

**BEFORE THE
HOUSE CONSUMER AFFAIRS COMMITTEE**

**Hearing on Chapter 14 of Title 66
and on House Bill 939**

Testimony of

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Good morning Chairman Godshall, Chairman Daley, Committee Members and guests. I am Donna Clark, Vice President and General Counsel of the Energy Association of Pennsylvania (“EAP” or “Association”), a trade association comprised of electric and natural gas utilities operating in Pennsylvania.

First, I’d like to thank the Committee for the opportunity to participate in today’s public hearing on Chapter 14 of Title 66 and HB 939 on behalf of the EAP’s electric and natural gas utility members.¹ House Bill 939 seeks to amend the Responsible Utility Customer Protection Act, which is commonly referred to as “Chapter 14” because it added that chapter to the Public Utility Code. EAP and its members do not object to including wastewater utilities in Chapter 14. With regard to substantive provisions of the Act, we submit that the law has worked as intended and it would be in the public interest to reauthorize the Act “as is”.

Chapter 14 has achieved its stated policy goal to “provide protections against rate increases for timely paying customers resulting from other customers’ delinquencies” (See 66 Pa. C. S. § 1402) by establishing an equitable framework within which to update and improve long-standing regulatory policies for issues related to residential utility collections. The rules in existence at the time this statute was enacted had been in place since June, 1978 and had become ineffective in governing residential utility standards and billing practices. The rules in place in 2004 were not successfully managing residential utility bill payment issues. Increasing amounts of unpaid bills and delinquencies threatened timely-paying customers with higher rates.

¹ EAP member utilities include: Citizens’ Electric Company; Columbia Gas of PA; Duquesne Light Company; Equitable Gas Company; Metropolitan Edison Company; National Fuel Gas Distribution Corporation; PECO Energy Company; Pennsylvania Electric Company; Pennsylvania Power Company; Peoples Natural Gas Company; Peoples TWP, LLC; Philadelphia Gas Works; Pike County Light & Power Company; PPL Electric Utilities Corporation; UGI Central Penn Gas, Inc.; UGI Penn Natural Gas, Inc.; UGI Utilities, Inc (Electric & Gas Divisions); Valley Energy Company; Wellsboro Electric Company; and, West Penn Power Company.

To its credit, the General Assembly identified the procedural deficiencies and determined that a reasonable and equitable statutory framework was needed to manage evolving problems related to utility bill payment practices in order to address the situation of increasing uncollectible accounts which ultimately threatened timely-paying customers with more frequent rate increases.

Chapter 14 set forth the structure necessary to effectively balance the needs of both customers and utilities and to guide the Commission's rulemaking process for revising the Standards and Billing Practices regulations found at 52 Pa Code Chapter 56 (known as "Chapter 56"). That rulemaking process was completed in October 2011 after a lengthy period involving input from all stakeholders. With the incorporation of Chapter 14 into the Pennsylvania Code at Chapter 56 (Standards and Billing Practices), reasonable residential collection rules for governing termination of service, reconnection of service, cash deposits, payment arrangements, medical certificates, and filing of complaints have been codified and are working.

And, just as important in understanding the success of Chapter 14 is the recognition that the General Assembly looked for a balance that would assure service would remain available to all customers on reasonable terms and conditions. Chapter 14 strengthened and codified protections for all of Pennsylvania's residential utility customers, including the vulnerable and low-income customer population by, for example, setting forth statutory criteria to qualify a low-income utility customer in crisis for an expedited Low Income Home Energy Assistance Program ("LIHEAP") crisis grant.

Chapter 14 also requires the PUC to submit a biennial report to the Governor, the Chief Clerk of the House of Representatives and the Secretary of the Senate following a periodic in-depth review of implementation and an evaluation of the metrics established for demonstrating

impact on utility cash flow, uncollectible levels, level of access to utility service, and the number of customer complaints to the Public Utility Commission. In essence, the General Assembly required a biennial “report card” on implementation during the initial life of the statute.

Four Biennial Reports have been published to date, with only the final report left to complete prior to the sunset date for Chapter 14. In each of the reports, the Commission provided a thorough evaluation and analysis on the implementation of Chapter 14 by industry along with an in-depth report on individual utility performance and compliance with the requirements, and in each report (2006, 2008, 2010 and 2012) the Commission conveyed its general level of satisfaction and offered no recommendations for legislative amendment.

Even in the recent prolonged periods of economic distress and unemployment, the Commission’s Biennial Reports credited utilities with effectively managing residential collection expenses and with balancing Universal Service (low-income safety net) program expenses over the residential rate base -- programs that have almost doubled since Chapter 14 was enacted. Further, the Commission acknowledged that low-income customers have fared better since the passage of Chapter 14 and affirmed that low income customers are given every opportunity to have utility service entering the winter time, dispelling concerns that were the subject of much apprehension during the legislative and regulatory process.²

I’d like to note several other industry metrics that are important in measuring and demonstrating the practical approach and balance that makes Chapter 14 so successful³:

- Chapter 14 requires a residential customer who is having difficulty paying a utility bill to reach out to the utility first prior to receiving a payment agreement set by the Commission. Regulated electric and natural gas utilities have worked and are committed to continue to work with their customers to negotiate payment agreements where feasible. And, customers who cannot reach an agreement with their utility are encouraged to seek assistance from the PUC under Chapter 14 and have done so when necessary.

² PUC Biennial Report to the General Assembly and Governor Pursuant to Section 1415, January 14, 2011

³ 2012 preliminary industry data is reported where available.

- The reconnection ratio which demonstrates the ease of reconnection has risen since the passage of Chapter 14, offsetting residential terminations which are always the last resort after other options have failed. The annual reconnect ratio, which is used by the PUC to demonstrate how successful a terminated customer is at getting service reconnected, has continued to increase from 57% in 2004 to 74% in 2012.
- The number of accounts making full payment of the arrearage when reconnected after termination for non-payment has increased by more than 300% from 2004 to 2012 demonstrating the ability of these customers to pay.
- From 2004 to 2011, the average amount of residential customers' overdue arrearages has declined.
- PA electric and natural gas utilities provide an array of universal service and assistance programs to assist their low income customers -- programs that have almost doubled since Chapter 14 was enacted, exceeding \$400 million per year in each of the last four years. Further, utility representatives assist their customers in locating and leveraging additional sources of funding, such as LIHEAP, community organizations and fuel funds.
- Medical certificates continue to be honored by utilities for customers having difficulty paying utility bills while faced with a serious illness or medical condition that would be aggravated by the termination of utility service. In 2012 alone, 22,229 reconnections were attributable to the provision of a medical certificate as compared to only 4,605 during 2004.

EAP and its member utilities urge Members of the General Assembly to study the Biennial Reports⁴ and consider the complete picture when determining the fate of Chapter 14. It is in everyone's best interests, all customers and utilities alike, to reauthorize Chapter 14 without change so as to maintain the safeguards provided in the legislation for both timely-paying customers and those truly in need. The key to the success of Chapter 14 is the balance achieved by the legislature and EAP believes that the appropriate balance has been struck.

Thank you again for the opportunity to appear before you today. I'd be happy to answer any questions.

⁴ The Pennsylvania Public Utility Commission's Biennial Reports to the General Assembly and Governor together with historical industry data collection sets are available at: http://www.puc.state.pa.us/filing_resources/biennial_report_pursuant_to_section_1415.aspx



Reauthorization of the Responsible Utility Consumer Protection Act (Chapter 14 of the Public Utility Code) is in the Public Interest

- The General Assembly should reauthorize Chapter 14 of the Public Utility Code, enacted in 2004, before it expires at the end of 2014. Chapter 14 established common-sense standards for customer service and collection issues, including termination and reconnection of service, deposits, and the use of payment agreements.
- Chapter 14 has worked. It achieved its purpose of protecting customers who pay their bills from higher rates caused by customers who choose not to pay their bills. Since the law was enacted, the “uncollectible expense” levels of the utilities have decreased to the benefit of paying customers. Moreover, service reconnections (following termination and the full payment of past due bills) have increased, which shows that the law has succeeded in encouraging customers to pay their bills if they are capable of doing so.
- Chapter 14 and related public policies are fair to low-income customers. The best way to help low-income customers is through programs that directly address their inability to pay, such as utility customer assistance programs (CAP). CAP customers are billed based upon their ability to pay. Encouraging multiple payment agreements with long payback periods as occurred prior to the enactment of Chapter 14 results in large past due balances and is not in the best interest of low-income customers.
- Since 2004, the funding for electric and gas utility universal service programs (designed to assist low income customers) has almost doubled. Over \$450,000,000 was expended for these programs in 2011. In addition, the federally-funded LIHEAP program provided \$209,000,000 in benefits to low income Pennsylvanians using all types of heating sources in 2011.
- Reauthorization of Chapter 14 is an important component of an overall strategy to help reduce expenses and mitigate the need for rate increases for electric and gas service in Pennsylvania. In the coming years, many factors may influence the price consumers pay for their energy supply and service, but maintaining sound credit and collection policies is the best way to ensure that consumers do not bear unnecessary costs. Chapter 14 has controlled the need for and/or level of rate increases, thereby benefiting all residential customers.

Statistics Demonstrating the Success of Chapter 14

The **Responsible Utility Consumer Protection Act**, known as **Chapter 14**, was enacted in 2004 and it is scheduled to sunset at the end of 2014.

As demonstrated below, Chapter 14 works and should be re-authorized.

- From 2004 to 2011, the average amount of **overdue arrearages** for residential customers **DECLINED** despite tough economic times.
 - 4.8% for electric utility customers
 - 11.9% for natural gas utility customers
- Even amidst the nation's economic downturn, the total number of electric and gas **residential accounts in arrears** **DROPPED 2%** from 2004 to 2011.
- Throughout this period, utilities have worked with customers to reduce balances and avoid terminations. While PUC originated payment agreements have decreased, utility **payment agreements** established each year since enactment of Chapter 14 to assist in payment of bills have **INCREASED 19%**.
- Residential **terminations for non-payment** are always **the last resort** when other options have failed. The annual **reconnect ratio**, which is used by the PUC to demonstrate how successful a terminated customer is at getting service reconnected, has continued to **INCREASE** from **57% in 2004 to 72% in 2011**.

- The number of accounts making **full payment of the arrearage** when reconnected after termination for non-payment has **INCREASED** by more than **300%** from 2004 to 2011.

LOW-INCOME CUSTOMER PROTECTIONS

Since the passage of Chapter 14 in 2004, PA's electric and natural gas distribution companies have **INCREASED** protections available for low-income customers:

- PA's electric and natural gas distribution companies **spent OVER \$450 million in 2011** for various **universal service programs** (e.g., CAP, weatherization, CARES and hardship funds) to assist their payment troubled customers... an increase in funding of 89% from 2004.
- **OVER \$400 million** was attributed to the 2011 utility-run Customer Assistance Programs (CAP) that provided **reduced bills** to just under 500,000 low income enrollees during the year ... an increase of 95% from 2004. With timely and affordable CAP payments, customers are not faced with loss of service and are able to earn arrearage forgiveness.
- PA's electric and natural gas distribution companies continue to assist their customers in leveraging other resources, such as LIHEAP, weatherization and fuel funds.