

MEMORANDUM

July 30, 2004

TO: Records Center

FROM: Vicki Elliott  
Assistant Director, Consumer Affairs

SUBJECT: Dockets No. UG-011352 and UE-011353

Attached is a Staff Report and memorandum to the Commissioners regarding these two dockets.

These two dockets may now be closed.

MEMORANDUM

June 29, 2004

TO: Chairwoman Showalter  
Commissioner Hemstad  
Commissioner Oshie

FROM: Glenn Blackmon, <sup>Acting</sup> Director, Regulatory Services *GB*  
Wicki Elliott, Assistant Director, Consumer Affairs  
Graciela Etchart, Regulatory Analyst  
Tani Thurston, Regulatory Analyst  
Pam Smith, Consumer Program Specialist

Subject: Prior obligation Dockets UG-011352 and UE-011353

At the September 12, 2001, open meeting, the Commission adopted revised rules for electric and gas companies (WAC Chapters 90 and 100). At the same time, the Commission discussed the need for further information from regulated companies regarding WAC 480-90-123 and WAC 480-100-123. These rules describe when a utility may or may not withhold utility service to applicants or customers. In particular, WAC 480-90-123(2) and WAC 480-100-123(3) state that a utility may not withhold service because an applicant or customer has a prior unpaid balance with the company. The prior unpaid balance is called a prior obligation. Under the rules, a company may collect the balance through traditional collection methods, but may not withhold service, as long as the applicant or customer pays an appropriate deposit.

The Commission directed electric and natural gas companies to keep track of the use of the prior obligation provision by their customers, as well as the amount of uncollectibles related to prior obligation, for a period of eighteen months. Specifically, the Commission ordered that:

- (1) From October 1, 2001 to March 31, 2003, electric [natural gas] companies must keep records of the total number of prior obligations procedures involved by its residential customers per month and of the frequency of usage through that month (for example, how many customers with one prior obligation invoked the rule, how many customers with two prior obligations, etc.), and the amount owed by each customer that used a prior obligation procedure.
- (2) Electric [natural gas] companies must report this information on a quarterly basis, beginning on October 1, 2002, with the first report due no later than January 15, 2002, and each subsequent report due within fifteen days after the end of the quarter.

- (3) At the end of the 18-month period, electric [natural gas] companies must report the total amount of indebtedness for prior obligations and, of that total, the amount paid to the company.

Attached is the report prepared by Commission staff, based on the information received from the electric and natural gas companies, as well as information gathered by staff from other sources.

Staff does not recommend the Commission change its prior obligation rule. The data provided by the utilities suggest that the total uncollectibles for the gas and electric industries (.44 to 1.45%), even with prior obligation, is no larger than that of several gas and electric utilities in other states and comparable with Seattle City Light's residential and business uncollectibles.

We would be happy to meet with you to provide additional information or answer questions if you wish.

STAFF REPORT  
DOCKETS UG-011352 AND UE-011353

PRIOR OBLIGATION RULES  
WAC 480-90-123 AND WAC 480-100-123

June 2004

Staff:

Graciela Etchart

Pam Smith

Tani Thurston

## I. Introduction

At the September 12, 2001, open meeting, the Commission adopted revised rules for electric and gas companies (WAC Chapters 90 and 100). At the same time, the Commission discussed the need for further information from regulated companies regarding WAC 480-90-123 and WAC 480-100-123. These rules describe when a utility may or may not withhold utility service to applicants or customers. WAC 480-90-123(2) and WAC 480-100-123(3) prevent gas and electric utilities respectively from withholding service to customers who have been disconnected for nonpayment of their bills as long as the customer pays at least half of the deposit required by rule and the reconnection charge, even if the customer does not pay the amount for which he/she was disconnected. Under the rules, this amount is called a prior obligation.

As a result of the Commission's discussion at the open meeting, it directed electric and natural gas companies to keep track of the use of the prior obligation provision by their customers, as well as of the uncollectibles related to prior obligation for a period of eighteen months, from October 1, 2001, to March 31, 2003. The Commission did so by opening two new dockets, UG-011352 and UE-011353, ordering a staff investigation into the matter of prior obligation, and ordering companies to gather and report the relevant information.

In Dockets UG-011352 and UE-011353, the Commission ordered that:

- (1) From October 1, 2001 to March 31, 2003, electric [natural gas] companies must keep records of the total number of prior obligations procedures involved by its residential customers per month and of the frequency of usage through that month (for example, how many customers with one prior obligation invoked the rule, how many customers with two prior obligations, etc.), and the amount owed by each customer that used a prior obligation procedure.
- (2) Electric [natural gas] companies must report this information on a quarterly basis, beginning on October 1, 2002, with the first report due no later than January 15, 2002, and each subsequent report due within fifteen days after the end of the quarter.
- (3) At the end of the 18-month period, electric [natural gas] companies must report the total amount of indebtedness for prior obligations and, of that total, the amount paid to the company.

At the time of this report, Staff has received quarterly and final summary information from the five regulated energy companies and has discussed the contents with each company. The complete set of information received from each of the five companies is attached as Appendix I, "Information provided by the companies."

Puget Sound Energy (PSE) and Cascade Natural Gas (CNG) have both explained that their computer systems are not designed to track prior obligations, and that the numbers reported may be based on unreliable information. PSE theorized that the majority of the prior obligation amount it reported came from customers who stayed in the same residence and used the prior obligation provision to continue service. Customers who moved and had outstanding balances are probably not included in the prior obligation amounts reported. CNG explained that the prior obligation amounts reported by the company were estimated amounts.

### III. Discussion

The data submitted by the companies provided the basis for the following analysis.

- (1) Table A.1. presents the total amount of residential uncollectibles per company and the percentage of the total residential revenues they represent.

<b>Table A.1. Residential Uncollectibles as a percent of revenue</b>			
	<b>Residential Revenue</b>	<b>Residential Uncollectibles</b>	<b>Residential Uncollectibles as a % of Revenue</b>
	<b>\$</b>	<b>\$ (1)</b>	
Avista	318,314,497	3,076,841	0.97
PP&L	112,381,812	1,633,857	1.45
PSE	1,250,867,457	15,577,724	1.25
CNG	169,577,254	743,190	0.44
NW Natural	45,740,908	285,578	0.62
(1) Annual figures provided by utilities extrapolated to 18 months.			
Sources: Appendix I: "Information provided by the companies," FERC Forms 1 and 2.			

As shown by Table A.1., the total amount of uncollectibles as a percent of revenue varies from about half of one percent for CNG to about one and one half percent for PacifiCorp (PP&L), with PSE, Northwest Natural NW Natural, and Avista Utilities (Avista) reporting figures somewhere in between.

Additionally, Staff conducted a survey of utilities in other states and two Washington public utilities to obtain information about uncollectibles and compare it with the information from the Washington IOUs. Staff obtained comparable data from a Washington public utility (Seattle City Light)<sup>1</sup> and several utilities from other states (Delaware, Oregon, Michigan, North Carolina, and Pennsylvania,). This information is attached as Appendix II:

<sup>1</sup> Staff also contacted Snohomish County PUD on more than one occasion but has not been able to obtain any response at this time.

“Information from other states,” and summarized in Table A.2. In all but one case, Pennsylvania, the figures include residential and business customers. In this latter case, the uncollectibles as a percentage of revenues is 2.20 percent, much higher than for all the Washington investor-owned utilities (IOUs) included in this report. For 2002, with the exception of the gas companies in North Carolina, Washington IOUs showed the lowest percentage of uncollectibles as compared to the figure of total revenues.

<b>State/Company</b>	<b>Annual Revenues</b>	<b>Uncollectibles \$</b>	<b>Uncollectibles as % of Revenues</b>
Delaware (Conectiv Natural Gas) (1)	139,502,273	5,156,240	3.70
North Carolina (Gas Companies) (1)	1,556,804,968	4,393,734	0.28
Oregon (Gas and Electric Companies) (1)	2,844,587,743	20,146,740	0.71
Pennsylvania (Gas and Electric Cos.) (2)	5,584,877,443	123,096,997	2.20
Pennsylvania (Gas and electric Cos.) (1)	11,929,559,665	164,183,729	1.38
Detroit Edison Company (1)	3,822,441,577	38,903,000	1.02
Avista (1)	545,964,592	2,607,872	0.48
PP&L (1)	286,432,997	1,272,858	0.44
PSE (1)	2,051,589,025	10,031,103	0.49
CNG (1)	256,496,633	671,072	0.26
NW Natural (1)	57,381,398	373,185	0.65
Seattle City Light (1)	709,330,439	5,215,144	0.74
<b>Notes:</b> (1) Residential and business customers. (2) Residential customers only.			
<b>Sources:</b> Appendix II: "NARUC Survey" information provided by Department of Finances of Seattle City Light, and Annual Statistics of Electric and Gas Companies, 1993-2002, WUTC, 2003.			

(2) Table B shows the number of customers from each Washington IOU that used the prior obligation provision during the 18 months under report, classified by frequency of use.

Company	Total Residential Customers at 2002 (Washington)	One Prior		Two Priors		Three Priors		Four Priors		Five Priors	
		Number	%	Number	%	Number	%	Number	%	Number	%
Avista *	302,649	12,613	4.17%	3,251	1.07%	977	0.32%	338	0.11%	58	0.02%
PP&L	97,154	1,842	1.90%	457	0.47%	81	0.08%	20	0.02%	17	0.02%
PSE * **	1,404,881	143	0.01%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
CNG	133,065	289	0.22%	43	0.03%	11	0.01%	5	0.00%	0	0.00%
NW Natural	43,222	2,541	5.88%	341	0.79%	50	0.12%	10	0.02%	2	0.00%

Sources: Appendix I. "Information provided by the companies"  
Annual Statistics of Electric Companies, WUTC, Olympia, 2003.  
Annual Statistics of Gas Companies, WUTC, Olympia, 2003.  
\* Includes gas and electric customers. \*\* PSE reported only total amount of customers using prior obligations.  
Authors assumed all were first prior.

The company with the highest percentage of one prior obligation was NW Natural, with roughly 5.9 percent of its residential customers using the mechanism at least once. Avista, with about 4.2 percent and PP&L with 1.9 percent, followed it. Avista had the highest percentage of customers that used prior obligation two times, at 1.07 percent, followed by NW Natural with little less than 0.8 percent and PP&L with close to a half percent. Very few customers used prior obligation three or more times (less than 1/3 of one percent for all companies).

(3) Table C shows the prior obligation activity for each company during the 18 months subject to report in monetary units.

	Total Prior Obligation	Paid Prior Obligation		Unpaid Prior Obligation	
	\$	\$	%	\$	%
Avista	3,759,706	2,889,088	77.00	870,618	23.00
PP&L	696,370	56,928	8.00	639,442	92.00
PSE	189,431	85,686	45.00	103,745	55.00
CNG	58,997	16,130	27.00	42,867	73.00
NW Natural	574,014	476,419	83.00	97,595	17.00

Source: Appendix I: "Information provided by the companies."

For two companies (Avista, NW Natural), a high percentage of the amount owed for prior obligation is actually paid to the companies at some point (77 percent for Avista and 83 percent for NW Natural). Staff has consulted PP&L about the low collection rate. The



Company responded that they work with an outside collection agency and once the information is sent to the agency the Company does not remind customer of the amounts owing. Representatives from PP&L added that the amounts involved made it not worth the time to further discuss the amounts with the customers.

- (4) Tables D and E show the amount of unpaid prior obligation as a percentage of the companies' residential uncollectibles and as a percentage of residential revenues respectively.

<b>Table D. Unpaid Prior Obligation as a percent of residential uncollectibles</b>			
	<b>Residential Uncollectibles</b>	<b>Unpaid Prior Obligation</b>	<b>Unpaid Prior Obligation as a % of Residential Uncollectibles - %</b>
	<b>\$</b>	<b>\$</b>	
Avista	3,076,841	870,618	28.30
PP&L	1,633,857	639,442	39.14
PSE	15,577,724	103,745	0.67
CNG	743,190	42,867	5.77
NW Natural	285,578	97,595	34.17
<b>Source: Appendix I: "Information provided by the companies"</b>			

Both PSE and CNG reported a low prior obligation as a percent of uncollectibles. PSE reports that prior obligation accounts for only 0.67 percent of its 1.25 percent uncollectible amount and CNG reports that prior obligation accounts for 5.77 percent of its 0.44 percent uncollectible amount. For each of the other three companies, prior obligations account for a larger portion of its uncollectible amount (about 28 percent for Avista; 39 percent for PP&L; and 34 percent for NW Natural).

<b>Table E. Unpaid Prior Obligation as a percent of revenue</b>			
	<b>Residential Revenue</b>	<b>Unpaid Prior Obligation</b>	<b>Unpaid Prior Obligation as a % of Revenue</b>
	<b>\$</b>	<b>\$</b>	<b>%</b>
Avista	318,314,497	870,618	0.27
PP&L	112,381,812	639,442	0.57
PSE	1,250,867,457	103,745	0.01
CNG	169,577,254	42,867	0.03
NW Natural	45,740,908	97,595	0.21
<b>Source: Appendix I: "Information provided by the companies."</b>			

On the other hand, the unpaid prior obligation as a percentage of the companies' residential revenues is immaterial for all the IOUs, as shown by Table E.

#### **IV. Conclusions and recommendations**

Staff concludes that the number of customers who have used prior obligation three or more times in an 18-month period is small. The level of unpaid prior obligations is fairly small for every energy utility, and very small for two energy utilities. Available data shows only small monetary benefits could be gained from a change to the Commission rule regarding prior obligation rule. It also suggests that the total uncollectibles for the gas and electric industries, even with prior obligation, is no larger than that of several gas and electric utilities in other states and comparable with Seattle City Light's residential and business uncollectibles. Staff does not recommend that the Commission change its prior obligation rule at this time.