

Memo

To: Jami Porter, Community Action New Mexico
From: Roger Colton
Date: 03/17/07
Re: PNM winter arrears before and after New Mexico winter moratorium

Public Service Company of New Mexico (PNM) has asserted to the New Mexico legislature that the winter shutoff moratorium adopted beginning with the 2005/2006 winter heating season has adversely affected its collection of accounts in the moratorium months. The moratorium months basically represent November through March, with the winter moratorium beginning on November 15th of each winter heating season and ending on March 15th of the heating season.

Care must be taken in evaluating the receivables data from the 2005/2006 winter heating season. The 2005/2006 winter imposed historically high natural gas prices on consumers. Table 1 below presents average statewide price data for New Mexico for the winter months of January through March from 2003 through 2006.

	January	February	March
2003	\$6.69	\$7.33	\$8.45
2004	\$7.60	\$8.24	\$8.60
2005	\$10.02	\$9.21	\$8.53
2006	\$12.87	\$12.67	\$11.97
Increase 2004 – 2006 (%)	69%	54%	39%
Increase 2005 – 2006 (%)	28%	38%	40%

As Table 1 shows, January natural gas prices in New Mexico increased, on average, nearly 70% between 2004 and 2006. The price increase from January 2005 to January 2006 was nearly 30%. Similarly significant price increases occurred in the other two winter months presented (February and March). February natural gas prices were 40% higher in both February and March 2006 as compared to February and March 2005.

Accordingly, in assessing the collection situation of PNM, it would be inappropriate simply to compare the dollar level of arrears in the winter months of 2006 to the dollar level of arrears in the winter months of 2005. If the magnitude of payment troubles had not changed, the dollar level of arrears could be expected to be greater, since bills were higher. In fact, given the substantial fly-up in gas prices, it would be expected that customers—particularly low-income customers—would experience a greater level of payment-troubles. That is one reason why the New Mexico legislature appropriated funding for low-income energy assistance for the 2005/2006 winter heating season. That is one reason why Congress increased its appropriation for the federal Low-Income Home Energy Assistance Program (LIHEAP). Despite this influx of public money, payment troubles could be expected to increase in absolute dollar terms. LIHEAP serves a small fraction of the eligible population in New Mexico. Moreover, skyrocketing natural gas prices in 2005/2006 adversely affected moderate income households that are not eligible for LIHEAP fuel assistance.

To compare the collections in the winter months in years before adoption of the winter moratorium to the winter months after adoption of the winter moratorium, it is necessary to normalize for prices. One way to achieve that is to examine PNM arrears as a percent of total collectibles. This allows the arrears to be placed in the context of total billings. If total billings and total arrears increased at the same rate, in other words, the percentage of total collectibles that constitute the company's arrears will remain constant. If arrears increase faster than overall billings, the percentage of total collectibles that constitute arrears will increase.

The data for Public Service Company of New Mexico is presented below for the years 2003 through 2006. Data for each heating season is presented. The first heating season, in other words, begins in October 2002 and runs through March 2003. The last heating season presented begins in October 2005 and runs through March 2006. The first heating season in which the winter moratorium was in effect was the 2005/2006 winter heating season. Table 2 presents the PNM data.

Table 2 does not support the conclusion that New Mexico's winter moratorium has adversely affected PNM's ability to collect its winter bills. Several observations flow from Table 2.

- There is a modest uptick in arrears associated with the increase in natural gas prices. The uptick first occurred in the 2003/2004 winter heating season, however, not with the advent of the winter moratorium in 2005/2006.
- The 60-day arrears throughout the 2005/2006 winter season (the first under the moratorium) were nearly identical to the 60-day arrears throughout the 2004/2005 winter heating season (the last before the moratorium). The 90-day arrears showed no change at all between the 2004/2005 and 2005/2006 winter heating seasons.
- The monthly pattern of 60-day arrears as a percentage of total receivables did not change between the 2004/2005 and the 2005/2006 winter heating seasons. There certainly was no increase in the percentage of moderate-term arrears (60-day arrears) as the winter progressed in 2005/2006. If customers stopped paying because of the moratorium, one would expect to see an increase in the percentage of moderate and

long-term arrears. In contrast to that, the monthly pattern of long-term arrears (90-day arrears) stayed identical in 2005/2006 when compared to 2004/2005.

- If customers stopped making winter payments because of the protections of the winter moratorium, one would expect to see a growing percentage of longer-term arrears as the winter progressed. The January 90-day arrears would, in other words, be 2%, with the February arrears being 3%, and the March arrears being 4%. Each new month's arrears would add to the prior month's, with the total increasing. As you can see, this does not happen.
- Finally, it is evident that customers are paying off much of their 60-day arrears during that second month. Consider the 2% arrears in November. At the end of November, those arrears MUST leave the 60-day aging bucket. Either they will be paid or they will move to the 90-day bucket. Since the January/February/March 90-day arrears percentages are *lower* than the January/February/March 60-day arrears percentages, you can tell that the greatest bulk of those 60-day arrears are being paid. (Remember, the 60-day arrears bucket only holds arrears that are age 61 – 90 days old. When Day 91 arrives, those arrears must leave the 60-day bucket. In contrast, the 90-day bucket holds arrears aged 91 days or older. Thus, when an arrears moves from one month to the next (from age 90-days to age 120-days), it stays in that same bucket. If customers were thus not paying those older arrears, the 90-day bucket would get bigger and bigger. You can see that does not happen in two ways. First, the 90-day arrears bucket is smaller than the 60-day bucket. The only way that can happen is if the 60-day arrears are paid. Second, the 90-day arrears bucket is not growing bigger. Again, the only way that can happen is if the 60-day arrears are being paid. Most importantly from the perspective of the moratorium, however, is that there is NO CHANGE in payment patterns from the winter heating season not operating under the moratorium to the winter heating season operating under the moratorium.

In sum, I conclude that PNM's claim that the winter moratorium has adversely affected its winter collections is not supported by the data. It is instead political rhetoric.

**Table 2. Winter Arrears as a Percent of Winter Accounts Receivable by Aging
Public Service Company of New Mexico
(2002/2003 – 2005/2006)**

Arrears between 61 and 90 days old				
	2002-2003	2003-2004	2004-2005	2005-2006
October	3%	2%	3%	4%
November	2%	2%	2%	2%
December	2%	1%	1%	1%
January	2%	1%	1%	2%
February	1%	1%	2%	3%
March	2%	2%	3%	3%
Arrears 91 days old or older				
	2002-2003	2003-2004	2004-2005	2005-2006
October	4%	2%	4%	4%
November	3%	3%	2%	2%
December	3%	2%	1%	1%
January	2%	1%	1%	1%
February	2%	1%	1%	1%
March	2%	1%	2%	2%