


Deposits, Late Fees, and Other Affordability Issues

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Bill Marcus

- ▶ I am NOT Roger Colton.
 - ▶ He has prepared a series of model regulations on deposits, shutoffs, and late charges, which I can make available.
 - ▶ I will channel his spirit to the extent possible.
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JBS Energy, Inc.

- ▶ Consulting firm serving consumers, environmentalists, government agencies, and renewable energy producers since 1984
- ▶ Economic analysis of utility operations, plans, and rate design
- ▶ Manufacture and sell Aquacalc (handheld computer for surface water measurement)
- ▶ If you want Mr. Colton's materials or my powerpoints on this topic or customer charges e-mail me at bill@jbsenergy.com.

Topics

- ▶ Deposits
 - ▶ Disconnections
 - ▶ Late Charges
 - ▶ Other Credit-Related Charges
 - ▶ All of these issues affect Universal Service and disproportionately harm low-income customers.
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Deposits

- ▶ REVIEW COLTON'S DRAFT REGULATIONS
- ▶ Limit scope of deposits
 - Not all new customers
 - Tie to disconnections and past arrearages
- ▶ Limit size of deposits
- ▶ Limit deposits for very low income customers
- ▶ Give customers time to pay deposits
- ▶ Transfer deposits between premises
- ▶ Limit time deposits are held
- ▶ Pay significant interest on deposits

Disconnections for Non-Payment

- ▶ REVIEW COLTON'S DRAFT REGULATIONS
- ▶ Need clear process for disconnection.
- ▶ Disconnection as last resort.
- ▶ As many chances for customers to pay or make payment arrangements as possible.
- ▶ Make sure customers aren't disconnected for others' bills or unregulated services.
- ▶ Medical exceptions (separate Colton draft regulation)

Late Charges

- ▶ Far beyond compensatory to the utility in many states
 - Point raised in Colton model regulations
- ▶ Colton suggests they should apply only to large balances – many states do the opposite.
 - Arkansas 5% under \$30, 2% over \$30.
 - California actually does this largely right.
- ▶ Problems with payment processing – Colton model regulation calls for grace days or postmark
 - Maryland and California both had problems with this issue in the past.

Other Charges

- ▶ Field Collection
 - ▶ Reconnection
 - ▶ Dishonored Checks
 - ▶ Service Establishment in next presentation
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Field Collection Charges

- ▶ Charge when utility wants to disconnect, but a customer can pay at the last minute.
- ▶ Extremely bad public policy.
 - Don't load up the customer with more fees if they can finally pay the bill.
 - May create more disconnections and bad debt.
- ▶ Charging for telephone calls to customer is even worse.
 - No good records and no incentives for field visit.

Reconnection Charges

- ▶ Public interest in retaining universal service, means that charges, while possibly necessary, should be minimized and not loaded with other fees.


Returned Check Charges

- ▶ Many utilities set them as penalties, rather than to recover costs.
- ▶ Real cost is often \$10 or less – not \$20 or \$30.
- ▶ A fraudster won't usually write a bad check for a utility bill.
- ▶ Essentially hits people in financial difficulty.
- ▶ Compounds problems with bad bank practices on deposits, order of checks to be dishonored, etc.

Issues to Watch Out For

- ▶ Some states allow these kind of charges to be raised between rate cases with little or no review.
- ▶ Opposition to increases in rate cases makes it look like consumer advocates are proposing rate increases.
- ▶ Late fees that are too high pay some of the costs of collection charges, so other charges don't need to reflect costs.
- ▶ Get the green eyeshades out! Utilities often get sloppy and overestimate costs.
- ▶ Poor service quality may exacerbate problems.

Links to Other Parts of Rate Case

- ▶ Deposits must be considered in capital structure or as rate base reduction.
 - ▶ Late payment charge should be in the revenue conversion factor along with uncollectibles, reducing future rate increases.
 - ▶ The other charges are related to customer activity – recover costs that would be O&M costs charged by numbers of customers.
 - ▶ Many Commissions allocate these costs by total revenue, thereby making residential customers pay twice.
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Think about Smart Meters

- ▶ Reduce costs for disconnection and reconnection.

BUT

- ▶ **MAKES IT EASIER TO DISCONNECT CUSTOMERS REMOTELY**
- ▶ Harder to accept last minute payments.
- ▶ Makes it possible to limit service rather than cut it off entirely.
- ▶ Prepayment metering is a huge issue.