New D.C. Study Shows How Arrearage Management Programs Are a Win-Win for Companies and Customers Alike

COVID and Utility Arrearages

The COVID-19 pandemic has brought into sharp focus the fact that millions of Americans cannot afford the bills for utility service that keep the lights on, the food in the refrigerator cold, the air conditioning running in the summer, and the heating system running in the winter. In order to protect public health, states around the country passed moratoriums on utility terminations. According to the National Energy Directors Association, about three dozen states had mandatory termination moratoriums for at least some period of time in 2020. Those moratoriums varied in their duration and the types of utility service covered (e.g., electricity, gas, water), but all of them implicitly recognized a truth noted in 1978 by the Supreme Court of the United States: "Utility service is a necessity of modern life; indeed, the discontinuance of water or heating for even short periods of time may threaten health and safety." (*Memphis Light, Gas & Water Div. v. Craft*, 436 U.S. 1, 18).

As the pandemic approaches the 18-month mark, only a small handful of states still have a mandatory moratorium in place. For example, on June 24, California extended its moratorium on electricity and gas terminations through September 30, 2021. Other states with moratoriums that extend beyond the end of July include Arizona (October 15), Maryland (November 1), New Mexico (August 12), New Jersey (December 31), and Washington (September 30). But the underlying problem remains: *far too many families cannot afford essential utility service and will face service termination unless other policies are in place to protect them.*

Policies to Help Financially Struggling Customers

There are a variety of existing policies that states have adopted to minimize the likelihood that vulnerable households will lose utility service simply because those bills are unaffordable, including:

► **Many states require their utilities to invest in energy efficiency measures, often with a focus on serving lower income customers**, in order to reduce consumption, make the bills more affordable, and reduce greenhouse gas emissions.

► Ma**ny states also have adopted discounted rates for low-income customers** —which can be offered as a flat discount for all income-eligible customers, or as tiered discounts which provide sliding discounts that increase as income decreases — and Percentage of Income Payment Plans, under which the amount the customer pays is set at an affordable percentage of the customer's income, e.g., 6%.

►Yet another approach is for a utility to offer financially struggling customers an **Arrearage Management Program, or AMP**. The basic AMP model requires the customer in arrears simply to pay the ongoing bills as they come due, with the amount in arrears held in abeyance. The company rewards the customer for each timely monthly payment by reducing the arrearage by a specified amount, usually 1/12 of the full arrearage amount. Thus, a customer on an AMP can reduce the arrearage to zero by making 12 timely payments of monthly bills. (See NCLC's report on AMPs).

AMPs, which are offered in about 10 states, recently expanded to two new jurisdictions, California and the District of Columbia. A recent report on the D.C. program demonstrates how AMPs can not only help struggling customers avoid termination of their utility service but also help companies successfully collect revenues in a more humane way.

D.C. AMP Reports Good Results for Customer and Company Alike

In June 2017, the D.C. Public Service Commission approved the adoption of an AMP that NCLC had first advocated in Commission proceedings regarding the merger of utility companies Pepco and Exelon. D.C. PSC Order No. 18799 in Formal Case 1119. After protracted multi-party discussions over program design, Pepco began enrolling recipients in October 2019; by May 2020, 107 participants were enrolled. Before the program launched, Pepco retained the nonprofit research institute APPRISE to carefully monitor implementation and prepare periodic evaluations. The first evaluation report was filed with the Commission on May 24, 2021.

The APPRISE evaluation considers the AMP to be a success and recommends that it continue and be expanded to more customers. While the AMP participants had exceedingly low household income — $15,653 on average — 90% of the participants noted that they were trying harder to pay their bills, 83% said that the AMP made it easier to pay their bills, and the data showed that these customers measurably increased their “bill coverage ratio” (the percent of billed amounts actually paid) compared to a control group of equally poor customers. Twenty-six percent (26%) of those who enrolled in the AMP had been shut-off at the time they enrolled, yet 93% of those enrollees were still in the program as of August 2020. Thus, the AMP program took a cohort of very low-income customers who struggled to afford their utility bills, including many who had service terminated, and supported the customers’ efforts to make more consistent payments and stay connected to their utilities. Moreover, the very structure of the AMP — where the company reduces the arrearage balance every time a monthly bill is promptly paid — resulted in participants significantly reducing their arrearages. APPRISE’s twelve-month review showed that while AMP participants started with an average arrearage of $1,451, they reduced that by $897 over the course of 12 months, ending with an average arrearage of $554.

As Penni Conner, a senior vice-president at Eversource (a major electric and gas utility in the Northeast) and a strong AMP supporter, noted in an article promoting AMPs, they are a “win-win” for customers and companies alike. Participating customers avoid termination and see their arrearages decline; other ratepayers benefit from more frequent payments by the participating customers; and companies have a new, more humane and effective tool in working with payment-troubled customers.

The National Consumer Law Center will gladly work with any advocates who are interested in seeking to have an AMP adopted in their state. Contact Charlie Harak at charak@nclc.org.