State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI
Executive Director

THAD LEVAR
Deputy Director

JEFFREY P. MILLINGTON
Director, Division of Public Utilities

JON HUNTSMAN Jr.
Governor

GARY HERBERT
Lieutenant Governor

MEMORANDUM

To: Utah Public Service Commission

From: Utah Division of Public Utilities
Jeffrey Millington, Director
Energy Section
Abdinasir M. Abdulle, Technical Consultant
Charles Peterson, Technical Consultant
Artie Powell, Manager

Date: November 16, 2007

Re: Docket 05-035-54, MEHC Acquisition of PacifiCorp
Transaction Commitment U26
Low Income Arrearage Study

RECOMMENDATION

The Division of Public Utilities (DPU) recommends the Commission not acknowledge PacifiCorp's Arrearage Study report as satisfying the Acquisition Commitment U26.

ISSUE

In Docket No. 05-035-54, MEHC and PacifiCorp committed to study and design an arrearage management project for low-income customers in its service territory (U26). For the benefit of the reader Commitment U26 is reproduced here:

> MECH commits to provide shareholder funding to hire a consultant to study and design for possible implementation of an arrearage management project for low-income customers that could be made applicable to Utah and other states that PacifiCorp services. PacifiCorp will provide a resource for facilitation of a working group to oversee the project. The study shall commence no later than 180 days after close of the transaction and be completed, through the issuance of a formal report to the Commission, no latter than 365 days after the close of the transaction.

> MEHC recognizes that such a program may have to be tailored to best fit the unique low-income environment of each individual state. The project will be developed by PacifiCorp in conjunction with relevant regulatory and governmental agencies, low-income advocates, and other interested parties in each state that is interested in participating. The goals for the project will include reducing service terminations, reducing referral of delinquent customers to third party collection agencies, reducing collection litigation and reducing arrearages and increasing voluntary customer payments of arrearages. The cost of this study will be at least $66,000 on total company basis paid for by the shareholders. If less than six states participate, the amount of the shareholder funds will be reduced proportionately.

The Division understands the intention of this commitment (U26) as being to study and design a low-income arrearage project that is tailored to fit the unique low-income environment of each state and achieves the aforementioned goals. Based on this understanding the Division reviewed the Quantec's report to see what specific projects or strategies have been recommended for Utah, how these projects or strategies meet the goals set forth in the commitment and what the basis for these recommendations are.

Compliance with the commitment

The commitment required PacifiCorp to hire and pay for a consultant with shareholder funding (at least $66,000), to commence the study no later than 180 days after close of the transaction, and to submit a report to the Commission no later than 365 days.

In compliance with this portion of the commitment, the Company hired a consultant (Quantec) to conduct an arrearage management study. The Company reported that the cost of the study was $83,200 paid through shareholder funds. The kick off meeting for this study in which the Division, Committee and other interested parties participated was held on September 27, 2006 and a final report was submitted to the Commission on March 20, 2007.

The commitment specified five goals for the study. These goals were (1) reducing service terminations, (2) reducing referral of delinquent customers to third party collection agencies, (3) reducing collection litigation, (4) reducing arrearages, and (5) increasing voluntary customer payment of arrearages. Some of these goals are interrelated so that compliance with some leads to automatic compliance with others. For instance, if voluntary customer payment of arrearages is achieved, then the goal of reducing arrearages is automatically achieved. Also, since referral of delinquent customers to third party collection agencies, collection litigations and service termination are consequences of the existence of arrearages, once a reduction in arrearages is achieved these other goals will automatically be achieved. Therefore, the Division believes the key goal is the reduction in arrears. Below we will discuss compliance with these goals starting with the goal of arrearage reduction.

The report contains five recommendations. These recommendations are 1) identification of low-income households; 2) maximize use of energy assistance; 3) maximize use of new trends; 4) rate discount; and 5) longer term solutions.

All of these recommendations except recommendation number 1 can potentially reduce arrearages, service terminations, referrals of delinquent customers to third party collection agencies, and collection litigations among the low-income customers. These four recommendations except recommendation number 3 will result in an increase in the ability of the low-income households to make payments and therefore may increase voluntary customer payments of arrearages. However, recommendation 3, though it has the potential of achieving the goals, may create more problems than it solves. For example, many low-income customers may frequently self disconnect their services as soon as the money they put in the meter is exhausted.

The Division analyzed the recommended strategies from the point of view of their usefulness to Utah and found the following:

1. Identification of low-income household

The report indicates that in order to design and implement meaningful arrearage programs, it is important that PacifiCorp identifies and collects data on low-income households. Though it is difficult to identify the general low-income households in Utah, the Division believes that identifying and collecting data on those Utah households receiving some form of energy assistance is a useful recommendation as it will help the Company formulate policies and programs designed to reduce the arrearages.

2. Maximizing use of energy assistance

This recommendation states that PacifiCorp should maximize the external energy assistance available to its individual confirmed low-income households by informing the various agencies of assistance resources available to their clients.

As was explained, in some detail, in Betsy Wolf's supplemental comments to PacifiCorp[1], Utah's low-income advocates and state agencies already know the assistance resources available to Utah's low-income customers and are utilizing these assistances efficiently. Therefore, this recommendation does not benefit Utah.

3. Maximize use of new trends

This recommendation amounts to the adoption of pre-paid meters on a voluntary basis. The report explains how this strategy could benefit the Company and its customers and, at the same time, how it promotes conservation. In the Division's view, this program would not reduce arrearages, but would simply mask the arrearage problem by having customers self disconnect their services as the pre-paid funds are exhausted. In other words, this program would not help low-income customers but would simply mean that they may lose continuity of electric services, perhaps at consequential times of the year such as during severe cold weather. Those who could not put money in the meter, be it because they do not have the money at the time or they are too sick to go get the money or for any other reason, will self disconnect their services and stay without power until they receive money or whatever other condition that was preventing them from putting money into the meter gets resolved. Therefore, the Division does not support this recommendation for Utah.

4. Rate Discounts

In Utah we have the HELP program which provides an $8 discount for the qualified customers. Therefore, the Division does not think that this recommendation benefits Utah.

---

[1] Betsy Wolf. July 31, 2007. Supplemental Comments of Salt Lake Community Action Program on the Low Income Arrearage Study.

5. Longer term solution

This recommendation suggests that PacifiCorp needs to participate in larger social efforts to address the underlying issue of poverty. The Division views this recommendation as general in its application. A more specific recommendation regarding specific social efforts PacifiCorp should participate in would have been helpful. Therefore, the Division does not think that this recommendation benefits Utah in its current form.

Based on the Division's review of the arrearage report, though the Division does not disagree that these recommendations can help achieve all of the goals set forth in the commitment for **some** states in PacifiCorp's territory, the Division does not think that these recommendations will help Utah achieve these goals.

In relation to how the study was conducted, the Division has some concerns. In its study, Quantec reviewed materials from its library and some downloads from online resources and trade associations. From these materials, Quantec developed a summary of what it termed as industry best practices[2] regarding credit management strategies. These industry best practices are regrouped into three categories: accessibility to service, affordability of service, and continuity of service. Utah is already implementing most of these best practices. The credit management strategies in Quantec's list that Utah is not already implementing include:

> ***Accessible service:*** Deposit loans, proactive reconnections, temperature-based moratoria, prior approval, and pre-payment solutions.
>
> ***Affordable service:*** Conservation loans, targeted conservation, arrearage forgiveness, percent of income payment plan, fixed price tariff, and prepayment solutions.
>
> ***Continuity of service:*** Budget counseling, partial payments and deferred billings.

[2] Quantec's Low-Income Arrearage Study: Final Report, March 20, 2007, p. 41.

Contrary to the Division's expectations, the report does not contain any analysis as to whether, if implemented in Utah, these practices could achieve the goals set forth in U26 in a cost-effective manner. Of the practices that are not implemented in Utah, the report recommends only prepayment solutions. The report contains no explanation justifying the recommendation of the prepayment solutions, or an explanation for not including the other practices that are also not currently implemented in Utah.

In addition, Quantec conducted the study based on the set of objectives listed on pages 1 and 9 of its report. These objectives were:

1. Assess the level of low-income arrearages;
2. Estimate the impacts of the arrearages on PacifiCorp and its ratepayers; and
3. Recommend cost-effective strategies to reduce low-income arrearages, and mitigate operational costs.

The report is primarily about the first two objectives. On page 5 of the report, Quantec indicated that "although specific cost-effectiveness analyses were not conducted to evaluate each potential strategy, cost-effectiveness was considered when reviewing possible arrearage abatement strategies…" The report contains no information regarding any other considerations in lieu of cost-effectiveness considerations in relation to the selection of the recommended strategies. Thus, the Division concludes that the report does not address objective 3 above which was the core of this whole arrearage management study.

Therefore, the Division concludes that this report does not satisfy the commitment, U26, for Utah and recommends the Commission not acknowledge it as satisfying the commitment.

Cc Jeff Larson, Rocky Mountain Power
Dave Taylor, Rocky Mountain Power
Michele Beck, Committee of Consumer Services
Betsy Wolf, Salt Lake Community Action Program