

Coping with Residential Customers' High Gas and Electricity Arrearages: Options for State Regulators

Outline

I. THE PROBLEM (10-15 minutes) – Liz Robinson

RESIDENTIAL electricity and gas customer payment difficulties have gotten worse:

- * More *customers are falling behind* on their bills than in years past.
 - Customers are falling *further* behind on their bills.
 - A greater number of customers are receiving DNP notices, and are being *terminated*.
 - More customers are at *risk of going without service*, and for longer periods of time.
 - *Arrearage levels* carried by utilities are increasing.
 - Gas and electricity costs are rising *faster than incomes*.
 - Energy costs may go up and down, but the underlying *trend is for higher rates*.
 - The gap between bills and ability to pay will *continue to grow*.
 - *Customers who have not had troubles* paying their utility bills are running into trouble.
 - Public sources of funding to assist customers have *not kept pace* with the need.
 - The *need to control greenhouse gasses* and other pollutants will push prices up even higher.
 - The arrearage problems are *likely to get worse*.
 - We *need long term solutions*, as well as crisis response. *Efficiency is key* over the long haul.

II. WIN-WIN-WIN APPROACH (25 – 40 minutes) (Ron Grosse)

- This section summarizes a Midwest utility's experience with a unique attempt to
 - reduce the number of disconnections and at the same time
 - produce good business results by limiting losses and arrears.
- Most utility collection practices assume that disconnection will produce payment, in that customers CAN pay but DO NOT.
- This approach is supported by regulatory approvals of certain credit and collection policies.
- But the fundamental assumption about reasons for non-payment is inaccurate, and thus leads to suboptimal credit and collection practices.
- Non-paying customers can be categorized into 5 roughly identifiable groups, *useful for customer service and collections purposes*:
 - Only 12 percent have money, know exactly what they are doing, and will pay if faced with disconnection.

- may have enough money but tend to lack money management skills to make it go as far as it needs to.
- in transition--either going into or coming out of poverty.
- poor, lack enough resources to pay their bills, and are angry.
- poor and blame themselves for their situation.
- Standard approach: all of the utility's approved credit policies are geared to the few non-payers who can easily respond to disconnect notices.
 - These policies were inadequate to help the Company:
 - Employees coped in the same way with those few who can cope and the bulk of non-payers who cannot readily respond to DNP notices.
 - To the extent that Company management implied to frontline collection personnel that the Company's response to rising arrears or losses would be to "get tough" by disconnecting more accounts, certain results were inevitable.
 - Frontline credit personnel would choose to disconnect those among the group who saw themselves as helpless and would not **complain**. Such behavior would produce the illusion of action (more disconnects) but with no concomitant improvement of results (collection of money, reduced arrears).
- Five other major conclusions were also drawn from the data, as follows:
 - Desire to Pay - The majority of customers really **want** to pay their bills but may lack either resources Or skills or both - --to successfully achieve this.
 - Early Intervention - It's in the company's best interest to get involved with the customer before the problem and arrearage get too large. Can't assume customers will get in touch with the company if they're experiencing some difficulty.
 - Personal Contact – Individualized intervention is very important, particularly if the behavior represents a long-standing pattern with the customer.
 - Flexibility and Involvement from the Utility Company - Because these families are experiencing so many problems and have such limited income, the utility company needs to recommend resources to handle these other problems before handling the delinquent bill. In other words, we must also be in touch with other resources in the community.
 - Unique Role of the Utility - Contrary to our assumption, most customers in collection action are not connected in an ongoing relationship with social services. Since many of the same customers are unaccustomed to receiving credit from other suppliers, it is predictable that they would probably experience difficulty managing the utility bill. Therefore, it is logical and most efficient for the utility to play a role in early identification of the customer and to establish a more productive working relationship.
- Wisconsin Public Service response – hired Customer Assistance Advisors with specific mandate.
 - Two elements contributed significantly to the success of the Customer Assistance Advisors.

- The first was the idea that the Customer Assistance Advisor would be the logical extension of customer service credit and collection efforts through normal channels.
 - Secondly, the Customer Assistance Advisors reported to the same manager as the collection reps .
 - The Customer Assistance Advisors who were hired by the Company were required to have a background in social work with experience in the social service system outside the Company.
 - Their responsibilities included the following:
 - Coordinate assistance programs.
 - Link with community resources and advocates.
 - Budget counseling and education.
 - Crisis intervention.
 - Working with customers on problem-solving and decision-making skills.
- There are differences in the customer/supplier relationship between multiple supplier businesses and sole supplier businesses:
 - Utilities as a practical matter fall into the single supplier category (even in retail choice states).
 - In addition, the service is usually not considered discretionary-rather, it is a necessity of life.
 - The degree of captivity that the customer feels to the supplier is inversely proportional to the level of income.
 - If utilities have credit policies that are in sync with the multiple supplier model, they will experience significant and persistent conflict with slow-paying customers. They will constantly engage in actions which are geared to straining or severing relationship with the customer when in reality that will not happen. If a utility wants to reduce such conflict, they must carefully examine their collection perspective and their paradigms about collections.
- Enlarging our perspectives in order to come to the conclusions we did, Public Service needed to take a new perspective on energy service for its customers, in particular:
 - Energy is an integral part of shelter, but the relationship is abstract both to the suppliers and to the customers. Therefore, when customers face difficulty paying for it, they may need some help to realize that excessive energy usage is one of the prices they may pay for very low rent.
 - The customer's perspective is short term due to both background and circumstances. It's unrealistic to expect customers caught up in this kind of situation with a lack of training and skills to behave otherwise.
 - Most utilities' perspective is limited to two alternatives: collect the money or cut the service.
 - Regulators' perspectives may also be limited. Conventional credit and collection philosophies are ill-suited to a utility's situation where some customers are not "creditworthy."

- The conclusion from these various perspectives indicates that what's lacking is a total systems perspective, which must be the focus of utility (and regulatory) action.

III. REGULATORY TOOLS TO RESPOND (Balance of Time) (Nancy Brockway)

- **Tools** that are used by various Commissions and utilities, and might be useful in other states, for responding to this growing crisis include, among others:
 - Process protections
 - Customer outreach and early intervention
 - Reasonable credit requirements
 - Reasonable collection fees and fee waivers
 - Payment plan rules
 - Limit grounds for DNP
 - Weather and health protections against DNP
 - EITC referrals
 - Other
 - Bill assistance programs/initiatives
 - Low-income rates
 - Percentage of Income Payment,
 - Discount Rate,
 - Waiver of Customer Charges,
 - Arrearage Forgiveness Programs/Arrearage Management Programs
 - Government and charitable bill assistance
 - Energy efficiency
 - Utility programs
 - State and federal weatherization
 - Housing initiatives
- **Tools** that address arrearages without addressing related issues.
 - Pre-payment metering: We will describe the varieties of pre-payment metering, and discuss the benefits and drawbacks of using new metering technologies to address arrearage problems.
 - Service limiters: This is a less dangerous and more useful alternative to DNP than pre-payment metering.
- **Calculation of Bad Debt:** We will provide written materials on the various ways that utility bad debt may be computed for use in general rate cases, and the requests of some utilities to include bad debt in reconciling fuel clause rates. We will not discuss this issue extensively in the teleseminar.
- **Brainstorm** options for Commission action in response to growing gap between bills and payments.