

Low Income Issues

Report to the Commission

Prepared by:

Phil Boyle – Consumer Services Manager

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Background

At its public meeting on April 29, 2014, the Commission heard a staff report on UM 1650, a docket to consider petitions filed by the Jackson County Fuel Committee in 2012. The petitioners raised several issues with regard to service disconnections and reconnections that particularly affect low income and elderly customers of PacifiCorp. At the conclusion of that public meeting, the Commissioners closed the docket, but directed PUC staff to submit a report addressing five specific questions:

1. Should utilities report to the Commission, on a periodic basis, how many service disconnects they perform each year?
2. Should the current voluntary stoppage of disconnects (by some utilities) during severe weather be formalized by a rule making?
3. Should there be a higher threshold set before disconnection of low-income, elderly, and medical certificate holders?
4. Are the current requirements to have service reconnected too high a hurdle for many customers?
5. What states offer Lifeline rates to customers?

In preparation for this report, staff contacted other state commissions, Oregon utility providers and consumer protection organizations - we received large volumes of information, data, and numerous recommendations. Overall, staff received responses from over 30 other state commissions, the 6 investor owned energy utilities in Oregon, the Citizens' Utility Board (CUB), and Community Action Partnership of Oregon (CAPO). Staff also researched the administrative rules of all 50 states. It became apparent that there are a wide range of practices in use across the country that deal with these issues, some of which should be considered for adoption in Oregon.

Presently, Oregon's low-income consumers receive energy assistance from two primary sources, the federal Low-Income Home Energy Assistance Program (LIHEAP) which provides heating assistance (regardless of utility or heat source), and Oregon Energy Assistance Program (OEAP) which provides electric bill payment assistance for the customers of Portland General Electric (PGE) and Pacific Power (PAC). LIHEAP is funded through an annual federal budget appropriation – Oregon's share of LIHEAP funding for the 2014/15 heating season is \$31.8 million, a reduction of \$1.2 million from the prior heating season. OEAP was created through legislative action and is funded by a monthly charge on the bills of PGE and PAC customers, raising \$15 million annually. In 2011, the legislature authorized collection of an additional \$5 million annually for two years, later extending it one additional year through the 2014/15 heating season. LIHEAP and OEAP funds are administered by Oregon Housing and Community Services (OHCS) who distribute them to local Community Action Agencies.

Note: While this report covers only the energy utilities regulated by the PUC, LIHEAP funds are also available to the customers of Consumer Owned Utilities (COU's). Many COU's administer locally funded low-income assistance programs in addition to LIHEAP.

Also, HB 2599 which will come before the 2015 legislature mandates a winter moratorium on residential service disconnections for specified at-risk customer groups, primarily low-income customers. A general winter moratorium is explored in this report.

Question #1 – Should utilities report to the Commission, on a periodic basis, how many service disconnections they perform each year?

Staff surveyed all six Oregon investor owned utilities, and received data from twenty-one states on this question. The utilities did not object to periodic reporting of disconnections. Most said they would prefer only an annual report, and all said there would be some expense involved to set this up.

Data received from the regulated utilities shows that annually in Oregon, approximately 3.6 percent of customers (71,000) experience an involuntary disconnection of service for failure to pay their bill, or a deposit. While the data shows disconnections during the winter heating season (Nov. 1 thru April 30) do not occur at a higher rate than during the summer months, many of the early spring disconnections occurring after April 30 are due to accumulated delinquent winter bills. Finally, the data shows that 3.3 percent of customers received bill payment assistance from the LIHEAP, OEAP, or both. Of these aid recipients, 57 percent used the money to avoid having their service disconnected, 37 percent used the money to pay a bill that was not yet in danger of disconnection, five percent used the money to have service restored after a disconnection, and one percent used the money to pay a deposit to avoid a disconnection. There is likely an overlap between those who experience an involuntary disconnection (3.6 percent) and customers receiving energy assistance (3.3 percent), but this is difficult to quantify as utilities do not keep track of customer incomes.

Slightly over one percent of all disconnections happen to customers with an Emergency Medical Certificate (Med Cert). ORS 757.755 established the Med Cert program and prohibits disconnection if the Med Cert customer enters into an extended payment arrangement. Standard payment arrangements generally do not exceed 12 months, but Med Cert payment arrangements can be 24 months or more (negotiated between utility, customer, and often PUC). If the utility and Med Cert customer cannot come to agreement on an extended payment arrangement, the customer has a right to have the Commission set the term. The Med Cert program does not excuse the customer from the responsibility to pay their bills.

Of the twenty-one states that responded on this issue, nine said they require a monthly (3), quarterly (1), or annual (4) report detailing disconnections and one state receives a report only when the Commission requests it. Of the states who do not require reporting, two receive voluntary annual reports from utilities (Note: PacifiCorp is one of those who provides a voluntary annual report to the Idaho Commission). When asked what the Commissions do with the disconnection information they receive, two said they post the information to their websites and one uses it to track trends. The rest of the Commissions do nothing with the data.

CUB and CAPO were asked if they feel this is information the Commission should receive, and if they did what use should the Commission make of it. CAPO noted that that Oregon does not track service disconnections, but with rising energy prices, decreasing federal energy assistance (LIHEAP) and a growing gap between the price of energy and incomes, the need for energy assistance funding is ever growing. It is therefore important to track low-income arrearages and disconnections in order to demonstrate the overwhelming need for energy assistance funding. They suggested the data must be comprehensible and timely, and consistent across companies so Oregon policy-makers can use a more surgical approach to eliminating disconnections.

CAPO cited statistics published by Oregon Housing and Community Services showing that 15 percent of Oregonians live at or below the poverty level. As noted above, if only 3.3 percent of utility customers are receiving LIHEAP/OEAP energy assistance, the great majority of people in need are not receiving assistance.

CUB also supports the requirement for utilities to report disconnections. They prefer a quarterly report, but will accept semi-annual reports at the close of the heating season and the close of the cooling season. They would like to see the following items included in the report:

- a. Disconnections for failure to pay a deposit,
- b. Disconnections for failure to abide by the terms of a time-payment agreement (TPA),
- c. Disconnections specific to low income consumers,
- d. Disconnections specific to elderly consumers, and
- e. Disconnections for LIHEAP and/or OEAP consumers.

RECOMMENDATION:

Staff recommends the Commission require utilities to file semi-annual reports on the number of involuntary service disconnections performed. The reports should be aligned with the heating and cooling seasons. The first reporting period would run November 15, 2014, through April 15, 2015, and the second from April 16, 2015, through November 14, 2015. The reports should be submitted to the Commission no later than 30 days after the close of the heating or cooling season. The reports should show a monthly breakdown of total disconnections due to non-payment of a bill, a deposit, or failure to abide by a TPA, and should separately detail disconnection of LIHEAP/OEAP recipients, Emergency Medical Certificate holders, and elderly and low-income customers if the demographic information is available. Additionally, the report should show number of customers 60 days in arrears and total dollars 60 days in arrears.

Staff would utilize this data to track disconnections over time to watch for trends that might occur due to utility changes in their collection practices, or implementation of new metering systems. The data will also help us to understand how effective current low-income assistance programs are.

Question #2 – Should the current voluntary stoppage of disconnects (by some utilities) during severe weather be formalized by a rule making?

Oregon statutes and administrative rules do not currently specify a moratorium on utility service disconnections during severe weather. Rather, utilities will periodically implement voluntary short-term moratoriums during severe weather, either winter or summer. The six investor-owned utilities in Oregon were unanimous that the current voluntary moratorium is working well, and that it is not necessary for a moratorium to be implemented by rule.

The six utilities each have their own criteria for determining when a severe weather event warrants a voluntary suspension of disconnects. Some will suspend disconnects when the temperature falls below 32 degrees and remains there for several days, or when temperatures exceed 100 for several days. For example, in winter, Idaho Power will suspend disconnects when the daily high temperature is forecast to be 25 degrees or below for three consecutive days, or any single day that is forecast to fall below 10 degrees. In summer, if the forecast is for 105 degree temperatures for three consecutive days, or any single day forecast to be 110 degrees, disconnections are suspended. The other utilities will suspend disconnections in a similar manner, but with less temperature extremes. Some utilities are more proactive than others about when they suspend disconnects. There is no consistency between utility practices, so the customers of one utility may be subject to disconnection while the customers of another utility are not, though experiencing the same weather conditions.

Staff solicited input from all the other states about weather related moratoriums, identifying twenty-nine that have some sort of summer or winter moratorium on service disconnections. All states with a moratorium designate a “Winter Protection Period” (typically Nov. 1 to March 31) where special rules are in place to provide some level of protection against disconnection for residential customers, regardless of weather severity. A few states designate a summer moratorium period as well. Most states which have such protection periods apply the protections to all residential customers, while some limit the protection rules to certain at-risk groups of customers such as elderly, disabled, and the low-income. There are nearly as many variations to winter protection rules as there are states. For example:

- The states of Washington and Michigan utilize a modified Percentage of Income Program (PIP) as a means of protecting customers from disconnection during a designated winter protection period. This program allows any customer who is having trouble paying their bills during the winter protection period to enter into a PIP where they pay up to seven percent of their household income toward their utility bills, regardless of how high the bill is. As long as the customer pays the seven percent, their service cannot be disconnected. While the PIP is available to any residential customer, it effectively only benefits the low-income.
- Minnesota allows any household below 50 percent of state median income to retain service if they pay ten percent of household income toward the energy bill.

- New Hampshire allows low-income customers to pay as little as ten percent of their delinquent winter bill to keep service connected. The Commission must approve any winter disconnections of customers 65 years and older.
- The states of Pennsylvania, Montana, and Maine require utilities to gain Commission approval prior to a winter disconnection.
- Idaho, Montana, Iowa, and Maryland do not allow winter disconnections for elderly, disabled, or low-income customers at all.
- The states of Massachusetts, Nebraska, New Mexico, and New Jersey do not allow winter disconnection of customers who certify they are unable to pay their bill – prior year LIHEAP recipients and other federal assistance programs automatically qualify. North Carolina limits this protection to those 65 years and older who are LIHEAP eligible.
- At least twenty states have temperature based moratoriums. These moratoriums vary from state to state, but in winter most are triggered when the outdoor temperature is forecast to drop to 32 degrees for at least 24 hours. A fewer number have a summer moratorium that is triggered when the heat index is forecast to hit 105 degrees. None of these temperature-based moratoriums are applicable to a utility’s entire service area all at once. Rather, it is a local trigger based on the official National Weather Service station for each locality. Thus, a moratorium may be in effect for one part of a state while not in the rest of the state at any given time. Disconnections resume the next day after the temperature trigger is not reached.

There are two general types of moratoriums:

1. Moratoriums based on individual circumstances – this includes factors such as age, medical condition, and/or income level. A moratorium that is limited to these or other individual factors can be limited to severe weather events only, or can be extended to cover the entire heating season or winter protection period.
2. Moratoriums based on severe weather – the only factor taken into consideration here is severe weather. This moratorium applies to all residential customers regardless of age, medical condition, or income.

Pros and Cons:

Moratorium based on individual circumstances (age, income) and applicable to the entire heating season:

PRO – Will stop disconnection of low income and elderly during the entire heating season

CON – Complicated to administer as it requires independent verification of age and/or income

CON – Large unpaid balances tend to accumulate, leading to massive disconnections in the spring

CON – May negatively impact the availability of energy assistance funds to customers in need

CON – May lead to increased utility uncollectable expense

Moratorium based on individual circumstances (age, income) and applicable to only severe weather events:

PRO – Will stop immediate disconnection of low income and elderly when weather is severe

CON – Complicated to administer as it requires independent verification of age and/or income
CON – Disconnections can proceed as soon as the weather event is over
CON – Does nothing for all other customers

Moratorium based on severe weather conditions only (no age or income requirements):

PRO – Applies to all residential customers

PRO – Simple to administer

PRO – Is short term in duration so large unpaid balances do not accumulate

CON – Disconnections can proceed as soon as weather event is over

In the few states that do not allow any winter disconnections for residential customers, or only prohibit them for elderly, disabled, and low-income customers, there is generally not a requirement that the customer make payments toward their energy bills - this leads to large unpaid balances by the end of the protection period which become due as soon the protection period ends. Several states reported that this leads to massive numbers of disconnections as soon as the moratorium ends because customers have accumulated balances that are too large for them to successfully manage. Most states require utilities to offer these customers special time payment arrangements, which are typically designed to pay off the accumulated balances before the start of the next heating season. These arrangements require payment of the current bill plus some portion of the arrears amount (usually one-sixth). Even so, many of these customers are unable to keep up with the payment arrangements and end up losing their service anyway. Several states noted this problem and are considering requiring these customers to make some minimal monthly payment during the protection period to lower the accrued delinquent balance.

CUB expressed a strong desire to implement a severe weather moratorium. They would also support any effort PUC staff wished to pursue to implement an across-the-board winter moratorium on all residential disconnections, but acknowledged this would be difficult to accomplish considering expected utility opposition.

CAPO favors a sweeping winter moratorium on disconnects for all residential customers, not just for low-income customers and not simply for severe weather. They argue that it would be difficult to quantify all customers who are vulnerable, and establishing specific definitions of what it means to be “low-income” may leave some needy consumers out, so it is simpler to apply the winter moratorium to all customers.

DISCUSSION:

While all six Oregon utilities were opposed to formalizing a moratorium by rule, the majority said that should the Commission decide to implement one it should be temperature and locality based, and it should apply to all residential customers. Several of the states with moratoriums mentioned that it is not just the elderly, disabled, or low-income customers who deserve to be protected during severe weather; they argued that all customers deserve protection under extreme conditions. There doesn't seem to be a compelling reason as to why only the elderly,

disabled, or low-income should be protected from disconnection in severe weather, so any severe weather moratorium should be extended to all residential customers.

Staff has considered the input of the six Oregon utilities, CUB, CAPO, and the experience of the other states. It seems inadvisable to implement any kind of winter moratorium based only on income, age, or disability. The experience of other states show a moratorium based on individual factors only delays disconnection, it does not ultimately stop them. Also, we are concerned about how such a moratorium on disconnections would affect the availability and distribution of LIHEAP and OEAP funds. If a customer is not in danger of disconnection, they may not be able to receive as much energy assistance. As such, staff is opposed to a summer or winter moratorium based on individual factors.

RECOMMENDATION:

Staff recommends formalizing a severe weather moratorium for energy utilities. The moratorium must take into consideration local weather conditions and not be a statewide blanket. For example, in winter, Bend can experience more than ten days a year where the high temperature is 32 degrees or below, while Portland generally experiences this only once or twice a year. In summer, Medford can experience high temperatures above 100 degrees more than ten days annually, while Portland may hit 100 once every few years. The point is that what is considered severe weather may occur disproportionately in one geographic location compared to another. As such, geographical variation must be taken into consideration, meaning that imposition of the moratorium should be based on local weather conditions recorded at a National Weather Service reporting station.

Generally, staff favors a moratorium where disconnections are suspended when, at a given locality, the National Weather Service has forecast a winter high temperature that will not exceed 32 degrees on any day, and where a summer high temperature is forecast to hit 100 degrees on any day. However, across the board temperature targets do not recognize the temperature extremes experienced by different geographic locations in the state. As such, each utility should be directed to draft their own winter and summer severe weather moratoriums considering local conditions. These plans should be submitted to the Commission for review and eventual approval. The Commission should reserve the right to alter the utilities' plans to provide uniformity across geographic locations.

Question #3 – Should there be a higher threshold set before disconnection of low-income, elderly, and medical certificate holders?

This question explores whether customer balances should have to rise to some set threshold before service can be disconnected for low-income, elderly customers, or those holding a medical certificate. The statistics presented in question #1 suggest that the majority of service disconnections occur among low income customers. Many of these same customers are also elderly, disabled, or may have a medical condition that requires electricity or natural gas service to avoid serious health consequences. Information from CAPO states that a high percentage of

LIHEAP and other energy assistance funding are prioritized to fixed-income elderly consumers. Should these at-risk populations receive special consideration with regard to involuntary disconnection of service?

Staff gathered data from 30 states about whether they require a higher threshold be met before disconnection of service to low-income, elderly customers, or medical certificate holders. There are many different methodologies utilized by the states to protect at-risk populations from disconnection. For example:

- New Hampshire, Maryland, Maine, and Nevada require a residential delinquent balance to reach a certain threshold before service can be disconnected to any residential customer, regardless of season. This threshold can range from as little as \$50 to as much as \$450. Some states do not allow disconnection for amounts that are less than the amount of deposit held by the utility. These requirements generally apply to all residential customers, not just low-income, elderly, or disabled.
- Michigan and Kentucky do not require the elderly to pay their utility bill at all during the heating season. Additionally, Kentucky extends this policy to medical certificate holders. Accumulated arrears generally must be brought current by the start of the next heating season.
- Oklahoma, Arkansas, South Dakota, Colorado, Indiana, Kansas, Nebraska, North Dakota, Rhode Island, Tennessee, Texas, Utah, Wyoming, and Vermont variously allow low-income, elderly, disabled and/or medical certificate holders additional time to pay their bills before disconnection can occur. Some states apply these extensions to the heating season only while others make them available year-round. These extensions range from 15 extra days to pay, up to 90 days. Arkansas makes this available to all residential customers.
- Illinois does not allow disconnection of medical certificate customers at all.
- Oregon, Kansas, Arizona, and Wyoming do not allow disconnection of medical certificate customers who are willing to enter into an extended time payment agreement (TPA). Oregon is most generous in that TPA's can be set up for as much as 24 months (far longer than any other state), sometimes even longer under certain circumstances.
- Alabama and Hawaii require medical certificate customers to be given "special consideration" before service can be disconnected, but their laws do not define this term.
- Rhode Island does not allow disconnection of the elderly, disabled, or homes with children less than two years of age without a Commission order. Utah requires a Commission order to disconnect medical certificate customers.
- Wyoming does not allow disconnection of any customer who has exhausted all government bill payment assistance and can document their inability to pay, or can only pay by installments.
- Ohio and Kentucky allow customers to pay one-third of their total account balance each month during the heating season to avoid disconnection. Additionally, Ohio allows customers up for disconnection to pay a flat amount of \$175 to keep service on,

regardless of how big the bill or how high arrears are - this can only be used once per heating season.

- Mississippi does not allow deposits from those 60 years and older and Wisconsin does not allow deposits on customers with incomes at or below 200 percent of the federal poverty guidelines.

While many states do provide extra protections against disconnection for elderly, disabled, low-income, and medical certificate customers, the majority of these protections simply delay when disconnection takes place, they do not ultimately stop them (with some exceptions). The most widely held practice among states is to allow medical certificate customers an additional period of time to pay their bills, most often 30 to 60 days – while this stops the immediate disconnection, it really only temporarily delays it.

Oregon statutes and administrative rules do not provide any special protections to low-income consumers with regard to utility service disconnection, but our laws (ORS 757.760) and administrative rules (OAR 860-021-0410) concerning medical certificate customers are relatively generous compared to other states. Oregon rules allow medical certificate customers to avoid disconnection if they enter into extended time payment arrangements for as much as 24 months, or more depending on circumstances. If a medical certificate customer is unable to keep up with their payment agreement, utilities are required to re-negotiate it at least once. Medical certificate customers in Oregon do experience service disconnection if they refuse to enter into a time payment agreement, or are unable to comply with the terms of their payment agreement. However, the number of medical certificate customers disconnected annually is very small, representing just 1.1 percent of all residential non-payment disconnects.

Oregon's six investor-owned utilities do not track customer incomes, so it is difficult to prove a connection between the number of service disconnections and the number of customers receiving energy assistance. As already stated, on a combined basis, 3.6 percent of all residential customers experience disconnection annually while 3.3 percent of residential customers receive LIHEAP/OEAP funding – there is likely some overlap. As detailed previously, the greatest majority of LIHEAP/OEAP energy assistance funding (57 percent) is used to avoid disconnection of service, while a significantly lesser amount (five percent) is used for reconnection.

While loss of utility service, especially in the winter, can be inconvenient to any customer, not just low-income, elderly, or disabled, utilities insist that temporary disconnection of service, or the threat of disconnection, is the most effective way for utilities to induce customers to pay their utility bill and help customers avoid accumulating unmanageable delinquent balances. On a combined basis, Oregon's six investor-owned utilities report the following statistics about reconnections:

	<u>Electric</u>	<u>Gas</u>
Reconnected within 24 hours –	68%	24%
Reconnected within 48 hours –	6%	11%
Reconnected within 72 hours –	3%	4%
Reconnected after more than 72 hours –	12%	32%
Never reconnected (under their name) –	11%	29%

It is interesting to note that 74 percent of electric customers manage to find the resources to pay their bill and have service restored within 48 hours, indicating the effectiveness of disconnection as a means of collection. However, this does not hold as true for natural gas utilities. While people cannot go without electricity, they can choose to live without natural gas, at least for a while. This is reflected in the fact that only 35 percent of gas customers are reconnected within 48 hours. Still, 71 percent of gas customers do have service reconnected at some point. Statistics also show that nearly 11 percent of electric customers and 29 percent of gas customers do not have service reconnected at all, at least under the same name. Rather than going without utility service, these customers usually sign up for service under a different name (sometimes fraudulent), move in with family or friends, or leave the utility's service area, often leaving uncollectables.

CUB expressed a desire to consider a complete winter moratorium on disconnections for all residential customers, but failing that does believe there should be a higher threshold for disconnection of the low-income, elderly, and medical certificate customers.

As mentioned earlier, CAPO favors a complete winter moratorium on residential disconnections, not just for low-income, elderly, or medical certificate customers.

DISCUSSION:

Even though most electric service disconnections are restored within two days and gas a few days later, staff recognizes the emotional and sometimes physical trauma that a service disconnection can cause. In a perfect world there would be no service disconnections for failure to pay a bill - this ideal would be nice, but it is unrealistic.

Staff proposes two options for the Commissioners to consider:

1. Do nothing – 3.6 percent of customers experience service disconnection annually, and the majority of disconnected customers have service restored within 48 hours. This might suggest that Oregon does not have a significant problem with disconnections and that no changes to administrative rules are necessary. While 3.6 percent may not seem significant, it represents nearly 71,000 households who experience an interruption of utility service for some period of time, sometimes more than once. However, current Oregon administrative rules and utility policies offer generous terms under which service disconnection can be avoided or service be reconnected for the great majority of customers.

2. Establish a threshold – Because service interruptions can be very disruptive to people’s lives, the Commission could establish an arrears threshold that must be hit before disconnection can take place. If the Commission were to establish such a threshold, there are many factors that need to be taken into consideration:

- What should the threshold amount be?
- When should the threshold be in place, only during a winter protection period or all year?
- Who should the threshold apply to, low-income/elderly/med cert customers, or all?
- What is the effect on utility uncollectables?
- What is the impact on customers seeking reconnection after the protection period ends?
- What is the effect on all other residential customers?

Staff asked utilities what would happen if the Commission were to establish a \$400 arrears threshold for all residential customers (not just low-income, elderly, or disabled) before service could be disconnected. The utilities were unanimous that uncollectables would increase significantly (an expense that is spread to all customers), that disconnections would not be stopped but only delayed, and that having a higher arrears balance would make it more difficult for customers to be reconnected because a higher amount would need to be paid (plus a potentially larger deposit), and that LIHEAP/OEAP payments to the needy would necessarily be higher resulting in fewer at-risk families being served.

Such a threshold is particularly problematic for gas utilities because if the customer does not pay for two or three winter months, by the time the utility can initiate disconnection procedures, the weather has warmed and the customer may have little incentive to pay – according to the utilities this will lead to significantly increased uncollectables with more and higher dollar referrals to collection agencies.

For all utilities, the threat of disconnection is a powerful inducement for customers to pay their bills, and without this inducement many customers will simply not pay at all during the winter. As already mentioned, this will burden the energy assistance agencies and potentially reduce the number of families that would otherwise be served because those being served would need more assistance to retire the larger arrears balances that accumulated during the protection period. This could also lead to higher deposit requirements for applicants. Utilities are unanimous in the belief that customers should deal with arrears early on, before they become too large to manage, and that current payment and assistance options available to customers are effective.

Staff does not believe it is in the customers or utilities best interests to allow any customers, including the low-income and elderly, to accumulate large delinquent balances through such a mechanism. While such a scheme would potentially stop disconnections during the winter months, it really only delays them. Allowing arrears balances to rise to \$400 before disconnect

proceedings could commence would actually mean a customer could accumulate arrears of \$600 or more before service could be disconnected. An arrears balance of this amount will be very difficult for customers to overcome – it would require setting up time payment arrangements requiring a monthly payment of about \$100 toward the arrears (to be paid off by the start of the next heating season) in addition to the regular bill. This just sets the customer up for failure as low-income customers are unlikely to be able to afford such large payments. Staff is opposed to establishing an arrears balance threshold that must be met before service can be disconnected.

Should medical certificate holders receive special treatment with regard to disconnections? While it appears the Commission has the legal authority to treat medical certificate holders differently than other customers, should the Commission do so? Presently, medical certificate holders already receive special treatment. By statute, medical certificate holders are allowed to enter into extended payment arrangements to avoid disconnection, often up to 24 months or more. All other customers are limited to payment arrangements of no more than 12 months. This is far more generous than what most states offer, often simply an extension of 30 to 60 days. A few states do not allow disconnection of medical certificate holders at all, effectively providing those customers with free energy. Staff believes that the existing policy regarding medical certificate holders is sufficient, and that additional disconnection thresholds for any type of customer are not warranted.

RECOMMENDATION:

Staff recommends no action on this issue. Current Oregon administrative rules and utility policies offer sufficiently generous terms under which service disconnection can be avoided or service be reconnected for the great majority of customers. Establishing a threshold could cause unintended consequences such as the accumulation of very large delinquent balances or the creation of a disincentive to pay at all for natural gas customers once a heating season is done. The benefits of establishing a threshold seem to be outweighed by the policy complexities associated with establishing that threshold and by the potential unintended consequences.

Question #4 – Are current requirements to have service reconnected too high a hurdle for many customers?

This question explores the issue of whether the utilities' requirements for service reconnection are too high a hurdle for many customers to overcome.

Presently, customers seeking reconnection of service after an involuntary disconnection are required to pay, at a minimum, either:

1. One hundred percent of their delinquent bill, one-third of a new deposit (the other two-thirds paid over two months), and a reconnection charge, or

2. Fifty percent of their delinquent bill (the remainder put on a TPA), 100 percent of a new deposit, and a reconnection charge.

For example, if a customer has become disconnected with a \$500 delinquent balance, in order to be reconnected (within 20 days) they would have two options (short of paying 100 percent of all charges up front):

1. Pay the entire \$500 delinquent bill, plus \$50 toward a new deposit (one-third of a \$150 deposit), plus a \$30 reconnect fee. Total required for reconnection = \$580.
2. Pay \$250 (50 percent of the outstanding bill, the remainder on a TPA), a \$150 deposit, and a \$30 reconnection charge. Total required for reconnection = \$430.

If the customer seeks reconnection after 20 days, their only option is to pay 100 percent of the delinquent balance, one-third of a new deposit (with one-third due in 30 days and one-third due in 60 days), and a reconnect charge.

While data presented earlier indicates customers most often find ways to pay the charges to effect reconnection, it potentially puts a burden on the customer that is much more severe than if they had been able to pay their bill in the first place. People may find it necessary to forego food or medicine, resort to borrowing money from family and friends, or paying the energy bill with a credit card which may put the customer into a further financial distress.

Staff surveyed the other states about their rules and practices and received responses and data from 35 of them. Of these states, 17 have reconnection requirements that are more stringent (high hurdle) than Oregon, and seven had requirements that are less stringent (low hurdle). Twelve of the states have requirements that are similar to Oregon (medium hurdle).

- The high hurdle states typically require payment of 100 percent of the delinquent balance, all or a portion of a new or additional deposit, and payment of a reconnect fee be paid upfront before service can be restored.
- The low hurdle states typically require payment of one-third of the delinquent balance only. New or additional deposits are billed, as are reconnect fees. New Hampshire requires as little as one-fourth of the delinquent balance plus the full deposit, Utah only requires one-twelfth of the outstanding balance plus one-third of the deposit, and Rhode Island will allow one-fourth of the delinquent balance, plus a reconnect fee.
- The medium hurdle states (which includes Oregon) typically require payment of one-half of the delinquent balance plus one-fourth or one-third of a new or increased deposit, and a reconnection fee. Colorado allows reconnection for one-twelfth of the delinquent balance plus the full deposit and reconnect fee.

DISCUSSION:

Considering the relatively low percentage of households who experience service disconnection annually (3.6 percent), the fact that Oregon's requirements for reconnection of service are

about the middle of the road as compared to other states, and that 80 percent of service reconnections happen within a very few days of the disconnection, there may not be an overly compelling argument to be made that reconnection requirements should be lowered. It is entirely possible that lowering the reconnection requirements could lead to unintended consequences.

However, while Oregon is in the middle of the road with regard to the hurdle to having service reconnected, the fact remains that many thousands of low income consumers have service disconnected annually and may experience severe hardship to have service restored. As such, there are a few noteworthy actions Oregon could consider to help soften the reconnection hurdle, steps which other states have taken:

1. **Auto-pay instead of deposit:** New customers or those seeking reconnection are not charged a deposit if they agree to pay via utility initiated auto-pay. One NSF payment results in a deposit being assessed. The theory is that the utility will be more assured of receiving payments, thus lessening the need for a security deposit.
2. **Hold deposit for ten days:** After an involuntary disconnection, deposits held on the account should not be applied to the delinquent balance for ten days. If the customer seeks to have service restored within the ten days, no new or additional deposit is required. This gives people who are disconnected a few extra days to find funds to restore service without having to also find money for a new or increased deposit.
3. **Lower reconnect hurdle:** If Oregon wished to move into the “low hurdle” category, the Commission could consider one of the following two options:
 - o Customer pays one-half of their delinquent balance up-front to have service restored. Any required deposit or reconnect fee are billed over four installments, or
 - o Customer pays one-third of their delinquent balance up-front, plus any required deposit. Reconnect fee is billed.
4. **Hybrid:** Oregon could also adopt a hybrid approach where the hurdle to reconnect is low with the first disconnection, and high for the second and subsequent disconnections. It is hoped this approach would provide an inducement for customers to avoid a second disconnection. For example:

After the first disconnection, customer may have service reconnected by paying one-half of the delinquent balance, with any required deposit or reconnect fee to be billed over four installments. After the second and all subsequent disconnections, customer must pay 100 percent of delinquent balance, plus any required deposit, and the reconnect fee up-front.

Staff sought utility comment on these ideas:

1. **Auto pay instead of deposit:** The six utilities were unanimous in their opposition to this idea; none felt it was an appropriate substitution for a deposit. Being on auto-pay does not guarantee funds will be available when the payment is due, and customers can

remove themselves from auto-pay at any time without utility knowledge – few, if any, of the utilities’ customer information systems (CIS) currently have the capability to automatically monitor who has dropped auto-pay, so all suggest significant CIS development costs to allow for the capability. Manual account monitoring would be required until there was an automated solution. Customers who wish to utilize auto-pay are required to provide an actual or electronic signature, so customers cannot sign up via telephone. This could cause a significant inconvenience and delay for customers seeking to have service reconnected. The utilities felt that the costs to implement this option do not provide value to customers, and would increase the utility’s customer service costs with no value in return.

2. **Hold deposit for ten days:** Five of the six utilities appeared to be opposed to this idea; one was in favor because it would align with the practices of their operations in other states. One utility holds the deposit three days after an involuntary disconnect prior to applying it to the delinquent balance, three utilities hold the deposit five days before applying it, one holds it seven days, and one holds it until the next bill comes out which may be anywhere from zero to 30 days. Several of those in opposition mentioned there would be CIS reprogramming costs associated with this requirement, but none mentioned any negative customer consequences. Some offered that this idea may have no material effect on the customer because if the current deposit is applied to the delinquent balance, that just lowers the amount of the delinquency the customer must pay to have service restored.
3. **Lower reconnect hurdle:** The six utilities were again unanimous in their opposition to this idea. They argue that lowering the hurdle may lead to more disconnections. Having a low hurdle for reconnection simply pushes more of the delinquent balance on to future bills, making it more difficult for customers to pay the resulting higher balances, possibly leading to more disconnections. Also, both of these options could set up the perverse incentive of making it cheaper for a customer to go through the disconnection/reconnection process than it would have been to avoid disconnection in the first place. This is not a signal that should be sent to customers. Several utilities argued that the longer payment arrangements are spread out, the less likely the arrangements will be kept. One utility cited statistics showing that about 50 percent of customers who are given short-term payment arrangements follow through with them, while only ten percent of customers with long term arrangements follow through.
4. **Hybrid:** Five of the six utilities were opposed to this idea, with one saying it may have some appeal. But, that utility also pointed out there would be high CIS reprogramming costs (as all did), and it is not clear that this would lead to the desired customer behavioral change. As with idea number three, it would also lead to higher balances on subsequent billings which could lead to more disconnections. Some said the hurdle to reconnection after the second disconnection would be very high, leading many to never reconnect service in their name, resulting in increased write-offs. All said it would be confusing for customers to have different requirements for the first disconnection vs subsequent disconnections - such requirements are best when they are simple and easy to understand. Finally, this idea would require a rule making to establish the requirements. Most felt the cost of implementing this idea exceeds the benefits.

CUB and CAPO were both asked to comment on these four ideas:

- CAPO offered that a review of Oregon's rules show there is already a good selection of reconnection options available to customers, and they have not heard anything on this issue from their local agency coordinators. They asked how many customers have complained about reconnection being an issue in Oregon; a survey of PUC complaints shows that only three customers have filed a complaint about the reconnect hurdle being too high during 2014.
- CUB felt that allowing auto-pay as an alternative may be an option for some customers, but is hesitant to make this a requirement. Also, some customers do not have bank accounts. They were strongly in favor of requiring deposits be held ten days if a general moratorium on disconnects cannot be achieved. CUB also feels the low hurdle reconnect options are preferable to Oregon's current requirements, but they are not in favor of the hybrid approach of setting a higher hurdle for the second disconnection.

Of the four ideas, staff felt idea number two, the requirement for utilities to hold deposits for a minimum of ten days after an involuntary disconnection, deserved a more in-depth review, staff wanted to understand if there were either positive or negative impacts on the utilities due to this requirement.

PUC utility staff were asked to review the impacts of this proposal on the utilities and consumers. While some of the utilities pointed to potentially high CIS programming costs to implement, PUC staff does not believe the proposal causes any negative impacts on the utilities, and disagrees with the utilities contention that there would be high CIS reprogramming costs. At the same time, the proposal may provide a significant benefit to some of the most at-risk customers.

Customers who have a delinquent balance which is moderately higher than the deposit held by the utility will greatly benefit by being allowed an additional five to seven days to raise funds to pay their bill before the deposit is applied to the balance. This is illustrated as follows:

Scenario 1

Account Bal = \$500

Deposit held = \$130

Reconnect Fee = \$ 25

Before Deposit Applied: \$275 minimum required - if the customer is disconnected for \$500, and seeks reconnection before the deposit is applied to the account, the customer can be reconnected for as little as \$275 (one-half the delinquent balance plus \$25 reconnect fee).

After Deposit Applied: \$340 minimum required - if the customer seeks reconnection after the deposit has been applied, the lowest amount to be paid would be \$340 (\$500 minus deposit of \$130 = \$370 / 50 percent = \$185 + \$130 new deposit + \$25 reconnect fee).

Scenario 2

Account Bal = \$1200
Deposit held = \$ 400
Reconnect Fee= \$ 25

Before Deposit Applied: \$625 minimum required – if the customer is disconnected for \$500, and seeks reconnection before the deposit is applied to the account, the customer can be reconnected for as little as \$625 (one-half the delinquent balance plus \$25 reconnect fee).

After Deposit Applied: \$825 minimum required - if the customer seeks reconnection after the deposit has been applied, the lowest amount to be paid would be \$958 (\$1200 minus deposit of \$400 = \$800 / 50 percent = \$400 + \$400 new deposit + \$25 reconnect fee).

When there is a moderate gap between the delinquent amount owing on an account and the amount of deposit held by the utility, it is clear that having service reconnected before the deposit has been applied to the account balance results in a lower hurdle for the customer to clear when seeking reconnection. This is less pronounced when the delinquent balance and the size of the held deposit are similar. Presently, there is no standard for how long a utility must hold a deposit before it is applied to the account. As cited above, most utilities hold the deposit five days before applying it, one holds it three days and one holds it anywhere from zero days to 30 days. Of course this means similarly situated customers are being treated differently depending on their utility.

Staff does not believe requiring utilities to hold deposits a minimum of ten days before application to the delinquent balance will impose a large burden on them. However, this requirement will be a great benefit to those customers who have a current deposit with the utility and who are seeking reconnection – it provides some extra time for the customer to come up with the funds needed to have service restored without having to worry about coming up with even more money to pay a new deposit. Fewer deposits being applied to delinquent balances also helps LIHEAP and OEAP funds to be spread to more needy families. This is because fewer LIHEAP/OEAP funds would be applied to deposits, thus leaving more money to actually pay energy bills.

RECOMMENDATION:

Staff recommends the following action:

After a disconnection for non-payment, the utility must delay applying any held deposit to the unpaid balance for at least ten working days. At the least, this will establish a minimum holding period standardized across utilities.

Question #5 – What states offer Lifeline rates to customers?

This question simply seeks to understand what other states do with regard to low-income energy rates, sometimes known as Lifeline Rates. Staff surveyed all states about what they require with regard to low-income rates. We received feedback and data from 44 states. All states provide low-income energy assistance through the Federal LIHEAP program and many states provide additional low-income support through various state or customer funded mechanisms (like Oregon Energy Assistance Program), but very few actually provide specific low-income rates. Staff identified only six states which offer traditional low-income rates, they are:

- New Hampshire: Low-income discounts offered by electric utilities range from eight percent of bill to 77 percent depending on income as a percentage of the federal poverty level. Low income gas customers receive 60 percent discount on the non-gas portion of the bill. Funded by a public purpose charge on energy bills.
- Washington: Pacific Power is the only utility in the state which offers a tariffed low-income rate. The discount ranges from 27 to 65 percent for the second rate block, depending on income as a percentage of the federal poverty level. This is limited to first 4,720 customers who sign up, and only during the winter. Other utilities offer grants to low-income customers. Funding for this tariff is collected from all customers via a tariffed surcharge on all bills.
- Montana: Utilities offer discounts ranging from 16 to 30 percent depending on income as a percentage of federal poverty level. All discounts are available only during the winter. Discounts are funded by public purpose charges on all utility bills, and are only available to LIHEAP recipients.
- Vermont: The state's largest utility is required to offer a 25 percent discount to households at or below 185 percent of federal poverty level. Discount is funded by a \$1.50 monthly bill fee levied on all residential customers, and a volumetric charge for businesses.
- West Virginia: Qualified low-income customers receive 20 percent discount off of total utility bill during winter months. Costs to fund this discount are socialized across all other customer classes.
- California: Utilities (including Pacific Power) offer 20 to 35 percent bill discounts, depending on service type and company. Discounts are funded by surcharges on the bills of all other customers.

Thirty-five states from which data was collected offer either a minimal discount off of the base charge, or nothing. Oregon falls within this group.

PUC staff does not favor creation of tariffed low income rates. Funding for low income rates would necessarily come from all other customers of the utilities, either through a specified surcharge on all customer bills, or by being embedded in the rates all customers pay. Customers already pay a public purpose surcharge on their bills to fund energy efficiency efforts and a low-income assistance fee to fund OEAP. While it might be possible to redirect the OEAP funds to low-income rates, the \$20 million currently collected on an annual basis (drops to \$15 million in winter 2015/16) is likely just a drop in the bucket of what a low-income tariff would require. Another drawback to a low income tariff is that the available funds would be spread very widely, and perhaps not provide sufficient help that is needed to avoid disconnection or achieve reconnection. Redirection of OEAP would also require legislative action.

An alternative to low-income rates is a program known as a Percentage of Income Program or PIP. Staff was able to identify three states that have significant PIP programs: Pennsylvania; Ohio; and Colorado.

PERCENTAGE OF INCOME PROGRAMS (PIP)

PIP programs are utilized by some states as a method to avoid disconnection of elderly, low income, and disabled customers during the heating season. While the PIP can be utilized as a moratorium on winter disconnections for those consumers most at risk (such as Washington), they are usually applied to eligible customers on a year-round basis. A PIP is designed to help eligible low-income households afford their energy bills and not be under continual threat of service disconnection. A PIP requires the participant to pay a set percentage of gross household income to the utility (typically six percent to 12 percent), regardless of the size of the energy bill. The customer is not held responsible for utility bills that are in excess of their set PIP monthly payment, rather the utility defers the uncollected amounts and seeks reimbursement from a fund that is established by the state and funded by mandatory customer contributions collected through a public purpose charge or low-income assistance assessment on utility bills. Depending on the state, the funds collected are either managed by the utilities that collect them or by a state agency to which the collections are sent by the utility. Verification of customer eligibility is usually performed by a state's Department of Human Services or a Community Action Agency.

CUB and CAPO have both expressed an interest in exploring conversion of Oregon's low income heating assistance programs into a PIP program. Restructuring of Oregon's low income heating assistance programs would be a large multi-agency undertaking, but could result in the limited heating assistance funds being spread more equitably among those in need.

RECOMMENDATION:

Explore the establishment of a PIP program – a PIP program limits a qualifying low-income household to spending a set percentage of their gross household income toward their energy bills. Bills for energy use in excess of the household limitation would be deferred by the utility and at the end of the heating season the utility would apply for reimbursement using the OEAP funds (which would need to be reformed).

A PIP program could truly help low-income customers by helping them to afford the utility services they need and remove the constant fear of disconnection. Creation of a PIP program would require OEAP reform and a multi-agency endeavor including state agencies such as the PUC and Oregon Housing & Community Services (OHCS), and stakeholders such as the utilities, CAPO, and CUB. A major challenge to this approach is identification of sufficiency funding. One weakness to utilizing OEAP as the PIP funding source is that the \$15 million to be collected annually after the 2014/15 winter will likely not be nearly enough to meet the need, so funding for the OEAP would need to be increased and redirected, requiring legislative action.

Report Summary

Oregon's administrative rules and utility practices are generally very consumer friendly as compared to other states. Nonetheless, there are certain actions the Commission can take which address challenges faced by low-income customers and in staff's opinion should not burden the utilities significantly:

1. **Disconnect Reporting:** The Commission does not currently require utilities to report the number of service disconnections performed annually. Staff recommends requiring utilities to report involuntary disconnections on a semi-annual basis. It is in the public interest for the Commission to know how many disconnections are occurring so it can monitor trends. This can be accomplished through a rule making.
2. **Severe Weather Moratorium:** While many utilities voluntarily suspend disconnections during severe weather or during the holidays, participation is inconsistent. Staff recommends initiating a rule making that will enact a mandatory severe weather moratorium on energy utilities. The details of how and when to implement the moratorium are to be negotiated with all stakeholders, but at a minimum should include prohibition on residential disconnections when temperatures are below freezing on a sustained basis. This can be accomplished through a rule making.
3. **Hold Deposits:** While Oregon's hurdle to reconnection of service already appears reasonable, especially as compared to most states, staff believes requiring utilities to hold deposits for a minimum of ten days prior to applying it to a delinquent account balance will greatly benefit many of the most vulnerable customers of utilities by lessening the burden of finding additional funds required to have service restored. The benefit is limited to customers who have a deposit held by a utility. Staff believes this requirement will have minimal impact on the utilities, but greatly benefit a small cross section of vulnerable customers.
4. **PIP:** Staff recommends exploration of the reformation of OEAP into a PIP program. This effort requires cooperation of state agencies like PUC and OHCS, non-governmental agencies such as CUB and CAPO, PGE and Pacific Power, and most likely requires legislative action.