THE IMPACT OF INDIANA'S LOW-INCOME UTILITY AFFORDABILITY PROGRAMS ON NONPAYMENT DISCONNECTIONS

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This memo examines the impacts that Indiana's low-income utility rate affordability programs have generated on the disconnection of service for nonpayment. The observations below are based on the "aggregated" data provided by Vectren Energy (Vectren) and by Northern Indiana Public Service Company (NIPSCO) throughout the implementation of the low-income programs.[1] The aggregated data involves those data elements agreed to be collected and reported by the three utilities after extensive consultation with all other parties before, during and after the 2006 Indiana Utility Regulatory Commission (IURC) proceeding involving the three Indiana low-income programs.

VECTREN ENERGY DELIVERY

1. The post-winter shutoff rate for low-income and non-low-income customers is virtually the same over the various customer populations. In April, the rate of shutoffs for all customers differs by only one four tenths of one percent using the highest rate for a low-income program participant for comparison purposes (0.009 vs. 0.013). A similar lack of difference exists in May, where 0.13 accounts are disconnected per each residential customer compared to 0.13 for USF1, 0.009 for USF2, and 0.018 for USF3 customers. USF3 customers are the lowest income customers.

2. The shutoff situation is even better when one looks at the ratio of shutoffs to accounts in arrears rather than the ratio of shutoffs to all accounts. In both April and May, the ratio for program participants is *lower* than the ratio for all customers. Indeed, in May, the ratio of program participant shutoffs to accounts in arrears is nearly half that of all customers. While

[1] Citizens Gas is not included in this analysis. Citizens provided the aggregated in exactly the form requested. With the agreement of the consultant, rather than aggregating the data at the Company level, the other two utilities provided data in a more detailed format with the agreement that the evaluator would combine the detailed information.

nearly 0.3 accounts are disconnected for each residential account in arrears, the ratio for USF1 is only 0.15; the ratio for USF3 is only 0.15. The ratio for USF2 is even lower.

3. A similar picture emerges if one looks not at all accounts in arrears, but rather at accounts that may be "old enough" to be more likely subject to the disconnection process. The data reveals that all three groups of program participants have a lower rate at which their accounts 60 or more days in arrears are disconnected, when compared to the total residential population. The April total population rate is 0.130 while the ***highest*** program rate (USF1) is only 0.103. The May total population is 0.151 while the highest program ratio (USF3) is 0.109. Remember, however, that these are ratios, not percentages. These figures do not show that 10.9% of all USF3 accounts 60+ days in arrears are disconnected. They show that the ratio of ***all*** disconnections for nonpayments (DNPs) to total accounts 60+ days in arrears is 0.109.

4. Note that these differences occur because of two dynamics going on at the same time. There has never been an assertion that the total number of disconnects will decrease in some absolute sense. Instead, the impact of the program is to allow the utilities to redirect their collection activities away from low-income accounts where DNPs have little useful impact and toward non-low-income accounts that are more likely to have an ability to pay. It is possible to see both of these dynamics at work by comparing the pre-winter performance with the post-winter performance.[2]

   In November 2006, it is evident that the households who would eventually become program participants were performing less well than the total population. This is true for all three metrics (DNPs to total accounts; DNPs to accounts in arrears; DNPs to accounts 60+ days in arrears). It is not until after the Vectren program delivers its bill payment assistance during the winter months that the DNP performance begins to substantially improve. The trend of program participant DNPs going down is evident; the corresponding trend of non-program participant DNPs going up is also evidence.

5. The evaluation of the Indiana programs noted in a variety of places that the low-income programs were of particular help to accounts with the largest arrears. This outcome is evident in the aggregated data as well. The percentage of total accounts in arrears that, in fact, are in arrears 90+ days is reasonably comparable in November between the total population and the program participant population, with a ratio of 0.07 for all customers and ratios ranging from 0.08 to 0.09 for the USF customers. While the ratio stays relatively constant for all customers throughout the winter months (dipping to 0.05 in April and increasing to 0.09 in March and May), the same pattern does not exist for the program participants. Rather than seeing the proportion of accounts with older, and thus larger, arrears increase over the winter, the proportion of program participant accounts that are 90+ days in arrears are a fraction of what they were in the pre-winter months (0.01 in April and 0.02 in May compared to 0.08 in November).

[2] Comparing winter shutoff performance provides no useful information since shutoffs are constrained by the winter shutoff moratorium during those months.

NORTHERN INDIANA PUBLIC SERVICE COMPANY (NIPSCO)

1. Participants in NIPSCO's Winter Warmth program must be evaluated somewhat differently than the participants in the Universal Service Program (USP) of either Vectren or Citizens Gas and Coke Utility (CGCU or Citizens). As is noted throughout the impact evaluation, NIPSCO's Winter Warmth program is not directed toward low-income customers generally. Rather, Winter Warmth is directed toward the most payment-troubled population in an effort to improve the performance of those causing the greatest problems.

   The aggregated data documents the favorable performance of Winter Warmth in this effort. The data documents that Winter Warmth customers are among the most payment troubled of NIPSCO's low-income customers. The ratio of December shutoffs for nonpayment (SONP) to total accounts for Winter Warmth participants (0.164) is much higher than for the residential natural gas population as a whole (0.002). The same is true for January (Winter Warmth = 0.125 vs. total residential population=0.005).[3]

   Despite this population of payment-troubled customers, Winter Warmth's rate of service terminations for nonpayment *decreases* substantially once the Company begins to distribute program benefits. The rate of service disconnections decreases from the January rate of 0.125 to a rate of only 0.067 in May.

2. The same result can be seen within the population of accounts having arrears. In December, the ratio of accounts in arrears that were losing service was much greater for the Winter Warmth population (0.188) than for the total residential natural gas population (0.006). The same was true in January, with the Winter Warmth population (0.167) substantially exceeding the total residential natural gas population (0.023). However, while the ratio of nonpayment shutoffs to total accounts in arrears had more than doubled for the total residential natural gas population by April and May (0.052 and 0.050 respectively), the ratio of Winter Warmth nonpayment shutoffs to total accounts in arrears had been reduced to less than one-half the rate before program benefits were distributed.

3. The constant ratios within the 60+ day arrears populations, and the increasing ratio in the 90+ day arrears population do not contradict the conclusion that payment performance substantially improves for Winter Warmth participants. Again, it is important to remember that Winter Warmth is intentionally *targeted* to NIPSCO's most payment-troubled low-income population. Indeed, the data shows that 100% of NIPSCO's Winter Warmth participants were 60 or more days in arrears in October 2006, while 88% of NIPSCO's Winter Warmth participants were 90 or more days behind. This payment-troubled population is the intended target of Winter Warmth benefits.

[3] It is important to remember, that Winter Warmth benefits do not flow in December and January. Winter Warmth dollars begin to flow in February.

As Winter Warmth benefits flow, that proportion of Winter Warmth accounts 60-days or more in arrears was reduced from 100% in October to 24% in March, 21% in April and only 28% in May. The proportion of Winter Warmth accounts that were 90 or more days behind was reduced from 88% in October to only 11% in both April and May.

The Winter Warmth population outperformed the residential population as a whole in this regard. While the proportion of total residential gas customers 60+ days in arrears decreased from October to May (from 0.26 to 0.17), and the proportion of total residential gas customers 90+ days in arrears decreased in that same time period (from 0.16 to 0.07), the extent of the decrease for the total residential population in no way mirrored the extent of the decrease for Winter Warmth.

Moreover, the improved performance of Winter Warmth participants is even more evident when compared to the total low-income population receiving energy assistance. While the ratio Winter Warmth participants in arrears who were either 60 or more days in arrears, or who were 90 or more days in arrears, decreased from October through May, the ratio of energy assistance customers who were 90 or more days in arrears doubled (from 0.07 to 0.15), while the ratio of energy assistance customers who were 60 or more days in arrears increased by 70% (from 0.20 to 0.34) during that same time frame.

From the perspective of nonpayment shutoffs, the substantial reduction in the numbers of accounts 90 or more days in arrears helps to explain the increase in the ratio of SONPs to accounts 90+ days in arrears. As the number of accounts 90+ days in arrears becomes smaller, the *ratio* of SONPs to accounts in that aging bucket will necessarily increase.

COMPARISON TO STATEWIDE DATA

1. The performances of Vectren and NIPSCO as outlined above should be compared to the statewide performance of Indiana utilities. The program participants for both utilities demonstrated a substantially different pattern than did the state as a whole. The October 2006 Indiana "billing and collections" report makes the following observations about the disconnection of low-income accounts by Indiana utilities generally:

   - "The number of service disconnections for nonpayment *peaked* in April and May. . ." (2006 Billing and Collections Report, at 20). (emphasis added).

   - "During the months of April through June 2006, Indiana utilities issued only 10 shutoff notices for each disconnected low-income account. In the months coming out of the winter heating season, the "notice ratio" is noticeably lower for low-income accounts in Indiana than it is for total residential accounts. *A low-income account in Indiana that receives a shutoff notice in the post-winter heating season months, in other words, was more likely to move on to the actual disconnection of service for nonpayment than was a residential account in general*." (Id.) (emphasis added).

If we were to look at Vectren and NIPSCO and postulate what to expect based on the low-income performance statewide, we would not expect to find substantially different results from what, in fact, did occur. Both Vectren and NIPSCO performed far better than what would have been expected based on the annual billing and collections report reporting statewide data.

	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07
DNPS to total bills							
All Customers	0.003	0.001	0.005	0.003	0.008	0.009	0.012
USF 1	0.010	0.002	0.008	0.001	0.002	0.013	0.013
USF 2	0.010	0.001	0.006	0.001	0.001	0.008	0.009
USF 3	0.023	0.002	0.015	0.001	0.002	0.013	0.018
DNPS to total accounts in arrears							
All Customers	0.006	0.009	0.016	0.007	0.024	0.014	0.029
USF 1	0.030	0.014	0.016	0.002	0.003	0.011	0.015
USF 2	0.047	0.014	0.017	0.001	0.003	0.008	0.011
USF 3	0.070	0.012	0.032	0.001	0.002	0.010	0.016
DNPS to total accounts in arrears 60+ days							
All Customers	0.051	0.058	0.113	0.069	0.182	0.130	0.151
USF 1	0.155	0.231	0.209	0.020	0.056	0.103	0.107
USF 2	0.261	0.164	0.220	0.021	0.057	0.091	0.083
USF 3	0.529	0.158	0.349	0.017	0.046	0.100	0.109
DNPS to total accounts in arrears 90+ days							
All Customers	0.084	0.098	0.185	0.116	0.276	0.263	0.316
USF 1	0.347	0.750	0.714	0.114	0.232	0.808	0.837
USF 2	0.556	0.435	0.608	0.084	0.171	0.735	0.625
USF 3	0.931	0.429	1.056	0.063	0.127	0.813	1.064

	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07
30 day arrears of total -- dollars in arrears							
All	0.75	0.70	0.71	0.84	0.77	0.64	0.50
USF1	0.65	0.77	0.68	0.74	0.77	0.53	0.55
USF2	0.60	0.74	0.71	0.78	0.80	0.55	0.55
USF3	0.72	0.77	0.67	0.77	0.79	0.51	0.50
60+ days arrears of total -- dollars in arrears							
All	0.17	0.21	0.15	0.08	0.12	0.15	0.33
USF1	0.19	0.07	0.07	0.07	0.05	0.10	0.17
USF2	0.23	0.11	0.07	0.05	0.03	0.09	0.18
USF3	0.16	0.08	0.08	0.06	0.04	0.09	0.19
90+ day arrears of total -- dollars							
All	0.14	0.17	0.12	0.06	0.09	0.09	0.18
USF1	0.11	0.03	0.03	0.02	0.01	0.01	0.02
USF2	0.17	0.05	0.04	0.02	0.01	0.01	0.03
USF3	0.12	0.04	0.04	0.02	0.01	0.02	0.03

	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07
30 day arrears of total -- accounts in arrears							
All	0.75	0.70	0.68	0.79	0.74	0.74	0.63
USF1	0.59	0.72	0.64	0.66	0.72	0.59	0.59
USF2	0.63	0.71	0.68	0.72	0.77	0.62	0.60
USF3	0.68	0.71	0.66	0.71	0.76	0.57	0.56
60+ days arrears of total -- accounts in arrears							
All	0.12	0.16	0.14	0.10	0.13	0.11	0.19
USF1	0.19	0.06	0.08	0.10	0.06	0.11	0.14
USF2	0.18	0.08	0.08	0.07	0.04	0.09	0.13
USF3	0.13	0.08	0.09	0.08	0.05	0.10	0.15
90+ day arrears of total - accounts in arrears							
All	0.07	0.09	0.08	0.06	0.09	0.05	0.09
USF1	0.09	0.02	0.02	0.02	0.02	0.01	0.02
USF2	0.08	0.03	0.03	0.02	0.01	0.01	0.02
USF3	0.08	0.03	0.03	0.02	0.02	0.01	0.02

Shutoff—Nonpayments (SONPs) to Total Bills and Accounts in Arrears						
	Year	Month	Residential		Customers with Financial Assistance	
			Gas Only	Both	Energy Assistance	Winter Warmth
Ratio: SONPs to total bills	2006	12	0.002	0.003	0.000	0.164
Ratio: SONPs to total bills	2007	1	0.005	0.006	0.000	0.125
Ratio: SONPs to total bills	2007	2	0.004	0.004	0.000	0.060
Ratio: SONPs to total bills	2007	3	0.008	0.007	0.021	0.059
Ratio: SONPs to total bills	2007	4	0.011	0.009	0.057	0.082
Ratio: SONPs to total bills	2007	5	0.011	0.009	0.043	0.067
Ratio: SONPs to total accounts in arrears	2006	12	0.006	0.002	0.000	0.188
Ratio: SONPs to total accounts in arrears	2007	1	0.023	0.004	0.000	0.167
Ratio: SONPs to total accounts in arrears	2007	2	0.017	0.002	0.000	0.062
Ratio: SONPs to total accounts in arrears	2007	3	0.039	0.005	0.037	0.081
Ratio: SONPs to total accounts in arrears	2007	4	0.052	0.006	0.088	0.104
Ratio: SONPs to total accounts in arrears	2007	5	0.050	0.006	0.071	0.092
Ratio: SONPs to arrears 60+ days	2006	12	0.038	0.002	0.000	0.397
Ratio: SONPs to arrears 60+ days	2007	1	0.145	0.005	0.002	0.423
Ratio: SONPs to arrears 60+ days	2007	2	0.112	0.003	0.001	0.152
Ratio: SONPs to arrears 60+ days	2007	3	0.328	0.006	0.140	0.344
Ratio: SONPs to arrears 60+ days	2007	4	0.415	0.007	0.368	0.501
Ratio: SONPs to arrears 60+ days	2007	5	0.290	0.007	0.212	0.328
Ratio: SONPs to arrears 90+ days	2006	12	0.064	0.002	0.000	0.509
Ratio: SONPs to arrears 90+ days	2007	1	0.274	0.005	0.004	0.632
Ratio: SONPs to arrears 90+ days	2007	2	0.224	0.003	0.001	0.260
Ratio: SONPs to arrears 90+ days	2007	3	0.645	0.007	0.277	0.573
Ratio: SONPs to arrears 90+ days	2007	4	0.846	0.007	0.688	0.951
Ratio: SONPs to arrears 90+ days	2007	5	0.754	0.007	0.478	0.843

Aged Accounts in Arrears as Pct of Total Accounts in Arrears

Age of Accounts in Arrears	Year	Month	Residential		Customers with Financial Assistance	
			Gas Only	Both	Energy Assistance	Winter Warmth
30-day accounts in arrears	2006	10	0.58	0.13	0.67	0.00
30-day accounts in arrears	2006	11	0.62	0.13	0.00	0.26
30-day accounts in arrears	2006	12	0.62	0.13	0.79	0.37
30-day accounts in arrears	2007	1	0.66	0.12	0.65	0.38
30-day accounts in arrears	2007	2	0.67	0.11	0.38	0.37
30-day accounts in arrears	2007	3	0.69	0.11	0.52	0.51
30-day accounts in arrears	2007	4	0.61	0.09	0.43	0.46
30-day accounts in arrears	2007	5	0.61	0.10	0.41	0.43
60+ day accounts in arrears	2006	10	0.26	0.83	0.20	1.00
60+ day accounts in arrears	2006	11	0.20	0.83	1.00	0.65
60+ day accounts in arrears	2006	12	0.17	0.83	0.07	0.47
60+ day accounts in arrears	2007	1	0.16	0.84	0.19	0.40
60+ day accounts in arrears	2007	2	0.15	0.85	0.31	0.41
60+ day accounts in arrears	2007	3	0.12	0.85	0.26	0.24
60+ day accounts in arrears	2007	4	0.13	0.86	0.24	0.21
60+ day accounts in arrears	2007	5	0.17	0.87	0.34	0.28
90+ day accounts in arrears	2006	10	0.16	0.81	0.07	0.88
90+ day accounts in arrears	2006	11	0.13	0.81	0.00	0.56
90+ day accounts in arrears	2006	12	0.10	0.81	0.04	0.37
90+ day accounts in arrears	2007	1	0.08	0.83	0.10	0.27
90+ day accounts in arrears	2007	2	0.08	0.84	0.16	0.24
90+ day accounts in arrears	2007	3	0.06	0.84	0.13	0.14
90+ day accounts in arrears	2007	4	0.06	0.85	0.13	0.11
90+ day accounts in arrears	2007	5	0.07	0.85	0.15	0.11

Aged Dollars in Arrears as Pct of Total Dollars in Arrears

Age of Dollars in Arrears	Year	Month	Residential		Customers with Financial Assistance	
			Gas Only	Both	Energy Assistance	Winter Warmth
30-day dollars in arrears	2006	10	0.72	0.07	0.48	0.03
30-day dollars in arrears	2006	11	0.73	0.08	0.34	0.24
30-day dollars in arrears	2006	12	0.75	0.10	1.14	0.37
30-day dollars in arrears	2007	1	0.74	0.09	0.40	0.45
30-day dollars in arrears	2007	2	0.75	0.10	0.58	0.52
30-day dollars in arrears	2007	3	0.80	0.11	0.64	0.69
30-day dollars in arrears	2007	4	0.61	0.07	0.50	0.55
30-day dollars in arrears	2007	5	0.48	0.06	0.39	0.49
60+ day dollars in arrears	2006	10	0.12	0.02	0.11	0.14
60+ day dollars in arrears	2006	11	0.08	0.02	0.33	0.19
60+ day dollars in arrears	2006	12	0.06	0.02	-0.03	0.11
60+ day dollars in arrears	2007	1	0.07	0.02	0.22	0.17
60+ day dollars in arrears	2007	2	0.08	0.02	0.20	0.17
60+ day dollars in arrears	2007	3	0.05	0.02	0.15	0.09
60+ day dollars in arrears	2007	4	0.08	0.02	0.17	0.11
60+ day dollars in arrears	2007	5	0.23	0.03	0.34	0.22
90+ day dollars in arrears	2006	10	0.00	0.90	-0.01	0.87
90+ day dollars in arrears	2006	11	0.04	0.89	0.00	0.53
90+ day dollars in arrears	2006	12	0.02	0.87	0.05	0.39
90+ day dollars in arrears	2007	1	0.02	0.87	0.08	0.23
90+ day dollars in arrears	2007	2	0.02	0.87	0.06	0.16
90+ day dollars in arrears	2007	3	0.02	0.85	0.05	0.06
90+ day dollars in arrears	2007	4	0.02	0.88	0.06	0.05
90+ day dollars in arrears	2007	5	0.05	0.90	0.11	0.06