

Planning for Looming Debt Crisis in Utility Sector – A Calculator to Estimate Arrearages and Disconnections

DEFG Webinar

April 23, 2020



Webinar for utility members of the Utility Customer Research Consortium (UCRC), Prepay Energy Working Group (PEWG) and Low Income Energy Issues Forum (LIEIF)

[Link to Webinar Recording](#)

About DEFG & Frontier Energy

DEFG is a customer insights and advisory firm in the utility space. Through collaborative research, data analysis, and peer-to-peer networking, we help our clients achieve ways to better serve their customers. (<https://www.linkedin.com/company/defgllc/>)

Frontier Energy provides exceptional programs, services, and tools that encourage the intelligent use of energy. (<https://frontierenergy.com/about/>)



Outline

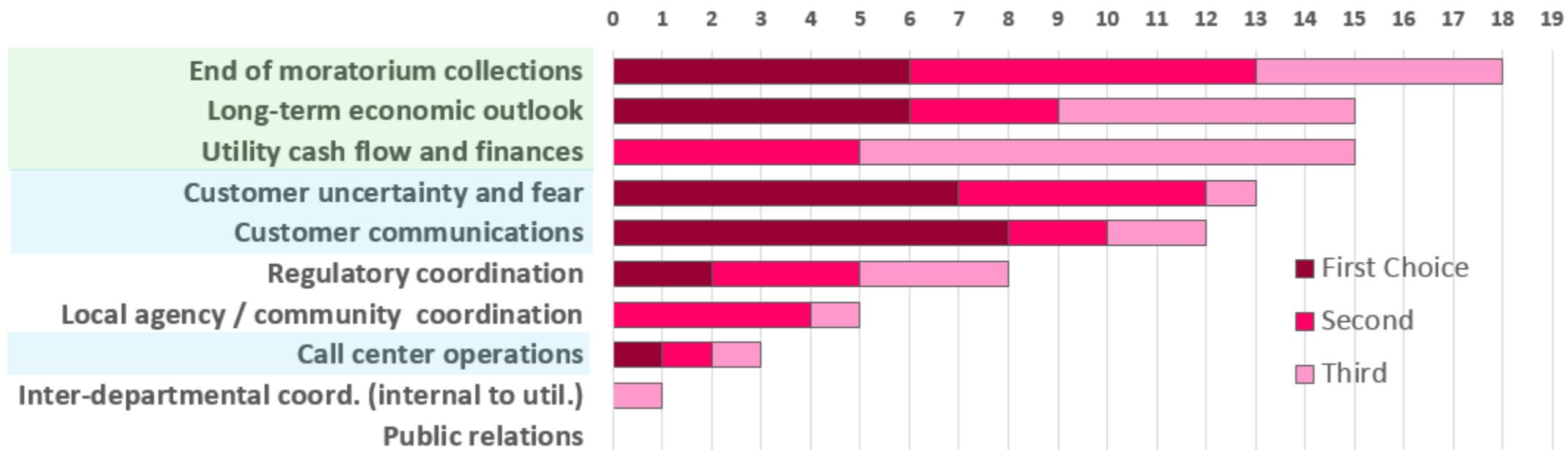
- The Challenge – Jamie Wimberly, DEFG
- Developing an Estimate and an Example Using National Data – Jay Zarnikau, Frontier Energy
- Discussion
- Next Steps – Jamie Wimberly, DEFG

Contingency Planning

- States have suspended disconnections. People who have lost jobs and businesses that have closed will likely accumulate arrearages in utility accounts as they re-allocate cash to other essential expenses.
- A return to normal could result in an unprecedented number of disconnections, serving no one's interests.
- Traditional deferred payment plans have a poor record of success. New approaches are needed better serve customers while recovering arrearages.
- Contingency planning and cooperation among utilities, regulators, and other stakeholders are the next steps.

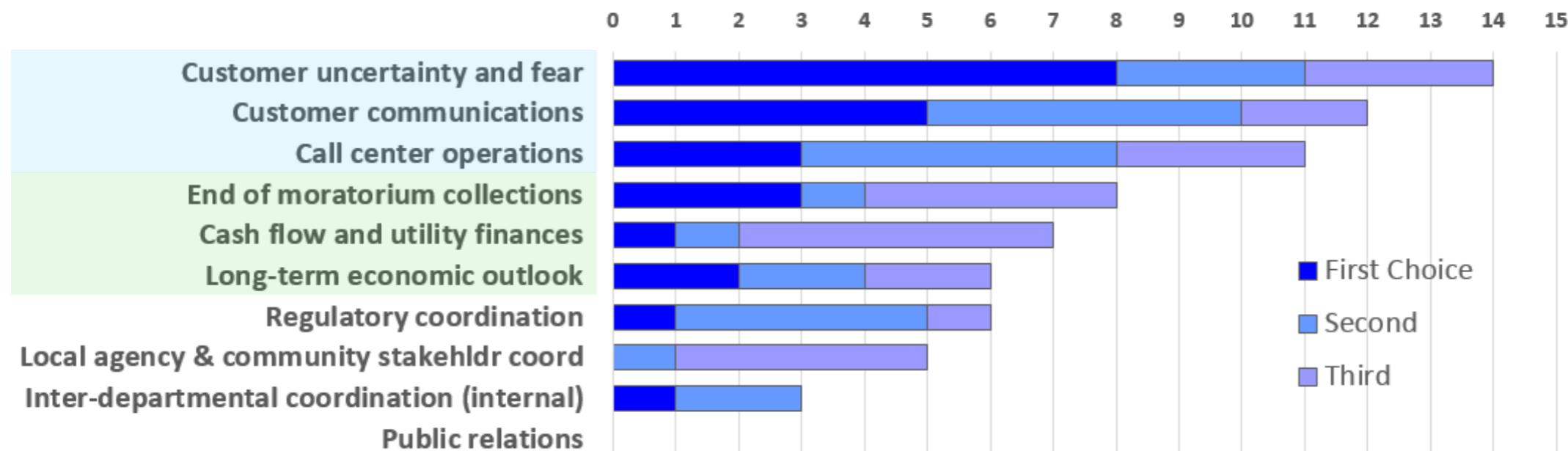
Top Challenges: Regulatory and Utility Perspectives

Top Ranked Challenges from a List of Ten (count of respondents)



Regulators

Top Ranked Challenges from a List of Ten (count of utilities)



Utilities

Sources. Top chart: DEFG's online survey, April 1-8, 2020. (31 regulator respondents) Q7. Vulnerable utility customers and utilities face many challenges. As a regulator, you probably have a good understanding of all stakeholders' concerns. From among the 10 listed concerns, choose _your_ three greatest concerns right now, and rank them by importance. Select only three and assign a 1, 2, or 3. (These are randomly listed.) Bottom chart: DEFG's online survey, March 20-24, 2020. (24 utility respondents) "Q5. As you consider the following list of 10 challenges, please choose three, and rank them by importance. Select only three and assign a 1, 2, or 3. (These are randomly listed.)"

Back-of-the-Envelope

#1: US Energy Utility Market Size Estimate: \$450 billion

- Assume 20% of ~\$37 billion per month of residential and commercial payments are deferred which is ~\$7 to \$8 billion monthly build over 4 to 5 months. Seasonality (cooling season) would skew this higher.
- **~\$30 billion in arrearages**

#2: US Electric Industry Revenue in 2018: \$406 billion (EIA)

- Assume 10% bad debt for 3 months (25% of the year)
- **~\$10 billion in bad debt**

#3: Same assumptions applied to Texas: \$36 billion elec. rev.

- **~\$0.9 billion in bad debt**

Industry Estimates

Retail Electricity Provider in Texas (assumptions unknown):

- “An estimate of exposure to all retailers in Texas (large portion of ERCOT market) ~\$0.5 billion in incremental bad debt losses with ~0.2 billion due to prohibition on late fee charges.”

Bank of America:

- Average uncollectible debt as a percent of revenues over 20+ years was 0.46%. This increased during the two years after the financial crisis to 0.62% (2009-10).
- “Given disconnect suspensions and consumer impacts of late we would not be surprised to see this ~double as a baseline estimate (if not more).”

Discussion (Jay's Calculator)

- Do you have any comments on:
 - Relationships between Great Recession unemployment, difficulties paying, and disconnections?
 - Long-lasting effects on disconnections after a moratorium?
- Are these service territory data readily available:
 - Weekly or monthly data for various customer classes for at least 15 years: number of accounts by class, sales by class, number of bills and value of bills past due by 30, 60, 90, 120 days, and number of accounts disconnected for non-payment?
- Do you have any comments on how to model regulatory policies and decisions?

Discussion (continued)

- Do you have suggestions about modeling consumer attitudes and behaviors? For example:
 - Is there a need for customer research on: (1) the intent to pay, (2) the prioritization of spending, (3) concerns about future disconnection, (4) expected reliance on programs and services, (5) attitudes about economic recovery, (6) tradeoffs between flattening the peak (health) and the return to work?
- What do you think about benchmarks to provide state regulatory commissions with a way of knowing that jurisdictional utilities are doing a reasonable job in relation to utilities in other states?
- Other comments?

Policy Considerations

- Utilities and regulators can discuss ways to help consumers remain connected and while reducing arrearages:
 - Encourage ease of payment (where, when, how, frequency).
 - Adopt flexible arrearage recovery models.
 - Rather than fixed-term repayment, focus on the ability to pay.
 - Move payment fees (processing fees) into base rates.
 - Approve fixed daily or weekly bills to eliminate true ups and bill uncertainty.
 - Leverage security deposits to help consumers who struggle.
 - Streamline assistance programs with auto-enrollment.

Next Phase of Research

DEFG will prepare a scope of work for the next phase of research:

Quantitative

- Data Collection
- Refinement of Model
- Calculator

Qualitative

- National Customer Survey
- Focus Groups
- Messaging

Next Steps

- You'll receive the slides + link to recording. If you didn't receive a direct invitation from ntreadway@defgllc.com, please email for a copy and/or to be added to the distribution list of the Low Income Energy Issues Forum (LIEIF).
- Webinars continue April 30th (with Questline), May 7th, & 14th.
- The existing calculator makes a lot of simplifying assumptions, but the spreadsheet can be provided: ntreadway@defgllc.com and/or jayz@frontierenergy.com.
- We will determine whether to conduct another presentation based on the feedback we receive on the calculator.

CONTACTS



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