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Two Indiana Universal Service Programs Result in Significant Improvements in Low-Income Payment Patterns

Universal service programs operated by two different Indiana natural gas utilities generated significant improvements in low-income payment patterns in 2006, despite historically high natural gas prices. This was the finding of an evaluation submitted by Fisher, Sheehan & Colton (FSC) to the Indiana Utility Regulatory Commission (IURC) on behalf of Citizens Gas and Coke Utility (Citizens or CGCU) and Vectren Energy.

In performing this analysis for the Universal Service Programs of Vectren and Citizens, FSC used the Universal Service Program data submissions prepared by Vectren and Citizens each month.

Vectren's Universal Service Program

The Vectren Universal Service Program was successful in generating improved payment patterns for low-income customers participating in the program. There is a series of data that project a consistent and compelling story of program success. That story arises from information prepared by the Company on a monthly basis for the months of January 2005 through August 2006. The August 2006 USP Report presents the most recent data available.

The first impact that FSC found was that low-income bill payments, particularly during the non-winter months, have noticeably increased for program participants. Vectren reports data for three levels of Universal Service Program (USP) participants. Each level refers to customers with differing incomes measured as a percentage of the Federal Poverty Level. Level 3 includes the lowest income participants (0 - 50% FPL). Level 1 includes the highest income participants (100% - 150% FPL). Under the Vectren USP, higher discounts are provided to lower-income customers.

The Vectren data allows a comparison to be made of the monthly bills and payments for Vectren's USP participants by month for the years 2005 and 2006 (through August). The data provides several indicators that the Vectren program is succeeding in providing affordable bills.

- First, the ratio of average monthly payments to average monthly bills is consistently over 1.0 (a percentage of 100%). If a monthly payment exactly equals the monthly bill, in other words, the percentage is 100%. If average payments are less than average bills, the percentage is less than 100%, while if average payments are more than average bills, the percentage is greater than 100%. The data from both 2005 and 2006 show that Vectren's USP participants are, on average, retiring their arrears during the months after the winter heating season. Average payments are substantially greater than average bills during this five month post-winter period. While the average May 2005 payment for a USP3 participant was $146, for example, the average May 2005 bill for a USP3 participant was $89, a ratio of 164%. While the average June 2006 payment for a USP2 participant was $99, the average June 2006 bill for a USP2 participant was $72.

- The extent to which average monthly payments exceeded average monthly bills more often than not increased in 2006 as compared to 2005. In nine of the fifteen cells (five months x 3 USP levels each month), the 2006 coverage ratio was higher than the 2005 coverage ratio. Not surprisingly, with income less than 50% of the Federal Poverty Level, the USP3 participants appear to have a less robust payment performance than do the USP1 and USP2 participants in this regard.

- One reason why the coverage ratios increased from 2005 to 2006 was that payments increased more than bills did for Vectren's USP participants across-the-board. In only four cells (June USP1, June USP2, July USP3, August USP3) did the increase in the monthly bill from 2005 to 2006 exceed the increase in the monthly payment. In the months immediately subsequent to the winter heating season (April and May), the 2006 monthly bill payments exceeded the 2005 monthly bill payments by between roughly $15 and $25.

There is particular reason to view these results in a favorable light. The ability of low-income Vectren customers to improve their payment performance from 2005 to 2006 is particularly impressive. Indiana did not escape the natural gas price increases facing the rest of the country as well. One report for the Coalition to Keep Indiana Warm observed:

> One of the primary factors affecting home energy affordability in Indiana is the price of fuel. Natural gas prices continued to show substantial price increases during the 2005/2006 winter heating season. The table below shows natural gas bills per 1000 cubic feet (MCF) of gas for the period December 2000 through April 2006. While the January 2006 natural gas price of $15.42/MCF was 55% higher than the January 2005 natural gas price of $9.92/MCF, it was 73% higher than the January 2003 price of $8.14/MCF and 85% higher than the January 2001 price of $6.94/MCF. The February 2006 price of $12.81/MCF was 21% higher than the February 2005 price of $10.59/MCF, nearly 40% higher than the February 2003 price of $8.65/MCF and nearly 60% higher than the February 2002 price of $6.62/MCF.

Despite these natural gas price increases, low-income Vectren customers participating in the Company's USP not only absorbed the gas price increases (on average), but were able to increase their post-winter monthly payments by more than the extent to which their monthly bills increased. Unfortunately, the same results did not arise during the winter months of January and February (due to a 2005 computer problem at

Vectren, March 2005 data is not available). While average payments still exceeded average bills during these winter months, the payment-to-bill ratio declined in 2006 compared to 2005.

Even in this decline, however, there is evidence that the increased affordability of bills is helpful. In January 2006, for example, the average USP1 bill increased by $51 while the average USP1 payment increased by only $26. The average USP3 bill increased by $59 while the average USP3 payment increased by only $12.

However, the significant divergence between bills and payments lasted only one month (January). By February, the average USP1 bill had increased by $22 from 2005 to 2006, while the average USP1 payment had also increased by $22. In February, the average USP3 bill had increased by $24, while the average USP3 payment had increased by $18.

As is evident, FSC found, Vectren's USP program took a year with historically high natural gas prices and placed its low-income customers in a position where they might fall behind temporarily in the highest usage/highest bill month, but be able to respond in subsequent months with increased payments that were succeeding in helping to retire those bills.

There is information which allows conclusions to be drawn about the retirement of arrears as well. The Vectren data includes information about the average arrears of USP accounts. Not surprisingly, given the dramatic fly-up in natural gas prices during the 2006 winter heating season, arrears for USP customers increased as well. While January 2005 arrears for USP1 customers were $94, January 2006 arrears for USP1 customers were $126. While February 2005 arrears for USP2 customers were $105, February 2006 arrears for USP2 customers were $138, an increase of $33.

The impact of the USP program, however, is seen by the fact that average arrears during these high cost winter heating months increased more slowly than did the winter bills. While the January USP1 bill increased by $51, the January arrears increased by only $32. While the January USP2 bills increased by $46, the January USP2 arrears increased by only $27.

Moreover, USP customers were placed in the position of being able to absorb the rate shock of the 2006 winter heating season without being substantively worse off from an arrears perspective over time. For USP1 customers, while July and August 2005 arrears were $49 and $48 respectively, July and August 2006 arrears were $48 and $48 respectively. For USP2 customers, while July and August 2005 arrears were $36 and $32 respectively, July and August 2006 arrears were $41 and $40 respectively. Only USP3 customers still had double-digit increases in their arrears by July and August (an increase of $17 and $25 respectively in 2006 compared to 2005).

The import of these numbers is increased when one considers that the increases in bills over time is additive while the increase in arrears is not. USP1 customers, in other words, experienced an increased cumulative average bill for the months of January through August 2006 of $111 over 2005, but had a $0 increase in arrears by the end of that period. USP3 customers experienced an increased cumulative average bill for the months of January through August 2006 of $116, but had only a $25 increase in arrears. USP2 customers experienced an increased cumulative average bill of $88, but had only an $8 increase in arrears.

One metric allows the reader to consider the impact of the Vectren USP on its low-income customers (looking at accounts rather than at dollars). Vectren data includes information on the percentage of Vectren USP customers that were in arrears on their monthly bills for 2005 and 2006. Not surprisingly, given the data discussed above (and given the fly-up in natural gas prices), more USP customers were in arrears during the 2006 winter heating months than during the 2005 winter heating months. While 34% of USP2 customers were in arrears in February 2005, 39% were in arrears in February 2006. While 57% of USP3 customers were in arrears in April 2005, 63% were in arrears in April 2006.

There is a marked difference between the winter heating months and non-winter months, however. While in each month of January through April, more USP customers were in arrears in 2006 than in 2005, the exact opposite is true in the non-winter months. In all months May through August, the percentage of USP customers in arrears was either the same in 2006 as in 2005, or was lower. Indeed, in eight of the 12 cells (three USP levels x four months), the percentage of USP accounts in arrears in 2006 was lower than in 2005. While 45% of USP1 accounts were in arrears in August 2005, only 40% were in arrears in August 2006. While 53% of USP3 accounts were in arrears in August 2005, only 51% were in arrears in August 2006.

To summarize, FSC examined three metrics for the Vectren USP program. These metrics involve looking at payments made by USP customers, looking at the level of arrears maintained by USP customers, and looking at the number of USP customers in arrears. The data presents a consistent story. While the payment patterns of USP customers were not perfect -- and should not be expected to be so in light of historically high natural gas prices in the winter of 2006-- the payment patterns of USP customers showed improvements in 2006 as compared to 2005.

Payments improved, the level of arrears decreased, and the number of accounts in arrears decreased. These facets of improvement are made even more significant in light of the historically high natural gas prices facing Indiana residential customers. The Vectren USP customers not only absorbed the spike in 2006 natural gas prices, but actually improved their overall payment patterns despite those price spikes.

Citizens Gas and Coke Utility Universal Service Program

The Universal Service Program operated by Citizens was successful in generating improved payment patterns for low-income customers participating in the program. While Citizens has not historically reported data on customer payments for its USP customers --this data will be reported in the future under the proposed uniform data collection protocol-- there is information about the extent of arrears incurred by the Citizens low-income population. Unlike Vectren, Citizens has not historically reported data broken down by the Poverty Level of its USP participants. Rather, Citizens reported data for its USP population as a whole.

Citizens data shows the change in average arrears for all USP customers between 2005 and 2006. As with other companies, arrears for Citizens' low-income customers increased during the cold weather months of 2006. The increase in arrears reached $36 in January 2006 compared to January 2005. The increase reached $46 in March 2006 as compared to March 2005.

The Universal Service Program, however, helped Citizens low-income program participants keep their arrears sufficiently under control that they were able to retire those arrears in the non-winter months. By May, the increase in arrears was down to $17 in 2006 compared to 2005. The average arrears appearing on August 2006 bills was only $4 more than the average arrears appearing on August 2005 bills.

The low-income customers participating in the Citizens USP, in other words, were able to absorb historically high natural gas price increases with an average increase in arrears of only $4 by the time the August bill was issued. While the average Citizens bill to USP participants for the months of January 2006 through August 2006 was $159 higher than in 2005, the arrears at the end of those eight months increased by only $4.

The Citizens program had a particularly positive impact on USP participants that historically could not pay their bills in a full and timely fashion. The data provides information on the average arrears of customers with arrears. Reducing the average arrears has the impact not only of reducing working capital expense, but of reducing collection expenses and the risk of bad debt as well. While a Citizens USP participant in arrears had an average arrears of $389 in February 2005, that participant in arrears had an average arrears of only $236 in February 2006. While the average USP participant in arrears had an average arrears of $338 in April 2005, that average arrears was reduced to only $192 in April 2006. In the warm weather months of 2006 (June, July, August), the average arrears of USP accounts in arrears fell below $100.

It is possible to normalize the arrears to take into account the level of bills in assessing the CGCU universal service program. This information uses a "bills behind" statistic. The use of "weighted arrears" as a mechanism to assess payment outcomes is based on a foundation first provided by the Bureau of Consumer Services (BCS) of the Pennsylvania Public Utilities Commission. That 1983 BCS analysis,[1] introduced the notion that any assessment of arrears must control for the impact of monthly bills. BCS explained that its "bills behind" statistic "permits comparisons to be drawn between companies by eliminating the effects of different customer bills on arrearages." Without such a measure, "the interpretation of average arrearages, either over time or in comparison between companies, presents some difficulties."

The low-income customers participating in the Citizens' USP program experienced a decreasing "bills behind" in 2006. While a Citizens USP customer in arrears in August 2005 was 4.3 bills behind on average, the Citizens USP customer in arrears in August 2006 was only 2.7 bills behind on average. That August 2005 USP customer in arrears, in other words, was paid-up through early April, while the August 2006 USP customer in arrears was paid-up nearly until June. The reduction in the dollar amount of arrears, in other words, did not result from a reduction in bills, but rather because these customers were coming closer to being current on their bills.

To summarize for Citizens, FSC examined three metrics for the Citizens USP program. The USP participant population for Citizens is being given the opportunity to control their ability to make full and timely payments. Even in a time of historically high natural gas prices, the arrears of USP customers over all USP participants remained virtually constant.

While there was an expected up-tick in arrears during the winter months of historically high prices, by August 2006, the average increase in arrears was only $4. Moreover, the average arrears of customers in arrears dramatically decreased for Citizens' USP participants. By the time of the warm weather months in 2006, the USP arrears for accounts in arrears, as measured by a "bills behind" statistic, had improved close to two months (ranging from 1.8 bills-behind in June to 1.6 bills-behind in August). While the payment patterns of USP participants for Citizens are certainly not perfect, they are improving.

Summary

For more information on how to review the impact of utility programs on low-income payment patterns, readers may contact FSC directly at:

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Fisher, Sheehan and Colton, Public Finance and General Economics (FSC) provides economic, financial and regulatory consulting. The areas in which *FSC* has worked include energy law and economics, fair housing, affordable housing development, local planning and zoning, energy efficiency planning, community economic development, poverty and telecommunications policy, regulatory economics, and public welfare policy.

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