that would otherwise have become bad debt in any event
ABD=	bad debt avoided by having households participate in EAP
CS=	savings in collection activities
WCS=	savings in working capital costs as revenue lag days are decreased
LTV=	savings from elimination of lost time value of money
O=	Other factors deemed relevant by the utilities, the Commission or other interested parties.

In fact, universally, utilities involved with arrearage forgiveness programs have found that there is *no* net cost to be included in rates, as calculated by this formula. These utilities find, in other words, that the arrearage forgiveness program results in net savings to ratepayers.

SECTION D: RECOMMENDATIONS

The Public Utilities Commission should direct Pennsylvania utilities to offer arrearage forgiveness programs in conjunction with the EAP recommended above. The PUC should establish certain guidelines within which these arrearage forgiveness programs should work, including:

1. Generally, the arrears subject to forgiveness should be the arrears appearing on the September bill before the customer enters the program.^{\325\}
2. Arrears should be forgiven, in *pro rata* fashion for each month the household makes a current payment.^{\326\}
3. Arrears should be forgiven over a period of time not to exceed three years (36 months). and
4. An EAP participant should be required to make a monthly payment toward her arrears in addition to percentage of income payments. That monthly arrears payment shall be set at an amount not to exceed five dollars.^{\327\}

^{\325\}This accomplishes several purposes. First, it provides the utility with a full non-heating season to seek to collect arrears arising from the previous winter. Second, it eliminates any incentive for households to take advantage of the winter moratorium to accrue arrears and then seek to have those arrears forgiven. Third, it minimizes a utility's exposure to write-off, since the time of minimum arrears is immediately after the low-cost non-heating season.

^{\326\}Thus, the total customer arrears, minus any required monthly household payment, divided by the number of months over which forgiveness is provided --recommended to be 36-- is subject to arrears.

^{\327\}The recommended household payment is \$3 per month. This \$5 figure is intended to be an absolute cap over which utility requirements cannot go.

APPENDIX A: STATES BY CENSUS REGION

**APPENDIX A
STATES BY CENSUS REGION**

NEW ENGLAND:

Maine
Vermont
New Hampshire
Massachusetts
Connecticut
Rhode Island

MID-ATLANTIC:

New York
New Jersey
Pennsylvania

EAST NORTH CENTRAL:

Wisconsin
Michigan
Ohio
Indiana
Illinois

WEST NORTH CENTRAL:

Minnesota
Iowa
Missouri
Kansas
Nebraska
South Dakota
North Dakota

SOUTH ATLANTIC:

Maryland
Delaware
West Virginia
Virginia
North Carolina
South Carolina
Georgia
Florida

EAST SOUTH CENTRAL:

Kentucky
Tennessee
Alabama
Mississippi

WEST SOUTH CENTRAL:

Oklahoma
Arkansas
Louisiana
Texas

MOUNTAIN:

Montana
Idaho
Wyoming
Colorado
Utah
Nevada
New Mexico
Arizona

PACIFIC:

Washington
Oregon
California
Alaska
Hawaii

APPENDIX B: LOW-INCOME RESIDENTIAL MOBILITY

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APPENDIX B

MEMORANDUM

RESIDENTIAL MOBILITY AND THE LOW-INCOME CONSUMER

Barbara Linden & Anne Wicks, NSSLC

September 10, 1985

This memorandum provides a statistical analysis of the differences between mover and non-mover family households. It presents data on mobility rates among families with varying income levels, by receipt of public assistance income, and by age, race and employment status.

A legal services program in Pennsylvania presented NSSLC with the following research question:

Do changes in telephone installation rates affect all income groups equally, or do low-income consumers change residences at a higher rate than other families, thus becoming more likely to be affected by installation charges?

To address this issue, NSSLC reviewed published data from government sources on residential mobility rates (i.e., the proportion of households which change residence over a one-year period) of families with different characteristics and with varying income levels. Original source tables are attached.

The first section of this memo focuses on the differences between mover and non-mover family households. Selected household characteristics for these families are presented for the 1982-83 survey year, the most recent year for which data are available. Since some data sources include only national or regional information, extrapolations have been made to the Pennsylvania population.

National mobility rates of different population groups are examined in the second section of this memo. For example, mobility rates are presented by income level, receipt of public assistance, employment status, and so forth. Family household mobility rates are used whenever possible, since the rates for persons would overstate mobility and would not be appropriate for a discussion of the impact of utility rates.

A.A COMPARISON OF MOVERS TO NON-MOVERS

The characteristics of families who change residences can be compared to those of families who do not move in order to examine the differences between these two groups. Table 1 below, comprised of Northeast regional data, shows that households that move are disproportionately poor, are receiving public assistance, are headed by females, or are minority families, in comparison to non-movers.

TABLE 1: Northeast Region

Characteristics of Family Households:
Movers Compared to Non-Movers, 1982 - 1983

<u>Characteristics</u>	<u>% of Non-Mover Households</u>	<u>% of Mover Households</u>
Below Poverty:	9.4%	22.6%
Receive Public Assistance	6.1%	16.4%
Non-White	9.0%	11.8%
Female-headed	16.3%	23.1%

Source: Tables 34 and 36: pages 89, 90 and 105, Geographical Mobility: March 1982 to March 1983, U.S. Department of the Census, Current Population Reports, Series P-20, No. 393, Washington D.C., G.P.O., 1984. (hereinafter Geographic Mobility).

Using the distribution of mover and non-mover characteristics for the Northeast displayed above, extrapolations have been made to the Pennsylvania population in Table 2. Approximately 295,894 family households in Pennsylvania will have a change in residence during the next survey year. In the Northeast, only 12 percent of all families who moved relocated to a different state, while 88 percent moved to different residences in the same state.³²⁸⁾ By applying the telephone ownership rate of 95%³²⁹⁾ to in-state mover households only (295,894), we estimate that at least 247,367 of the Pennsylvania families who move will be subject to telephone installation charges.

TABLE 2: PENNSYLVANIA

Estimates & Characteristics of Mover Family Households

	<u>Percent</u>	<u>Total</u>
All family households	100.0%	3,147,809
Mover family households	9.4%	295,894
Below Poverty	22.6%	66,872
Receive Public Asst.	16.4%	48,546
Non-White	11.8%	34,915

³²⁸⁾ Table 40: pages 125-126, Geographic Mobility.

³²⁹⁾ Table H-1, 1980 Census of Population & Housing: Provisional Estimates of Social, Economic & Housing Characteristics, U.S. Bureau of the Census, G.P.O., 1982.

Female-headed 23.1% 68,351

Source: Estimates derived from distribution data in Table 1 and Table 64, 1980 Census of Population, General Social and Economic Characteristics: Pennsylvania, U.S. Bureau of the Census, Washington D.C.: G.P.O., 1983.

B. NATIONAL MOBILITY RATES FOR DIFFERENT POPULATION GROUPINGS:

1. **Level of Income:** Poor family households have a higher mobility rate (24%) than non-poor families (12%), regardless of race. Therefore, families below the poverty level are twice as likely to move as are those with higher incomes. Based on these figures, the poverty population undergoes residential turnover every four years, while families above poverty undergo turnover every eight years.

TABLE 3:

Mobility Rates for Family Households
By Poverty Status and Race

<u>Race</u>	<u>Above Poverty</u>	<u>Below Poverty</u>
White	12.0%	25.1%
Black	13.5%	21.2%
Total	12.2%	24.2%

Source: Table 36: p. 102, Geographic Mobility.

2. **Receipt of public assistance:** Table 4 illustrates that families receiving public assistance are two and half times more likely to move than families not receiving assistance; public assistance recipients have a 30.9 percent mobility rate, compared to a 12.6 percent mobility rate for non-recipient families. This is true for blacks as well as whites, and for female-headed and male-headed households.

TABLE 4:
 Mobility Rates of All Families
 By Receipt of Public Assistance and Race

<u>Race:</u>	<u>Not Receiving Public Assistance</u>	<u>Receiving Public Assistance</u>
White:	12.4%	35.1%
Black:	13.9%	24.3%
Total	12.6%	30.9%

Source: Table 35: p. 97, Geographical Mobility.

3. Sex of Households: Female-headed families have a higher mobility rate than families in general, although this factor varies somewhat by race. Thirteen percent of all white families moved in a one-year period, while 20 percent of white families headed by women moved. The difference in mobility between black families in general and those headed by females is not as great -- 16 percent versus 19 percent, respectively.

TABLE 5:
 Mobility Rates by Family Type and Race

<u>Race:</u>	<u>All Families</u>	<u>Female-Headed Families</u>
White	13.3%	19.8%
Black:	16.0%	19.4%
TOTAL:	13.7%	19.9%

Source: Tables 35 and 36, Geographic Mobility.

Female-headed families that receive public assistance are much more likely to move than are those not receiving benefits, as shown in Table 6 below. Almost one-third (32.4%) of the female-headed families that receive public assistance moved, while only one-sixth (15.9%) of female-headed families not receiving assistance did. White female-headed families that received public assistance had the highest residential mobility rate -- 37.9% percent moved during the 1982-1983 year.

TABLE 6:
Mobility Rates of Female-Headed Families
By Receipt of Public Assistance & Race

<u>Race:</u>	<u>Not Receiving Public Assistance</u>	<u>Receiving Public Assistance</u>
White	15.9%	37.9%
Black	15.1%	25.8%
Total	15.9%	32.4%

Source: Table 35: p. 97, Geographic Mobility.

4. **Households 65 and older:** Residential mobility rates for household heads who are 65 and older are much lower than those for all other families, regardless of poverty status. That is, only about 3 percent of older household heads changed residences during the year-long period, compared to 14 percent of all families. The mobility rate of the elderly not living with family members (5.9%) is nearly twice that of elderly persons living in families (3.3%).

TABLE 7:
Mobility Rates for Elderly Household Heads,
By Poverty Status and Family Type

<u>Family Type:</u>	<u>Above Poverty</u>	<u>Below Poverty</u>	<u>All Families</u>
Householder over 65	3.2%	4.0%	3.3%
Householder over 65 & unrelated individual:	5.8%	6.1%	5.9%

Source: Table 35: p. 97, Geographic Mobility.

5. **Unrelated Individuals:** Persons who are classified as unrelated individuals (i.e., those living alone, or with non-family members) are much more likely than the general population to change residences, whether incomes are below or above poverty. The moving rate for this group, 27.6 percent, is also higher than the national mobility rate for the poverty population, 24.2 percent.

TABLE 8:
Mobility Rates Among Unrelated Individuals,
By Poverty Status and Race

<u>Race:</u>	<u>Above Poverty</u>	<u>Below Poverty</u>	<u>Total</u>
White	26.5%	32.3%	27.8%
Black	26.0%	24.5%	25.4%
Total:	26.6%	30.7%	27.6%

Source: Table 36: p. 102, Geographic Mobility.

6. **Employment Status:** Table 9 provides mobility rates for employed and unemployed persons. (Note that these rates are not household figures, but refer to persons 16 years of age and over in the civilian labor force.) The unemployed were nearly twice as likely to have moved during the survey year as were individuals who were employed - 25.7 percent versus 14.8 percent. Slightly over one-quarter of the unemployed changed residences; these rates did not vary between men and women. Among movers who were employed, however, women were less likely to move (11.9%) than were men (17%).

TABLE 9:
Mobility Rates of Persons
By Employment Status and Sex

<u>Sex:</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Total</u>
Males	17.0%	25.0%	18.0%
Females	11.9%	26.8%	18.4%
Total:	14.8%	25.7%	18.1%

Source: Table 27: p. 53, Geographic Mobility.

C. Conclusion.

In general, the data show that socio-economic differences exist between families who move and those who do not move. Households that move are disproportionately poor, are receiving public assistance, are headed by females, or are minority families. Since low-income consumers change residences at a higher rate than other families, they are more likely to be affected by higher telephone installation charges than is the general population.

**APPENDIX C:
DECREASING EFFECTIVENESS OF ANTI-POVERTY PROGRAMS**

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**APPENDIX D:
WEATHERIZATION ARREARS SAVINGS: WISCONSIN GAS**

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