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Helping Low-Income Utility Customers Manage Overdue Bills through Arrearage Management Programs (AMP)

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ABOUT THE NATIONAL CONSUMER LAW CENTER

Since 1969, the nonprofit National Consumer Law Center® (NCLC®) has used its expertise in consumer law and energy policy to work for consumer justice and economic security for low-income and other disadvantaged people, including older adults, in the United States. NCLC's expertise includes policy analysis and advocacy; consumer law and energy publications; litigation; expert witness services, and training and advice for advocates. NCLC works with nonprofit and legal services organizations, private attorneys, policymakers, and federal and state government and courts across the nation to stop exploitive practices, help financially stressed families build and retain wealth, and advance economic fairness.

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EXECUTIVE SUMMARY

Across the country, low-income customers struggle to pay their utility bills. Their incomes are simply too low to keep up with gas and electric bills. Fortunately, Massachusetts has one of the strongest panoplies of low-income programs and policies in the country to make sure low-income households can maintain critical utility services. These programs include protections against termination for the most vulnerable (elderly customers, households with someone seriously ill, or an infant under 12 months); a well-designed fuel assistance program that targets the highest payments to those with the lowest incomes and the most expensive heating sources; discounted utility rates for low-income customers; and Arrearage Management Programs (AMP programs or AMPs).

The Massachusetts AMP programs provide relief for low-income gas and electric utility customers who have significant past due amounts (arrears) on their utility bills. Each time an AMP participant makes a levelized monthly payment, the arrearage is reduced until it is completely eliminated. The AMP program is an important tool to respond to spiraling energy costs and the increasing numbers of utility customers who cannot afford to pay their bills, particularly when the customer gets behind and is asked to pay off both current charges and the arrears.

The AMP programs are a major success in Massachusetts. Customers avoid utility termination and can obtain a fresh start by making payments during the plan. Just as importantly, the customer enters into a cooperative relationship with the utility, increasing the likelihood that the customer makes whatever payments she can afford to make rather than ceasing to make payments altogether. Moreover, a positive relationship allows the utility to insure that the customer receives fuel assistance benefits, low-income discount rates, and energy efficiency services to which the customer is entitled. In some cases, the customer may also receive advice on budgeting, other public benefits, and financial management.

Other ratepayers and the utilities also benefit from the AMP program. The best available evidence is that AMPs have a positive impact on utility revenues—customers in the plan make higher payments than if they were not in the plan and continue to make higher payments even after completing the plan. The utility's costs to administer the AMP are offset by reduced collection and termination costs with these reduced costs leading to lower rates for all ratepayers. Perhaps the best evidence that AMP is good for utilities is the enthusiasm with which Massachusetts utilities — including high-ranking executives — embrace the program.

State agencies are also enthusiastic about the AMP program. It is in the state's interest to have fewer utility terminations. Beside the direct benefit of avoiding disconnection for some of its citizens, an AMP also helps the state avoid the indirect costs of utility terminations — increased fires as residents turn to other forms of heat, increased Medicaid expenses as disconnected customers become ill, and increased costs due to higher numbers of homeless and decreased school attendance.

This report details how the AMP program works in Massachusetts and how each stakeholder benefits. The report also examines some of the best practices in designing an AMP based upon the Massachusetts experience, including standards for income eligibility and guidelines for customer challenges (e.g. missed payments). The design issues will be relevant to those in Massachusetts interested in the development of an optimal program, and also to those in other states interested in implementing an AMP.

Whatever the specifics of a particular AMP design, the Massachusetts experience clearly establishes that the program is a success for all interested parties, should be continued, and should be expanded to as many eligible Massachusetts customers as possible. Those in other states should consider implementing a similar program to help low-income customers avoid utility termination. Massachusetts demonstrates that a properly designed program benefits not just low-income customers, but other ratepayers, the utilities, and the state.

Best Practices for Designing an Arrearage Management Program (AMP)

Following are key issues to consider when designing an AMP program based on the experience of representatives from utilities, advocacy groups, and state government in Massachusetts.

Should enrollment in an AMP be automatic or only if requested by the customer?

Massachusetts utility data show that automatic enrollments reach more customers but fewer of those participants complete the plan. Even those not completing their AMPs, however, receive benefits from the program. Moreover, certain families who will complete the program after automatic enrollment might never have gotten the chance from an opt-in system. On the other hand, those failing an AMP may never get another chance to enroll. If a utility does not use automatic enrollment, it should make every effort to reach out to its customers to encourage them to enroll, including information in multiple languages, as appropriate to its customer base.

What should be the income eligibility standards?

For ease of administration, Massachusetts AMP eligibility is set at 60% of the state median income (the same cut-off for fuel assistance eligibility and utility discount rates).

How much discretion should utilities have to design their own program?

The Massachusetts model provides limited flexibility so that each utility can design its own AMP program. Of course, standardization ensures that all customers in the state will be treated equally and have the same level of benefits, and state agency review of the program is also simplified. On the other hand, each service territory and service type (gas or electric) has distinct demographics and economic issues. Each utility may also have different computer software systems. Moreover, much can be said for allowing experimentation with different approaches in the early years of an AMP program. It is recommended that one standard name be used for all AMPs within a state to avoid confusion.

Should the customer’s level monthly payment be computed to incorporate the amount of fuel assistance payments?

Yes, utilities should use the best estimate of future likely payments. An alternative approach is to use the prior year’s fuel assistance amount. That level payment amount can then be adjusted once a more accurate fuel assistance number is available. Including expected fuel payments results in a lower, more affordable monthly payment for the customer.

How fast should the arrearage be forgiven if the customer makes payments?

Experience indicates that the faster the forgiveness, the more likely it is that the customer will complete the AMP and be motivated to make payments. Some utilities in Massachusetts with pilots with slower forgiveness have now switched to faster forgiveness for their programs.

Who should administer the program?

The Massachusetts utility companies screen and enroll customers in the AMPs. However, community action programs (CAPs) assist with education and enrollment as well as financial counseling during the AMP. The CAPs also enroll the customer for other public benefits, such as federal fuel assistance. If a customer is falling behind in an AMP, the CAP can play an important role in getting the customer caught up and back on the plan.

How should utility staff be trained?

Massachusetts utilities that experimented with training *only* the AMP specialists now train all customer service personnel about the program. While the utility’s first point of contact should be familiar with AMP, the customer could then be referred to a specialist who can more closely work with the customer to develop the AMP.

What is the role of discount rates and fuel assistance benefits in making monthly payments affordable?

Key to level monthly payments being affordable is the level of federal fuel assistance. (Anticipated fuel assistance receipts are subtracted from the estimated annual energy bill *before* computing the monthly payment amount.) A state or utility has no control over the level of federal fuel assistance funding, but the AMP will work best when this level is adequate. Other ways of reducing monthly payments are also critical, including placing the customer on an adequate low-income rate plan and providing energy efficiency or weatherization services.

What is the relationship of AMPs to a winter moratorium?

AMP payments should be made by the customer during a winter moratorium period. Otherwise, payments after the moratorium may be at an unaffordable level. Too often customers stop making AMP payments during the moratorium which results in their removal from the program. If a consumer makes no payments during the moratorium, it may be unaffordable to catch up on missed payments before the plan expires so that the customer never completes the plan. In many cases, utilities do not offer customers a second chance at a

new plan, so stopping payments during a moratorium can have serious consequences. Companies and low-income advocates should work together to provide customers support in keeping up with their payments.

Should a customer who misses a payment be allowed to remain in or re-enroll in an AMP?

If a customer misses one or two level payments, utilities will remove the customer from the program. All Massachusetts utilities will reinstate the customer if he/she can make up all past due AMP payments before the scheduled end of the plan. Experience indicates that even with low level payments, AMP participants will sometimes have difficulty making a particular month's payment. While it may be appropriate to remove a non-compliant customer from the program, there should be effective, flexible rules to reinstate that individual if the customer gets caught up on AMP payments. Massachusetts utilities offer this option and it is recommended that the ability to reinstate should be effectively communicated to the delinquent participant.

Should an AMP be offered to customers whose service has been disconnected?

AMPs should be available even to those who have been disconnected. Often disconnection is caused by an individual's inability to pay the same arrearage that an AMP plan will forgive. In Massachusetts, there are rules for consumers to reinstate their service while at the same time enrolling in an AMP. This makes sense if the rules for reinstating service are not too onerous on the customer.

Should a customer be allowed to enroll in an AMP a second time?

In Massachusetts, at the end of the AMP plan period—whether the individual completes the plan or not—the individual becomes ineligible to enroll in a future AMP if the individual again gets behind in payments. However, some Massachusetts utilities state that they will offer a second AMP in individual cases. The argument for allowing multiple AMP enrollments is straight-forward. Those in poverty are particularly vulnerable to unexpected events, such as an illness or loss of a job. Thus, even with all the learning experience of the first AMP, sometimes individuals simply need a second fresh start. The counter-argument is that the continued availability of an AMP will encourage customers to build up arrears knowing that they will be forgiven in a second AMP. Utility companies can use their discretion, aided by information from a CAP regarding a client's circumstances, as to whether to offer a second AMP.

I. Introduction

Across the country, low-income customers struggle to pay their utility bills. Their incomes are simply too low to keep up with gas and electric bills.¹ Fortunately, Massachusetts has one of the strongest panoplies of low-income programs and policies in the country to make sure low-income households can maintain critical utility services. These programs include protections against termination for the most vulnerable (elderly customers; households with someone seriously ill or an infant under 12 months); a well-designed fuel assistance program that targets the highest payments to those with the lowest incomes and the most expensive heating sources; discounted utility rates for low-income customers; and Arrearage Management Programs (AMP programs or AMPs).

Since 2008, all Massachusetts electric and gas utilities have offered their customers an AMP. An AMP is a financial assistance program for low-income customers with overdue utility bills. Similar, more limited programs are found in a few other states, but none are of the size and breadth of the Massachusetts program.

This report focuses on the Massachusetts AMP program. It examines how AMPs work, whether the AMP programs have been a success, and issues that should be considered in designing an AMP both in Massachusetts and in other states.

The Massachusetts AMP has won the enthusiastic support of the state's utilities, customers, state agencies, and organizations representing Massachusetts consumers. One audience for this report thus are those interested in replicating an AMP program in other states—utilities, community action agencies, policy makers, state agencies, and legislatures in other states. But the same groups in Massachusetts may find this report helpful because of the discussion of possible program changes to further its goals.

II. The Need for AMPs: Overwhelming Energy Burdens on Low-Income Customers

Hundreds of thousands of low-income Massachusetts households — largely comprised of the elderly, working poor, and families with young children — depend on state-run programs to help keep them warm in the winter and keep the lights on year-round. 200,000 low-income households received assistance in paying their heating bills under the FY 13 Low-Income Home Energy Assistance Program (LIHEAP).² Approximately 400,000 were on the discounted gas or electric utility rates in 2012.³ These numbers help to define just how many households are in need.

LIHEAP-eligible households are estimated to need 15% or more of their total annual income to keep up with their energy bills.⁴ Many of course cannot afford to do so. They frequently face

termination of their utility service. For example, one major electric utility terminated just under 19,000 electric accounts from March through September 2012.⁵ AMP programs provide an additional tool to help struggling low-income families, one that guarantees that service will not be terminated if the customer makes the agreed-upon monthly payments.

III. How AMPs Work

A. The Big Picture

Arrearage management programs (AMPs) offer a fresh start to low-income gas and electric customers who are behind on their utility payments. The utility forgives the arrearage if the customer consistently pays for new utility charges over a period of time (often one year; sometimes longer). As the customer makes regular, on-time payments on new utility charges, a portion of the arrears is forgiven. When all payments for new charges have been made over the length of the plan, the arrears is totally cancelled and the customer has a clean slate.

An AMP also puts tools at the customer's disposal to succeed at that fresh start when the plan concludes. These tools include low-income discount rates, fuel assistance, energy efficiency services, and level billing (in which the company estimates what the bills will be over the next 12 months and divides that amount by 12, so the customer is asked to pay the same, level amount each month). To the extent the customer uses these available tools, it is less likely that the company will have to engage in expensive collection actions or write off bad debt, which helps keep the utility rates down for all customers. The customer may receive financial counseling and budgeting assistance and help with applying for other public benefits. By making regular payments during the plan, the customer displays financial discipline and responsibility and develops good budgeting habits. As a result, when coming off the plan and not owing any arrears, the consumer is well situated to make regular payments on future utility charges.

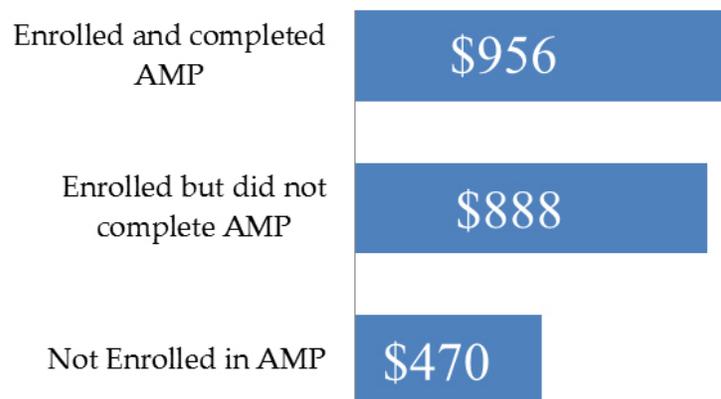
Another key feature of an AMP is that by offering the consumer a carrot of arrearage forgiveness instead of a stick of utility termination, the relationship between the utility and customer is fundamentally altered for the better. Under the traditional relationship, the utility threatens disconnection and asks the customer to make current payments and additional payments toward the arrears. The customer, whose financial problems have already shown that paying current charges is difficult, sees little hope in paying both new charges and catching up with the arrears. The customer thus sees the utility as the adversary, and may avoid the utility's attempts at communication. The utility's response may be additional warnings of disconnection, instigation of collection activities, and furthering the downward spiral between the parties.

An AMP changes this dynamic completely. Instead of threats of disconnection, the utility offers the customer a bonus for making affordable payments. Credit and collection managers at

each of the state’s utility companies are seeing that consumers respond positively to the AMPs and develop closer working relationships with the utility. With that relationship established, the utility can assist the consumers with their financial problems in a number of ways. It can insure the consumer is receiving low-income discount rates and fuel assistance, and is obtaining energy efficiency or weatherization services. The utility may even provide assistance in obtaining other public benefits, and help with budgeting and financial education.

AMPs are also good for other utility ratepayers, for the utilities, and for the state. Collection and termination costs and uncollectible debt may be reduced. A utility will typically recover a larger percentage of amounts billed from AMP participants than if those individuals were not in an AMP. Data for the one-year period ending October 31, 2012 provided by Columbia Gas of Massachusetts on a random sample of low-income customers shows that the “bill coverage ratio” (the percent of amounts billed that are actually paid by the customer) increased fully 50% when comparing low-income customers not on the AMP versus those who were on the AMP during the same 12 months. Low-income customers not on the AMP paid 44% of the amounts billed. Low-income customers who were on the AMP during the same period paid 67% of the amounts billed, on average. National Grid reports similarly favorable results (see chart below).

AMP Customers Paid More Toward Their Bills



Source: National Grid. Based on a review of 170 random electric accounts (100 low-income customers not enrolled in AMP; 50 customers who enrolled in AMP but failed to complete; and 20 who were in AMP and successfully completed the program). All customers had comparable annual bills (\$1,100 ± \$60).

These limited data from Columbia Gas and National Grid are consistent with one of the key underlying premises of AMPs: that by providing a way for low-income customers to address accumulated arrearages, those customers are more likely to engage in better payment behaviors. Going forward, after successfully completing the AMP, the customer will be in a better position to make regular payments. Higher revenues benefit other ratepayers and the utilities. The enthusiasm by which utilities have embraced the AMP programs is perhaps the best evidence that AMPs work for utilities and ratepayers, and not just for plan participants.

The state and its citizens also benefit from reduced utility terminations, which affect public safety, revenues, and the health of customers (especially the elderly and young children) in a number of ways. Utility disconnections can lead to homelessness, higher medical costs, unemployment, school absences, and even fires, as individuals use less safe forms of heat.

A seminal paper written in 1995 by a now-retired utility accounts manager provided a solid business case for utilities taking a more flexible approach to collecting from payment-challenged customers, and provided empirical evidence that this more flexible approach benefitted customer and company alike (see page 16).

The AMP programs are a major success in Massachusetts, as judged by the participating customers, the utilities, low-income advocates, and the state. But AMPs are not a cure-all. If new utility charges are unaffordable, the consumer cannot pay them no matter what incentives or financial education services are provided. Utility charges must be kept at an affordable level through adequate low-income discounts, energy efficiency and weatherization, and most importantly, by an adequate level of fuel assistance.

B. The Regulatory Background

In Massachusetts, gas or electric utilities are required to offer AMPs to their low-income customers within parameters set by state legislation and by the state department of public utilities (DPU). Chapter 140 of the Mass. Acts of 2005, § 17(a)⁶ requires that utilities develop AMPs in which they work with eligible low-income customers “to establish an affordable payment plan and provide credits to those customers toward the accumulated arrears where such customers comply with the terms of the program.” The legislation also required a DPU proceeding to develop AMP standards. Individual utilities file plans annually and the DPU approves those plans, with any necessary modifications.

On December 1, 2005, the DPU initiated an investigation relative to AMP standards, leading to a February 28, 2006 Order.⁷ The Order requires every gas and electric utility to offer an AMP to heating and non-heating customers. The customer must be offered an affordable payment plan with credits toward the arrearage for program compliance. Companies must coordinate their AMPs with the low-income weatherization and fuel assistance agencies and services within the company’s service territory. The utilities are allowed to recover all costs from the program as part of their rate filings.

The Order also set up the Best Practices Working Group on Low-Income Arrearage Management Plans (Best Practices Working Group). This group meets quarterly to evaluate the AMP program. The group consists of representatives of the state’s utilities, community action programs, National Consumer Law Center staff, DPU, and Office of the Attorney General.

On February 12, 2008, the DPU opened a separate investigation into expanding low-income consumer protections and assistance, including AMPs. A September 15, 2008 Order⁸ in that docket requires that all low-income customers who have an account in arrears be provided the opportunity to participate in an AMP. To implement this requirement, the Order requires each utility to administer its own AMP program. Until 2008, the local nonprofit CAPs ran smaller

One major advantage of an AMP is that the customer sees the arrearage balance decrease each month, and thus sees the incentive that accompanies each payment.

pilot AMPs in close cooperation with the utilities. The CAPs performed most of the intake and screening functions. After the initial pilot period, the CAPs and utilities agreed that the latter had far more resources at their disposal and were best suited to significantly expand what had been successful smaller programs.

The 2008 DPU order also requires that the utility enroll each AMP participant in its low-income discount rate program. The utility must also work with the participant to help the recipient receive fuel assistance and energy efficiency services as appropriate. The DPU order leaves additional AMP program specifics to the utilities themselves.

One issue that was left to the utilities is whether enrollment would be automatic or whether the consumer must affirmatively opt-in. The utilities also decide other terms, including how quickly arrearages are to be forgiven, the consequences of missing a payment, and whether a consumer can enroll in an AMP twice.

Utilities file annual reports with the DPU showing compliance with DPU orders and proposing any changes to the utility's AMP. The DPU has found that all utility AMP programs comply with DPU standards and the legislation.

C. The Specifics of Current Massachusetts AMPs (based upon 2012 utility company filings with the Department of Public Utilities, 12-AMP-01 through 12-AMP-07)

Eligibility. While each utility sets its own eligibility standards, typically the individual must be the customer of record, and have an arrearage of at least \$300 that is at least 60 days overdue. To be eligible, the individual's utility service cannot be disconnected, the individual (and not the landlord) must be obligated for the service, and the individual must agree to various program requirements.

The individual must also be low-income, defined as eligible for a means-tested public benefit from the state or eligible for the utility's low-income discount rate. Currently, in Massachusetts this means that the individual's income is 60% or less of the state median income.

While not a legal requirement, utilities also encourage enrollment only among customers who have some ability to make the monthly payments for current charges. Otherwise the customer will drop out of the program and may become ineligible for an AMP in the future.

Computing the Level Monthly Payment. Utilities compute a level monthly payment for the first year of the AMP, based upon 1/12th of estimated utility charges for that residence for the coming year. The estimated charges are based on anticipated usage and the low-income discount rate, not the standard rate. Anticipated fuel assistance payments are deducted from the annual charges before computing the monthly level payment.

Periodically, the utility will re-compute the expected annual charges, factoring in changes in prices, changes in the fuel assistance payment amount, and changes in the customer's usage. The level monthly charges that have already been assessed at the old level are deducted from this new annual amount. What remains is then divided by the remaining months in the plan to compute the new level monthly payment.

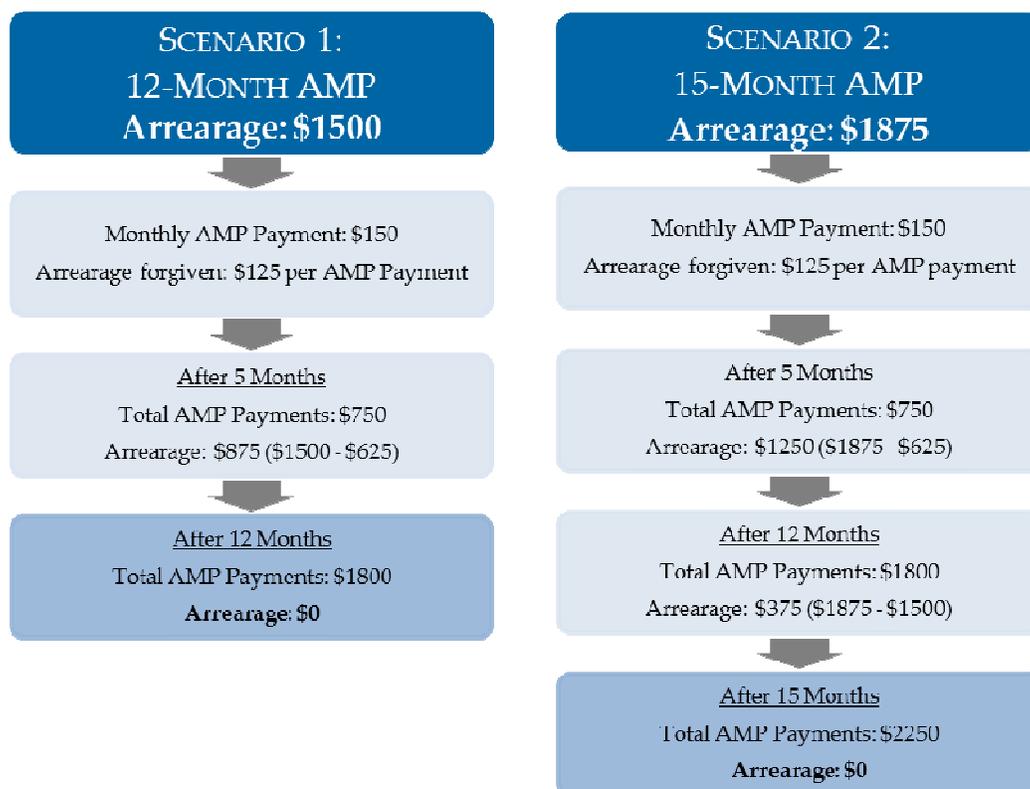
Computing the Arrearage to Be Forgiven. If the individual makes an AMP payment, a portion of the arrearage is forgiven. For example, National Grid will forgive as much as \$1500 of an arrearage during the first year of payments.⁹ For larger arrearages, the customer makes level payments for a specified number of months beyond a year to cancel the full arrearage (see two scenarios on next page).

Berkshire Gas Company has a similar plan to National Grid's, but will forgive an annual maximum of \$3000. Bay State Gas will forgive \$3600 in the first year.¹⁰ Unitil will forgive \$1200 in the first year for either electric or gas and \$2400 for both.¹¹ With all of these utilities and National Grid, if the arrears exceed the maximum, the AMP plan extends beyond a year to forgive the full arrears.

NSTAR has a somewhat different plan. If the arrearage is under \$1000, then \$100 in arrearage is forgiven with each month's level payment. If the arrearage is greater than \$1000, then \$200 is forgiven with each month's payment. Thus NSTAR allows cancellation of the full arrearage in less than a year if the arrearage is under \$2400. A \$1200 arrearage is forgiven after six monthly payments.¹²

WMECo (Western Massachusetts Electric Company) is even more generous, forgiving the full arrearage after one year of payments of current charges, no matter the size of the arrearage. In addition to arrearage forgiveness based on AMP payments, the utility also forgives 10% of the original arrears if the customer attends a money management workshop.¹³

How to Compute the Arrearage to Be Forgiven*



*Scenario 1 (12-month program): AMP level payments are \$150 a month [For example, the company estimates that the customer's usage over the next 12 months will be \$2,400; that the customer will be receiving \$600 in fuel assistance payments; and that the net amount due from the customer will be \$1,800: $\$1,800/12 \text{ months} = \$150/\text{month}$]. Every month the customer makes a \$150 payment, then 1/12 of the arrearage is forgiven, or \$125 for \$1500. After making 5 payments of \$150, the consumer will see on his bill that the arrearage has shrunk by \$625 to \$875.

Scenario 2 (15-month program): If the arrearage starts off above the \$1500 maximum, the arrearage forgiveness takes longer. If the arrearage is \$1875, after one year of payments, \$1500 is forgiven (as in the previous example) and the arrearage shrinks to \$375. The consumer must remain on the plan for another 3 months to cancel out the last \$375 of arrearages.

Immediate Arrearage Reduction for the Customer. While the consumer is on the plan, there is no threatened utility disconnection or other collection efforts. Even if the consumer does not succeed in staying on the plan long enough to cancel the full arrearage, staying on the plan for part of the scheduled period still significantly reduces the consumer's arrearage. Any partial arrearage cancellation is permanent and not forfeited if the consumer goes off the plan.

Consumers see an immediate payback from making a payment, thus encouraging continued participation. The first payment and each succeeding payment automatically lead to arrearage forgiveness, even if the customer does not complete the plan. An early AMP version required

six on-time payments before the consumer would see any arrearage forgiveness. This did not provide an immediate payback and was less helpful to encourage consumer participation.

As one director of a fuel assistance program remarked:

“There was one change that was very, very helpful. When it first started, you [the customer] had to make six consecutive payments before it would show upon your bill which made it hard to focus. Now, you make a payment and you see it credited immediately.”

— Elizabeth Berube, director of fuel assistance, Citizens for Citizens, Inc., Fall River, MA (Oct. 18, 2011 interview).

Notifying the Customer about the Reduced Arrearage. One major advantage of an AMP is that the customer sees the arrearage balance decrease each month, and thus sees the incentive that accompanies each payment. As one utility customer service representative stated:

“It’s immediate satisfaction and tangible. I definitely think it is one reason the program is so successful.”

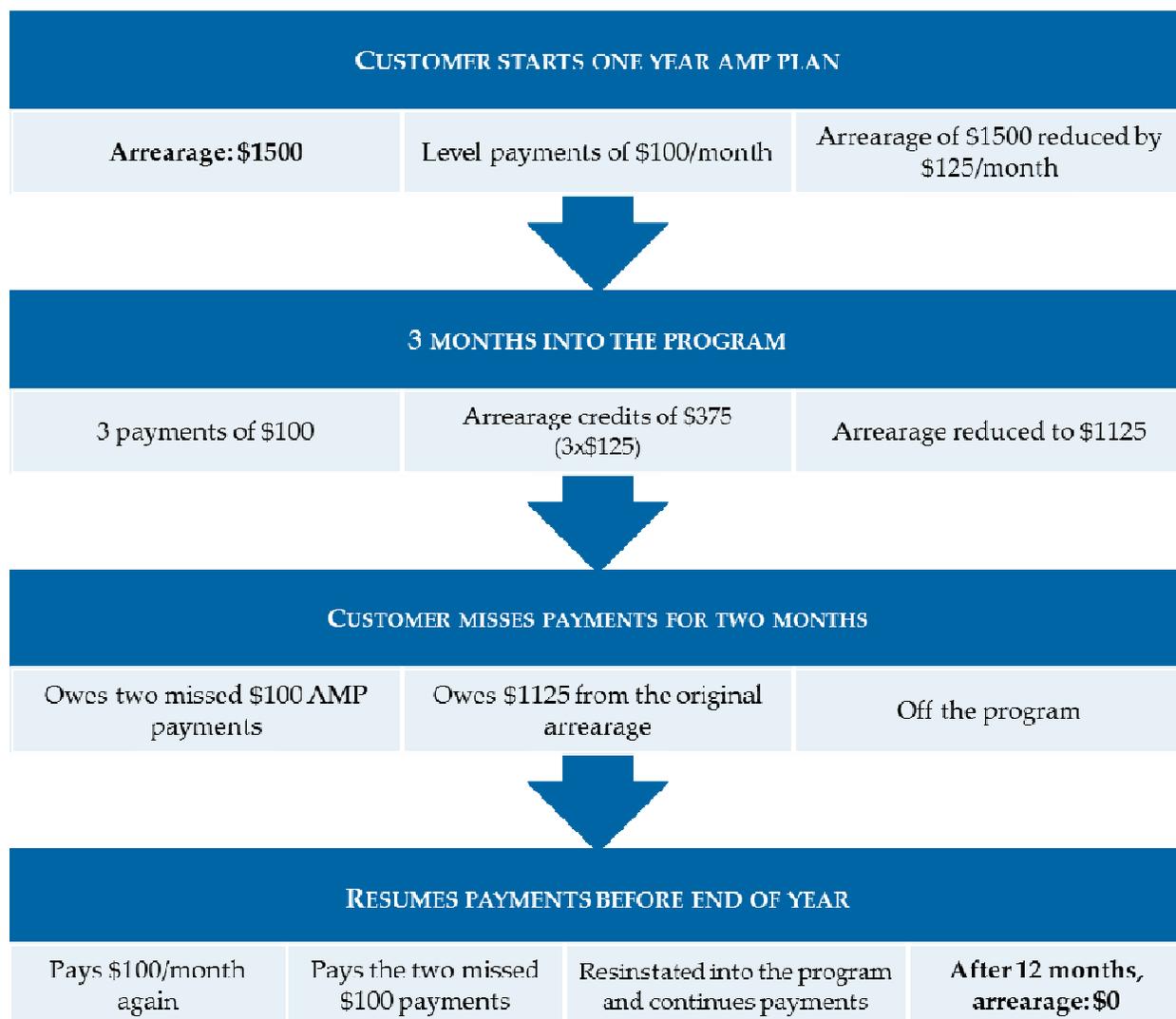
— Sue Corson, customer assistance programs administrator, Unitil (Oct 25, 2011 interview).

Since this incentive is a key motivator for plan participation, it is important for the utility to effectively communicate this arrearage reduction to the customer. Utilities notify customers of their arrearage reduction in different ways. NSTAR and National Grid include a statement of the arrearage size and how much that arrearage was reduced in the last month on the monthly bill. WMECo sends a letter each month thanking the customer for the payment and indicating how much the arrearage has been reduced. Unitil sends a letter and also places the information on the monthly bill.

Consequences of the Consumer Missing a Payment. If a consumer misses one or two level payments, utilities will remove the consumer from the program. Nevertheless, all Massachusetts utilities will reinstate the consumer if the consumer can make up all past due AMP payments before the scheduled end of the plan, as detailed in the following example on the next page.

Utilities have different standards as to how many times a plan can be reinstated before its scheduled end. Some utilities seem to have no limit as long as all plan payments are made before the plan’s scheduled termination. WMECo will reinstate a consumer only twice.¹⁴

Reinstating Customers on the AMP Track after Missed Payments



Multiple Enrollments. Massachusetts utilities generally have a rule that there is only one AMP plan available to a customer over a lifetime. The consumer cannot enroll in another AMP whether he or she completes the AMP or not. There are some exceptions to this rule. Most utilities allow customers who participated in early pilot AMPs to re-enroll in the utility's current AMP. If a utility offers both a gas and an electric AMP, the customer may be able to enroll in one after having enrolled in the other. In addition, several utilities state that they make exceptions to the rule in appropriate cases.

D. The Role of Community Action Programs (CAPs)

In Massachusetts there are more than 20 CAPs that often locally administer the state's fuel assistance and weatherization programs, and which often also offer housing and Head Start programs. In addition, each utility selects CAPs to deliver low-income energy efficiency services funded by the utility.

Under the mandate of the state law requiring utilities to offer AMPs, the Massachusetts AMPs began as pilot programs administered by several CAPs in cooperation with the utilities. During the first few years of the program, the CAPs notified consumers about the program, performed the initial intake, and placed the individuals on the program. However, the CAPs did not have the resources to expand the initial pilot programs to all eligible customers. Therefore, in 2008, the primary administration for the program was moved to the utilities; they now do the screening and enrollment.

Nevertheless, CAPs continue to play an important role in utilities' AMP programs. For example, CAPs educate consumers about the program. To a varying degree they also help customers enroll in the AMP program. After enrollment, they may offer financial counseling and support during the AMP. They also enroll the customer for fuel assistance, utility energy efficiency services, and weatherization, as well as helping the consumer sign up for other public benefits. If a customer is falling behind in an AMP, the CAP can play an important role in getting the customer caught up and back on the plan.

E. AMP Statistics

As of December 31, 2012, 17,300 Massachusetts gas and electric customers were enrolled in an AMP. Statistics from the four quarters of 2012 indicate that AMP participants made utility payments of \$17.8 million, and that \$15.9 million in arrears were forgiven. About 80% of these payments and forgiveness amounts were on electric accounts and the remaining 20% gas accounts.

F. Program History

In the mid-1990s, Brooklyn Union Gas (which later became part of Keyspan, and which is now part of National Grid) instituted an On-Track program, which bears some similarities to an AMP and is the "parent" of all of the subsequent AMPs in Massachusetts. On-Track came to Massachusetts in 2003 as a pilot program administered by Action, Inc. in Gloucester (a CAPs), and paid for by Keyspan; a Boston CAP (ABCD) was also an early administrator of an AMP pilot program. According to Joe Bodanza, a Keyspan senior vice president, who testified before the Massachusetts DPU:

“On-Track had already been operating successfully in New York State for seven years when Keyspan brought it to Massachusetts. The program premise was that by directing extra resources towards payment-troubled customers, not only those payment-troubled customers but also the company itself and all other ratepayers would stand to benefit. Reports on On-Track showed that customers in the program paid \$190 more annually toward their energy bills than they did prior to entering the program.¹⁵ On-Track had demonstrated that once customers entered the program, the company needed to make fewer collection-related visits and fewer service terminations, compared to the time before the customers entered the program.”¹⁶

Bodanza also testified that an On-Track type program was a good business proposition for the company:

“It is a good business proposition from the perspective of evaluating it on the basis that the participants show a history of paying their bills better than they had previous to their participation in the program. So there’s a good track record and shows in the fact that on average they’re paying \$190 more than they previously had.”¹⁷

Because Keyspan did not request that any costs of operating On-Track be included in its rates, the Massachusetts DPU did not need to formally approve or rule on the program. However, the DPU did note:

The On-Track program may likely enable the Company to lower its bad debt expense which, in the future, could benefit all ratepayers. Evidence indicates that a similar program has enjoyed some success in New York. The Department supports the implementation of the On-Track Program and, if managing payment and bad debt programs in this way is beneficial to all ratepayers, encourages all gas and electric distribution companies to explore the implementation of low-income programs similar to On-Track.

Key to the strategy in developing the AMP programs in Massachusetts was the initial use of relatively small pilot projects, to learn from the initial program design and make adjustments while expanding. AMPs grew slowly, administered first by two CAPs, then four and then six CAPs.¹⁸ Keyspan (now National Grid) and NSTAR utilities were early proponents of the current AMP programs. Now all Massachusetts utilities enthusiastically participate in the AMPs.

IV. All Parties Benefit from an AMP

A. Introduction

An AMP truly is a win-win situation for the various affected stakeholders: the customer, the utility, the average ratepayer, and the state's citizens. Participating customers clearly are winners in that they can obtain a fresh start and are far better equipped to meet future utility charges. But everyone else also benefits from an AMP program. Utility ratepayers and utilities benefit from decreased collection costs and increased revenues, and receive other benefits from the program. Massachusetts and its citizens also benefit from decreased utility terminations that would otherwise have far-reaching adverse impacts.

While the following sections focus on the benefits that AMPs have recently yielded in Massachusetts, the theoretical underpinnings for alternative approaches to collecting utility debts from struggling customers can be found in "Win-Win Alternatives for Credit & Collections," written by utility accounts manager Ron Grosse in 1995.¹⁹ The paper documents how working cooperatively with customers in arrears, rather than simply threatening termination, can reduce terminations, "burn-out" among employees involved in collections, and per-account cost of collections while producing "write-off" percentages comparable to, or even less than, industry averages. It describes an "innovative approach to customer service" that Wisconsin Public Service Corporation undertook in the 1980s, with the goal of reducing "the number of disconnections and at the same time producing good business results by limiting losses and arrears."

Terminating service to low-income customers who do not have the ability to pay is a lose-lose situation for company and customer, and more flexible approaches to working with those customers yield favorable results for all affected parties.

The company succeeded at its goal, through an unusual route. Its effort began by employing a research firm to conduct a "lifestyle survey" of 200 customers in Green Bay. To the utility's surprise, only 12% of "payment-troubled" customers were found to have adequate funds and ability to pay their bills on time. Just under half (47%) of the payment-troubled customers were simply too poor to pay their bills and 41% had the money to pay but were poor money managers who could not manage keeping up with their bills. Thus, 88% of the payment-troubled customers did not fit Wisconsin Public Service Corporation's "preconceived picture" that these customers were simply "deadbeats" who only paid their bills if threatened with termination.

In fact, the company concluded that most of the payment-troubled customers had the desire to pay, but that the company needed to take a new approach to reduce its own collection costs and

minimize terminations that did not produce payments. Early intervention and personal contact were considered key to success.

In response, Wisconsin Public Service Corporation created a new position of Customer Assistance Advisor (CAA), employees considered full members of the credit and collections team. The CAAs were required to have a background in social work and their role was to help the customer access assistance programs and community resources. The Grosse paper notes that, until then, most utilities saw threatening termination as the only way to resolve accounts in arrears. Wisconsin Public Service concluded that this approach simply does not work with customers who don't have the means to pay:

Risk [of non-payment] is best avoided by not disconnecting service; and a commitment to pay the bill can generally be reached with the customer by showing that the Company has a genuine interest in helping the customer do whatever they can to assure continuity of service and at the same time avail themselves of whatever resources may be available.²⁰

The results? The company saw fewer terminations of service, less burnout among its employees, and a “significant reduction in the number of fraud cases” as customers no longer felt compelled to lie when applying for new service after a disconnection. After adopting its new approach, the company’s “write-offs as a percentage of revenues” remained below the industry average and disconnects per 1,000 customers were a small fraction of the industry average. In addition, the “cost of collection per account” was below the industry average because fewer terminations and other collections activities offset the cost of hiring the Customer Assistance Advisors.²¹

The Massachusetts AMPs are not exactly the same as the Wisconsin model. However, the key underlying theory, vindicated by the well-documented data from the Wisconsin program, is the same: terminating service to low-income customers who do not have the ability to pay is a lose-lose situation for company and customer, and more flexible approaches to working with those customers yield favorable results for all affected parties.

B. AMP Participants Are Big Winners

Clearly AMP participants are well-served by the program. By definition they are customers with significant overdue bills (arrearages) that can lead to utility disconnection. While participants remain on the AMP, they are safe from disconnection and other collection efforts, even if they have a large arrearage that has been overdue for some time.

Avoiding utility disconnection is thus the most immediate benefit from the program. Utility shut-offs are extremely serious for a household, with documented potential for homelessness, illness, eviction from public housing, retraction of subsidies for assisted housing, loss of employment, absences from school, and even increased likelihood of fires in the residence. A

utility disconnection can also stay on a consumer's credit rating for seven years and can affect not only applications for credit, but also for employment, housing, and insurance.

The AMP participant also benefits from the arrearage reductions themselves. With each payment, there is a corresponding decrease in the amount of the AMP participant's obligation to repay the arrears. If the customer stays on the plan, the arrearage is totally forgiven. Then he or she can begin again with no amount due. The future risk of disconnection is dramatically reduced. Even if the participant does not complete the plan, making just some monthly payments will permanently reduce the arrearage.

A reduction in the arrears can have other beneficial financial impacts for the family. Threatened by disconnection, a family not in an AMP program may turn to predatory lenders to stave off the utility termination, which will eventually lead to even worse financial pressures and possibly to foreclosure on a home. Similarly, a family on an AMP may not have to face as many trade-offs between keeping the heat and lights on or obtaining medical attention or food.²²

One of the most beneficial aspects of an AMP for a participant is the permanent change a plan can have on the customer's future utility payments. The AMP provides customers an opportunity to work with the utility customer service staff and the local CAP to take advantage of other potential programs and benefits.

Customers who don't open or rip up collection notices and don't answer collection calls because they believe they cannot possibly catch up on their bills may not realize that they are entitled to a number of benefits that will help them pay their utility bills. When a utility presents the AMP offer instead of threatening disconnection, the consumer is often highly responsive and in a position to learn about other ways to help pay utility bills. Sue Corson, customer assistance programs administrator for Unitil, stated that AMP "gives me another tool to get them into other programs. I tell them about fuel assistance and energy efficiency. I talk with them during the summer when the program isn't open and I make a note to call them when the fuel assistance season opens."²³

"I was so happy being on the plan that I could handle my other bills, my rent and grocery bills. ...I'm elated that I can pay my bills and not be behind. It's been years since I have had a cut-off notice."

— Participant, Columbia Gas Arrearage Management Program

Since AMP eligibility is the same as eligibility for low-income discount rates, when an eligible customer seeks AMP enrollment and is not yet on the discount rate, the utility simultaneously enrolls the customer for low-income discount rates. The utility's customer service department or the CAP may also help with budgeting and with other public benefits.

In fact, with the original On-Track program (the predecessor to AMP) social workers helped customers stay in their homes and apply for all eligible benefits, provided financial counseling,

and gave social services support. Massachusetts utilities do not employ social workers to work with AMP participants, but the utilities and the CAPs do offer similar services.

The following story, in which a customer who is a disabled adult on Supplemental Security Income (SSI) explains what the AMP program meant to her, demonstrates the value of this cooperative relationship. The customer explained that the utility's collection efforts were giving her panic attacks, and she was also very worried about disconnections because of her medical condition. All that changed when she went onto the AMP program.

“My balance during the winter months was over \$1,000. I had no where to turn and I was a wreck. Enter Virginia Anthony [of Columbia Gas] and the program. I was crying. She told me to calm down and about the plan and how it operates. It fit my budget. I was getting threatening letters, threatening to cut me off. I had panic attacks. I'm not a very emotional person. I have never in my life been cut off by utilities and this would have been a first and it was very scary. I have a medical condition and a daughter at home. I get cold very easily. ...

I was able to take my back payments down in one year. If it wasn't for that arrearage program I don't know what I would have done. I had no one to borrow from. I had used all my fuel assistance. I still had a staggering bill due. ...

I was so happy being on the plan that I could handle my other bills, my rent and grocery bills. ...I'm elated that I can pay my bills and not be behind. It's been years since I have had a cut-off notice. Virginia Anthony has been wonderful.... She's always patient and calm. Very informative and beyond. It's so nice to deal with one person and not have to make repeated calls and have to explain it over and over to different people.

You really have to be consistent with the plan to be successful. Don't take a chance. When the bill is due, just pay it. I had little respect for money but no more. I always pay on time. I budget much better. Groceries, everything is budgeted, my electric and phone is budgeted, everything. When I go into a department store, I put money in a separate pocket and that's all I spend. I was someone who wasn't disciplined with my bills and it's helped me to pay my other bills on time also. I learned my lesson the hard way. We're real people and we all have different personal and financial situations. I never want to have that panic attack again. I have a daughter at home and I'm teaching her responsibilities too. She's 17 and she will want to move out on her own and I'm teaching her the virtues and the values too. I have no regrets. When I go into that department store or get a package of cookies, if I can't afford it, I just don't get it. I'm scared straight. If I didn't have this program to give me a chance that would never have happened. I just don't know where I'd be now.”

According to Darlene Gallant, the community services director at Lynn Economic Opportunity, “When our clients become successful with anything, it's a big deal. It's an enormous, enormous boost to them. We've had people come back, who have said ‘now I'm in school. If I can get this one thing under control, life doesn't feel so chaotic.’”²⁵

“Paying my bills gives me a sense of dignity and integrity. It helped me to catch up on my bills which gave me a sense of financial freedom, dignity and self-respect. It also helped me to catch up on my other bills too.”²⁴

— Disabled former Marine,
AMP participant

Of course, not everyone who starts on an AMP completes it. If a consumer’s income, fuel assistance, and other support are not adequate to make regular monthly payments, an AMP plan cannot be seen through to completion. The consensus of Massachusetts utility companies is that even if the consumer doesn’t keep up with the entirety of the payments, the program can still be successful. Why? Because it helps minimize the number of terminations and reduces losses for a company.

And even where a participant cannot make all of the required plan payments, that person still benefits. The arrearage is still reduced, although not in full. The consumer is placed on a low-income discount rate plan,

signed up for the fuel assistance and energy efficiency programs, and receives individual counseling.

C. AMPs Are Good for Other Ratepayers

Utility rates for all customers are affected by a utility’s collection costs and bad debt. In setting rates, these costs are taken into consideration and the higher the costs, the higher the rates. AMP reduces collection costs, site visits, and other disconnection costs. While a participant is on AMP, there are no disconnection costs, there is no need for a site visit, and other forms of collection are unnecessary. These cost savings offset the AMP program’s administrative costs and the cost of writing off arrearages.

In addition, it appears that utilities collect more from customers when they are in an AMP program than if they are not in the program. For example, Virginia Anthony of Columbia Gas said, “This program [AMP] has helped us recover money that we otherwise would never have recovered.”²⁶ Data provided by Columbia Gas in December 2012 showed that low-income customers on the AMP pay a much higher percentage of the amounts billed during a 12-month period, when compared to a random sample of low-income customers not on the AMP: 67% versus 44%. New York’s On-Track program documented that once customers joined, they paid on average \$190 more towards their utility bill than before they enrolled.

By definition, AMP participants are low income and have fallen behind in their utility charges. It is likely that without intervention, they will continue to fall behind even more and certainly will find it difficult to keep current and also to make payments toward past bills. As Eddie Swift, a supervisor at Northeast Utilities, noted:

“This money would definitely have been written off and we would have to report that to the DPU and then recoup that money from all of our ratepayers. This [AMP] program helps us avoid

having to pass along that in a form of a rate increase to all customers. The program is a win-win for everyone and we truly believe that.”²⁷

Utility companies generally are prohibited from terminating service to low-income customers during a winter moratorium, and customers not in an AMP who are living on the margin may even suspend all monthly payments. When customers do not pay during a moratorium period, they accumulate even larger arrearages that are impossible to repay, starting a new cycle of non-payment. By contrast, the AMP participant is required to make full, on-time payments on future charges. This requirement applies even during periods where there is a moratorium on disconnections.

“This money would definitely have been written off and we would have to report that to the DPU and then recoup that money from all of our ratepayers. This [AMP] program helps us avoid having to pass along that in a form of a rate increase to all customers.”

— Eddie Swift, supervisor
at Northeast Utilities

Thus, on an ongoing basis, AMP participants who stay on the plan even during a moratorium are likely to contribute more to utility revenues than if they were not in the program. This is certainly the case when compared to customers who only make minimal payments, but stay connected. Of course, some AMP participants do go off the program during a moratorium, limiting a program’s success to some extent.

Another advantage of an AMP is the likelihood that participants will continue to pay more after completing the program than they did before starting the program. Successful AMP participants learn the discipline of making on-time payments. AMPs also help place the individual with other appropriate assistance programs, all of which encourages the

customer to make utility payments. The New York On-Track program found that payments during the AMP year were about 10% higher than prior to that, and after the AMP year was completed, payments were still 5% higher than the experience prior to AMP.²⁸

Customers in arrears on their utility bills also have other debts and there will not be enough income for the consumer to make required payments on all bills. Utilities are competing for payment with other creditors. These other creditors hire debt collectors who try to convince the consumer to make a less important bill payment ahead of the utility payment. Consumers not on an AMP may pay off these other creditors ahead of the utility bill. Giving the AMP participant a financial incentive to make utility payments may be enough to restore the utility bill as a higher priority debt in the consumer’s mind.

When a customer is terminated for non-payment of an arrearage, the arrears are often never collected. Service may be put in another individual’s name and the original debtor may be judgment-proof. Or the consumer may file bankruptcy, wipe out the arrearage, and start

fresh—but not with all the advantages and tools that a year on the AMP program will provide the customer in making future payments. Thus, even in the long run, utility revenues may be higher by forgiving arrearages rather than pressing to have both current and back due amounts paid.

D. The Utilities Are Also Enthusiastic about AMPs

Perhaps the best evidence that the AMP program is good for the utilities themselves is the enthusiasm by which the utilities embrace the AMP program. AMP is not a program forced upon utilities. Instead, National GRID helped spearhead the concept and other utilities strongly support the AMP program. Interviews with utility representatives show not only enthusiasm for the program but a desire to introduce similar programs in other states where that utility also provides service.²⁹

Northeast Utilities Chief Customer Officer Penni McLean-Conner has experience across the range of utility low-income and energy efficiency programs. She has become a big fan of the Massachusetts AMPs:

“State government has to provide the policy framework for these programs and the reassurance to utilities that they will be successful. Ultimately, states create the mandate to run these programs. I give Massachusetts credit for the vision to make it happen here. When Massachusetts first proposed that utilities automatically enroll all income-eligible customers on AMPs, it was a bit frightening for the utilities. We were very passionate that we had to do productive outreach and that the program needed to communicate well with our customers. I admire the state for listening to us and creating a holistic program; we have a better program as a result. It was important that the state administration had the vision to say ‘this is important’ and to get all of the parties — utilities, CAPs, state agencies — together figuring out how to do it well.”

Other utility representatives are also pleased with the program. Virginia Anthony of Columbia Gas stated that “we really embraced the [AMP] program.”³⁰ And Northeast Utilities Supervisor Eddie Swift said that they would like to use the Massachusetts program in other states that they service.³¹

As a general rule, utilities do not like bad debt and prefer to minimize it as much as possible. AMP helps them do just that. AMPs also allow utilities to keep customers instead of losing them.

Another reason for utilities favoring AMP programs is that a utility would prefer to have good relations with its customers rather than adversarial ones. AMP is effective in accomplishing that goal. Instead of avoiding the utility, customers in arrears work with the company to solve the problem and think much better of the utility. Customer satisfaction with a utility increases with implementation of an AMP. For example, NSTAR’s Kathy Orrick stated, “our JD Power survey is way up. Our customers like us better and I believe this program [AMP] is part of it.”³²

In interviews, utility customer service staff consistently indicated how very enthusiastic they were about this change. “It’s wonderful.”³³ “It’s great!”³⁴ “They [customer service representatives] *love* the program.”³⁵ Customer service representatives “love, love, love it!”³⁶

Similarly, AMPS have fostered better relationships among utilities and low-income agencies that deliver fuel assistance and weatherization services. The AMP Best Practices Group brings advocates and utility representatives together to make things function best for the delinquent customer and other ratepayers. This cooperation has the potential for replication on other utility issues where cooperation works best rather than an adversarial process. As Elizabeth Berube, director of fuel assistance at Citizens for Citizens, Inc., in Fall River, noted, “We have a better bond with the utility companies because we meet quarterly. Before we never met with them and we only worked with them during a crisis.”³⁷

E. The State Wins

It is very much against a state’s interest to have any of its citizens lose their utility service. A utility disconnection often has disastrous consequences for the family being disconnected. Moreover, utility terminations have a number of serious adverse impacts on a state’s *other* citizens and on the state budget.

Utility terminations can lead to homelessness. Low-income tenants who live in public or subsidized housing face eviction if they do not maintain their utility service as this is a lease requirement. Homelessness increases public costs in terms of providing shelter and emergency services and also interferes with the ability of children to attend school. Utility terminations can also lead to serious medical problems, as a disproportionate share of low-income households have limited incomes precisely because they suffer from illness or disability.

Another impact of increased utility disconnections is an increase in residential fires as residents turn to other, unsafe forms of heat. Of course, fires have broad costs, not just to the unit’s residents, but also to adjoining property, insurance rates, firefighters, fire department budgets, and the surrounding community.

The Massachusetts state agency in charge of distributing LIHEAP fuel assistance benefits is a strong AMP supporter because AMPs lighten the burden for the state’s fuel assistance agency in dealing with emergency situations.

V. Designing an Optimum AMP Program

As a relatively new concept, AMPS are currently only in a few states. Only Massachusetts requires that all utilities participate in the program, yet the state allows individual utilities limited discretion in how they implement their AMP program.

As a result, the specifics of the optimal AMP program are still in development as utilities experiment with different approaches and as experience shows ways the program can be improved. The Massachusetts experience highlights a number of issues that any AMP program should consider.

A. Automatic Enrollment vs. Affirmative Opt-In

In Massachusetts most utilities require the customer to affirmatively opt-in to an AMP. Berkshire Gas automatically enrolls all eligible customers, but provides customers the right to opt out. NSTAR adopts a middle approach, whereby the consumer is automatically enrolled, but must contact NSTAR to confirm the enrollment. The utility sends a letter stating that the customer is eligible for the AMP and sets out the monthly payment amount that will be required to stay on the AMP. If the customer neither confirms the enrollment nor makes the first payment, the customer is not enrolled but can enroll at a later date.

As of May 31, 2013 (the most recent data available) WMECo has the highest percentage of its low-income rate customers enrolled in an AMP and Unitil has the second highest. National Grid, which does not offer automatic enrollment, is far behind with less than half the percentage achieved by WMECo and Unitil.

While there is much to be said for automatic enrollment, other utilities point out that successful participation in an AMP may depend on the individual's commitment to the program. Requiring an affirmative request to enroll identifies customers who are more likely to have that commitment. Moreover, by requiring customer participation before enrollment, the utility can discuss with the customer whether even current charges on a level payment plan are affordable. If they are not, it makes no sense automatically to put someone on an AMP who is bound to fail — particularly since this may prevent the individual from going on a second AMP in the future.

Thus, in the past, National Grid AMP participants (who must affirmatively opt-in) have had significantly better success rates than Berkshire Gas or NSTAR customers. Automatic enrollments provide more customers with an opportunity to enroll in an AMP, but fewer of those participants complete the plan. Should one spread out a wide net or cherry-pick participants?

The main reason to spread a wide net is that even those not completing their AMPs receive benefits from the program. Moreover, certain families who will complete the program after automatic enrollment might never have gotten the chance from an opt-in system. On the other hand, those failing an AMP may never get another chance to enroll.

Carol D. of Billerica, Massachusetts, is a good example as to why counting on the customer to opt-in has its drawbacks. She is a disabled, 71-year old retired widow. She received a letter from National Grid about the AMP program, and in her words:

“Actually National Grid sent me a letter regarding the program about a year before I spoke with [National Consumer Law Center attorney] Charlie Harak but I overlooked it because I didn’t understand it. I just glanced at the first letter and didn’t take the time to comprehend. I was upset with them [National Grid] because I had called them several times about getting put on a budget program and they’d say things like, “well you have to put \$2,400 down and pay \$600 every month plus your bill, and I said, “I just can’t do that.” The last time I called, was after National Grid brought me to court, and I’d been in and out of court for a year or so. They told me I had to pay \$4,500 and budget the \$4,500 I would still owe. I couldn’t afford to pay them \$4,500. I was just so upset. I wanted my day in court. Charlie Harak’s name was given to me by our senior citizen’s center and so I called him. Charlie mentioned it [the AMP program] and it came as an electric shock. I then researched it and I went back in my papers and found the sheet I received from NSTAR and I called them. They gave me an opportunity and I took it. I didn’t think I would qualify because my balance was enormous. It came as a shock when I was approved.”³⁸

All indications are that she will be able to stay on the program. But it took the intervention of a consumer advocate to explain the program. Many other deserving customers will not be so lucky. Merely sending a letter notifying customers of the AMP program is not adequate. Carol stated that “When a person has such a problem and such a high balance, they should be sent more than that letter. National Grid should have followed up with a phone call to see if I received the letter and to make sure I understood it. I absolutely would have been very open to speaking with them, even though I was upset with them.”³⁹

Certainly, if a utility does not use automatic enrollment, it should make every effort to reach out to its customers to encourage them to enroll. For example, notices about the availability of an AMP should be in more than one language, particularly in areas where Spanish or some other language is prevalent. For example, Spanish is the largest second language in central Massachusetts and Unitil sends Spanish translations of information about the AMP program.

B. Income Eligibility

Massachusetts AMP eligibility is set at 60% of the state median income, the same cut-off for fuel assistance eligibility and utility discount rates. This makes it easier to enroll households and provide them with a fuller range of services.

C. Should All Utilities Follow the Same Standards?

The Massachusetts model is interesting in that it provides some limited flexibility so that each utility can design certain aspects of its own AMP program. Of course, there is much to be said for standardization, including the fact that all customers in the state will be treated equally and have the same level of benefits. State agency review of the program is also simplified.

On the other hand, each service territory and service type (gas or electric) has distinct demographics and economic issues. Each utility may also have different computer software systems. Moreover, much can be said for allowing experimentation with different approaches in the early years of the AMP program.

One area that would seem ripe for standardization is the name the utility gives to its AMP program. Currently, each utility chooses the name for its AMP program. While National Grid calls its program an AMP, NSTAR refers to it as an AFP (arrearage forgiveness plan). Berkshire Gas names its program a RAMP (residential arrearage management program). WMECo calls its AMP program NuStart.⁴⁰

The ability to communicate state-wide to customers about the availability of an AMP program would certainly be improved if there was just one name for the program. On the other hand, such re-branding would cause some initial confusion for utilities that must rename their programs.

D. Computing the Level Monthly Payment

At least two issues are important in computing the level monthly payment. One is estimating the annual fuel assistance benefit that should be deducted from the estimated annual charges and the other is the frequency of re-computing the payment.

Estimating the Annual Fuel Assistance Benefit

This is not a problem if the AMP year begins after that benefit has been determined for the year. Often though the utility must estimate what the benefit will be for the coming year before that amount is determined.

Utilities typically use one of three methods to compute the forthcoming fuel assistance benefit.

- 1) Make the best possible estimate based on what is known about Congressional appropriations and other factors.
- 2) Use the prior year's fuel assistance benefit level.
- 3) Do not deduct for fuel assistance benefits at all because they are unknown.

Clearly the third option is not reasonable because it is estimating zero dollars where there is a high degree of certainty that the benefit will be significantly higher. Later, when the level payment amount is adjusted to reflect the actual fuel assistance payment, the monthly payment will drop dramatically. This means that the initial payments were too high, which is exactly the wrong thing to do when one is encouraging those with troubled payment histories to start making on-time payments.

The first option (using the best estimate of future payments) is likely to be the most accurate as long as it based on up-to-date information. Where it is not possible to make a future estimate, an alternative is to use the prior year's fuel assistance amount. That level payment amount can be adjusted once a more accurate fuel assistance number is available.

Frequency of Re-computing Payment

The other issue concerning the level monthly payment is how frequently it should be re-computed, based on changes in utility rates, utility usage, and the level of fuel assistance benefits. Considerations arguing against frequent re-computation are possible confusion to the customer as to the level payment (although this will be specified in the monthly bill) and the additional administrative burden to the utility.

These costs are outweighed by the benefits of re-calculating monthly payment levels every three to six months. Waiting too long can significantly reduce the chances of a successful AMP plan.

Where the annual charge increases from that first estimated payment, and the utility waits too long to re-calculate the remaining payments, then those remaining payments can be dramatically higher than what the customer was accustomed to paying, and may be unaffordable. Where the annual charge instead decreases from the first estimate, waiting too long saddles the customer with too high a monthly payment for the early part of the plan. The customer may default because of the size of those payments, where an early re-calculation could have kept the consumer on the AMP.

E. How Fast Should the Arrearage Be Paid Off?

Massachusetts utilities use different formulas to determine how fast an arrearage can be retired. Some utilities only allow \$1500 to be forgiven in the first year, while others allow as much as \$3600, or forgive the full arrearage no matter its size. While NSTAR forgives only a maximum of \$2400 in the first year, its AMP allows complete forgiveness in less than a year. For example, a \$1200 arrearage can be forgiven in six months and \$400 can be forgiven in 4 months.

Experience indicates that the faster the forgiveness, the more likely it is that the consumer will complete the AMP. Not only does the consumer have to be on the AMP for a shorter period of time, but the "light at the end of the tunnel" is that much brighter even in the early months. The ability to obtain a fresh start is much more immediate, motivating the consumer to make payments.

Thus WMECo allows its Massachusetts customers to retire the arrearage in one year while its sister Connecticut Light & Power requires three years. The Massachusetts success rate is more than double that of the Connecticut plan. This is consistent with what utilities found in their original pilot AMPs where the arrearage was paid off over a longer period. The program works better when the forgiveness works faster, and some utilities with pilots with slower forgiveness have now switched to faster forgiveness for their programs.

F. Training and Composition of Utility Customer Service Staff

Utilities in Massachusetts take the sensible position that even if there are specialists who only work on the AMP program all customer service personnel must be trained on the AMP. Utilities that experimented with training only the AMP specialists recognized the weakness of that approach and now train all customer service personnel about the AMP program.

It is important that whomever a customer contacts at a utility, and whatever the nature of the discussion about payment, that the customer service representative know and understand about the AMP program and bring this option into the discussion if the client is eligible. This is particularly important where a utility does not automatically enroll all AMP-eligible customers. While the utility's first point of contact should be familiar with AMP, the customer should then be referred to a specialist who can closely work with the customer to develop the AMP and assist with other important social service needs.

G. Level Billing Payments Must Be Affordable

AMP is a successful program where the level monthly payments are affordable for the customer. It does little good to offer arrearage forgiveness on the condition that a customer make monthly payments that are financially impossible for that customer to make. The whole point of AMP is to offer the low-income customer a realistic payment option that rewards regular, on-time customer payments with arrearage forgiveness.

Key to level monthly payments being affordable is the level of federal fuel assistance. (Anticipated fuel assistance receipts are subtracted from the estimated annual energy bill before computing the monthly payment amount.) A state or utility has no control over the level of federal fuel assistance funding, but there must be a recognition that AMP will work best when this level is adequate. Other ways of reducing monthly payments are also critical, including placing the customer on an adequate low-income rate plan and providing energy efficiency or weatherization services.

H. Relationship to a Winter Moratorium

AMP payments should be made by the customer during a winter moratorium period. Otherwise, payments after the moratorium may be at an unaffordable level. Too often customers stop making AMP payments during the moratorium which results in their removal

from the program. If a consumer makes no payments during the moratorium, it may be unaffordable for the consumer to catch up on missed payments before the plan expires, so that the consumer never completes the plan. In many cases, utilities do not offer consumers a second chance at a new plan, so stopping payments during a moratorium can have serious consequences. Companies and low-income advocates should work together to provide customers support in keeping up with their payments.

I. Critical Importance of the Ability to Reinstate an AMP

Experience indicates that even with low level payments, AMP participants will sometimes still have difficulty making a particular month's payment. While it may be appropriate to remove a customer from the program if the customer is not participating, there should be effective, flexible rules to reinstate that individual if the customer gets caught up on AMP payments. Presently Massachusetts utilities offer this ability to reinstate and it should be effectively communicated to the delinquent participant. The utility should reinstate participants who catch up on their payments.

J. Should an AMP Be Offered to Customers Even After Their Utility Service Is Disconnected?

Presently, customers whose utility has already been disconnected are ineligible for the typical Massachusetts utility's AMP. This creates the anomalous situation in that a person can enroll in an AMP one day before a disconnection is planned but not one day after. In Massachusetts this anomaly is resolved by establishing rules for consumers to reinstate their service while at the same time enrolling in an AMP program. This makes sense as long as the rules for reinstating service are not too onerous on the customer.

The serious implications of utility disconnection for not only the customer but for the state in general were previously noted. Offering an AMP and reconnection to these customers is one way to dramatically decrease the impact of such disconnections.

Those just disconnected may be as viable candidates for an AMP as those with large arrearages. Often disconnection is caused by an individual's inability to pay the same arrearage that an AMP plan will forgive. Those disconnected have the right to file bankruptcy, wipe out the arrearage, and get service re-connected. Using an AMP to accomplish the same result has the advantage of forcing the consumer to earn the arrearage forgiveness through on-time payments.

K. Should an Individual Be Allowed to Enroll in an AMP a Second Time?

In general, Massachusetts utilities only allow an individual to enroll in an AMP once. If the person misses AMP payments, there are options for reinstatement. But at the end of the AMP plan period—whether the individual completes the plan or not—the individual becomes ineligible to enroll in a future AMP if the individual again gets behind in payments.

The argument for allowing multiple AMP enrollments is straight-forward. If AMP is a good thing for everyone once, it can also be a good thing for everyone a second time. Those in poverty are particularly vulnerable to unexpected events, such as an illness, a large automobile repair bill where the vehicle is essential to get to work, loss of a job or benefits, a marital separation, etc. A customer with the best intentions can still get behind in utility payments a second time. Thus even with all the learning experience of the first AMP, sometimes individuals simply need a second fresh start.

The counter-argument is that the continued availability of AMP will encourage customers to build up arrears knowing that they will be forgiven in a second AMP. This problem can be avoided if the utility uses its discretion as to whether to offer a second AMP—instead of automatically ruling it out or automatically allowing it. This decision can be aided by information from a CAP or other agency working with the client as to the individual’s special circumstances arguing for the customer being enrolled in an AMP a second time.

It is likely that the main reason for existing Massachusetts utility policies limiting a second AMP is that the program is new enough not to present any actual cases where a deserving person needs a second AMP. Some Massachusetts utilities state that they will offer a second AMP in individual cases.

VI. Conclusion

The Massachusetts AMP program is a major success and worthy of implementation in other states. The program provides numerous benefits for low-income customers with serious arrearages, with no measurable negative impact on the utilities or other ratepayers. The utilities themselves are very enthusiastic about the program, and other indirect benefits also accrue to the state. Careful consideration to program design can lead to even greater success, but as presently implemented, the Massachusetts program is working well.

ENDNOTES

- ¹ See “The Burden of FY 08 Residential Energy Bills on Low-Income Consumers,” Economic Opportunity Studies (Mar. 2008).
- ² Source: Massachusetts Department of Housing and Community Development, oral reports to the LIHEAP Advisory Group.
- ³ Data compiled by Theo MacGregor from monthly utility reports.
- ⁴ See “The Burden of FY 08 Residential Energy Bills on Low-Income Consumers,” Economic Opportunity Studies (Mar. 2008), the most recent data available.
- ⁵ Source: Credit Reports to the Massachusetts Department of Public Utilities.
- ⁶ The full text of the can be found here:
<http://www.malegislature.gov/Laws/SessionLaws/Acts/2005/Chapter140>
- ⁷ See Order Establishing Standards for Arrearage Management Programs for Low-Income Customers, D.T.E. 05-86 (Feb. 28, 2006).
- ⁸ Order Expanding Low-Income Consumer Protections and Assistance, DPU 08-4 (Sept. 15, 2008).
- ⁹ D.P.U. 12-AMP-05, “National Grid’s Arrearage Management Program” (Feb. 23, 2012), p. 2.
- ¹⁰ D.P.U. 12-AMP-02, “The Berkshire Gas Company Residential Arrearage Management Program” (Feb. 29, 2012), p. 2.
- ¹¹ D.P.U. 12-AMP-04, “Unitil Arrearage Management Program” (Feb. 28, 2012), p. 1.
- ¹² D.P.U. 12-AMP-07, “NSTAR Arrearage Forgiveness Program” (Mar. 1, 2012)
- ¹³ D.P.U. 12-AMP-08, “Western Massachusetts Company – NUStart Arrearage Management Program” (Mar. 1, 2012).
- ¹⁴ Note, however, that “exceptions may be made to the general rules.” D.P.U. 12-AMP-08, “Western Massachusetts Company – NUStart Arrearage Management Program” (Mar. 1, 2012), p. 4. Many of the companies in practice display more flexibility than their written plans allow for reinstatement, especially if the customer has a good explanation for why payments were missed (e.g., household member lost a job; illness interfered with work).
- ¹⁵ Testimony of Senior Vice President for Regulatory Affairs and Chief Financial Officer Joseph F. Bodanza, p. 15, in *Boston Gas Company d/b/a Keyspan Energy Delivery New England*, DPU 03-40 (Apr. 16, 2003)
- ¹⁶ *Boston Gas Company*, DPU 03-40, Trans. 12, pp. 1500 – 1501.
- ¹⁷ Bodanza testimony, DPU 03-40, Trans. 12, pp. 1516 – 1517.
- ¹⁸ Interview with Theo MacGregor, MacGregor Energy Consultants (Nov. 14, 2011).
- ¹⁹ A revised version of the paper was written by Grosse and Nancy Brockway, then the director of Multi-Utility Research and Analysis for the National Regulatory Research Institute.
- ²⁰ Ron Grosse, “Win-Win Alternatives for Credit & Collections” (2008 rev.), p. 10.
- ²¹ Evaluations of other low-income customer assistance programs – including Arrearage Management programs, Percentage of Income Payment Programs (PIPPs), discount rate programs, etc. – show mixed results in terms of avoiding terminations, reducing arrearages and changing customer payment patterns. For example, a 2012 Apprise study, “PECO Energy Universal Services Program, Final Evaluation Report” found no meaningful change in service terminations following enrollment of customers on the program, although a 2007 PA Consulting Group report on Maryland programs (“Electric Universal Service Program Evaluation Report”) found fewer disconnects after participation. As for arrearages, the 2012 Apprise study, program found that program participants reduced their arrearages by \$200, but a 2009 report by Roger Colton of an Indiana program (“An Outcome Evaluation of Indiana’s Low-Income Rate Affordability Programs: 2008”) found no significant change in arrearages.

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- ²² There is a reverse correlation between the adequacy of funds available to a low-income household to pay energy and utility bills, and under-nutrition in the household. See Deborah A. Frank, Nicole B. Neualt et al. *Pediatrics*, Vol. 118, No. 5, pp. 1293 – 1302 (Nov. 1, 2006) (“Living in a household receiving the Low-income Home energy Assistance Program is associated with less anthropometric evidence of undernutrition”).
- ²³ Interview with Susan Corson, Customer Assistance Programs Administrator, Unitil (Oct. 25, 2011).
- ²⁴ Interview with D. D. of Randolph, Mass. (Oct. 26, 2011).
- ²⁵ Interview with Darlene Gallant, Community Services Director, Lynn Economic Opportunity, (Oct. 17, 2011).
- ²⁶ Interview with Virginia Anthony, Manager of Consumer Relations, Columbia Gas of Massachusetts (Oct. 20, 2011).
- ²⁷ Interview with Eddie Swift, Supervisor for Special Assistance Team, Northeast Utilities (Oct. 27, 2011).
- ²⁸ Keyspan, On Track Program Evaluation, 1999-2000, submitted by Boston Gas Company in DTE 03-40 (June 13, 2003).
- ²⁹ Interview with Susan Corson, Customer Assistance Programs Administrator, Unitil (Oct 25, 2011).
- ³⁰ Interview with Virginia Anthony, Manager of Consumer Relations, Columbia Gas of Massachusetts (Oct. 20, 2011).
- ³¹ Interview with Eddie Swift, Supervisor for Special Assistance Team, Northeast Utilities (Oct. 27, 2011).
- ³² Interview with Kathleen Orrick, Manager of Low-income Programs at NSTAR (Oct. 18, 2011).
- ³³ Interview with Kathleen Orrick, Manager of Low-income Programs at NSTAR (Oct. 18, 2011).
- ³⁴ Interview with Susan Corson, Customer Assistance Programs, Administrator for Unitil (Oct. 25, 2011).
- ³⁵ Interview with Teresa Jackman, Senior Customer Servicer Consultant, Northeast Utilities (Oct. 27, 2011).
- ³⁶ Interview with Susan Corson, Customer Assistance Programs Administrator, Unitil (Oct. 25, 2011).
- ³⁷ Interview with Elizabeth Berube, Director of Fuel Assistance, Citizens for Citizens, Inc., Fall River, Mass. (Oct. 18, 2011).
- ³⁸ Interview with Carol D. of Billerica (October 17, 2011).
- ³⁹ *Id.*
- ⁴⁰ WMECo’s program was first launched by its parent company, Northeast Utilities, or “NU,” hence “NuStart.”

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