

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 1255
Economic Matters

(Delegate Vaughn, *et al.*)

Public Service Companies - Gas and Electric Service - Alternative Payment
Agreements

This emergency bill requires the Public Service Commission (PSC) to issue an order and to implement regulations limiting the authority of a public service company to terminate service for gas or electricity to a residential customer for nonpayment. The bill requires public service companies to implement alternative payment agreements under certain circumstances and to provide customers with notice of the availability of alternative payment agreements. The bill also modifies an existing reporting requirement for PSC.

The bill terminates June 30, 2014.

Fiscal Summary

State Effect: PSC can implement the bill with existing budgeted resources.

Local Effect: The bill does not materially affect local government operations or finances.

Small Business Effect: None.

Analysis

Bill Summary: PSC must adopt regulations that require the implementation of reasonable alternative payment agreements tailored to a residential customer's circumstances in a form approved by PSC. Alternative payment arrangements must allow a residential customer to pay arrearages and maintain gas or electric service through the term of the agreement. Public service companies are required to provide

appropriate notice of alternative payment options to customers at least 14 days before termination of service for nonpayment. Regulations adopted by PSC must specify the circumstances under which termination limitations and implementation of alternative payment agreements must be required, including a showing of hardship.

PSC must initially implement the bill's requirements through an order limiting terminations either statewide or by service territory. Such an order may only be effective through June 30, 2011. Regulations implementing the bill, which will replace the order, must be adopted by that date. Any alternative payment agreement entered into under the authority of PSC's order must remain in force under its terms if the residential customer is not in breach of the agreement.

The bill modifies an existing reporting requirement for PSC relating to the effect of the terminations of service on various categories of customers to address *all* residential customers; currently, the focus of that report is on *low-income* customers.

Current Law: If a low-income customer is unable to pay charges for service, the Code of Maryland Regulations (COMAR 20.31.01.08) requires a utility to make a good faith attempt to negotiate a reasonable alternate payment plan. If a customer is not considered low-income, a utility may make alternative payment arrangements, but is not required to do so. A utility may refuse to negotiate an alternative payment agreement to a low-income customer if that customer failed to meet the terms and conditions of an alternative payment plan during the past 18 months.

An alternative payment plan for a low-income customer must consider the circumstances and financial condition of the customer. If an alternative payment plan cannot be arranged, the utility must promptly notify the customer. If a customer fails to adhere to the alternate payment plan, the utility must notify the customer that termination procedure may be begun, pursuant to existing regulations.

COMAR 20.31.02.05 requires electric companies to notify a customer at least 14 days prior to terminating service for nonpayment, except under specified conditions. Additional restrictions on terminations apply to elderly or handicapped individuals, individuals with a serious illness and life support equipment, and during periods of excessive hot or cold weather.

PSC must report by June 1 of each year to the General Assembly on the terminations of service by public service companies during the previous heating season. The report must include information in sufficient detail to indicate the effect of terminations of service on various categories of customers, including income level, geographic areas, energy assistance recipients, and any other category PSC determines relevant to evaluate how the

State may best address the problem of assuring gas and electric service to low-income residential customers.

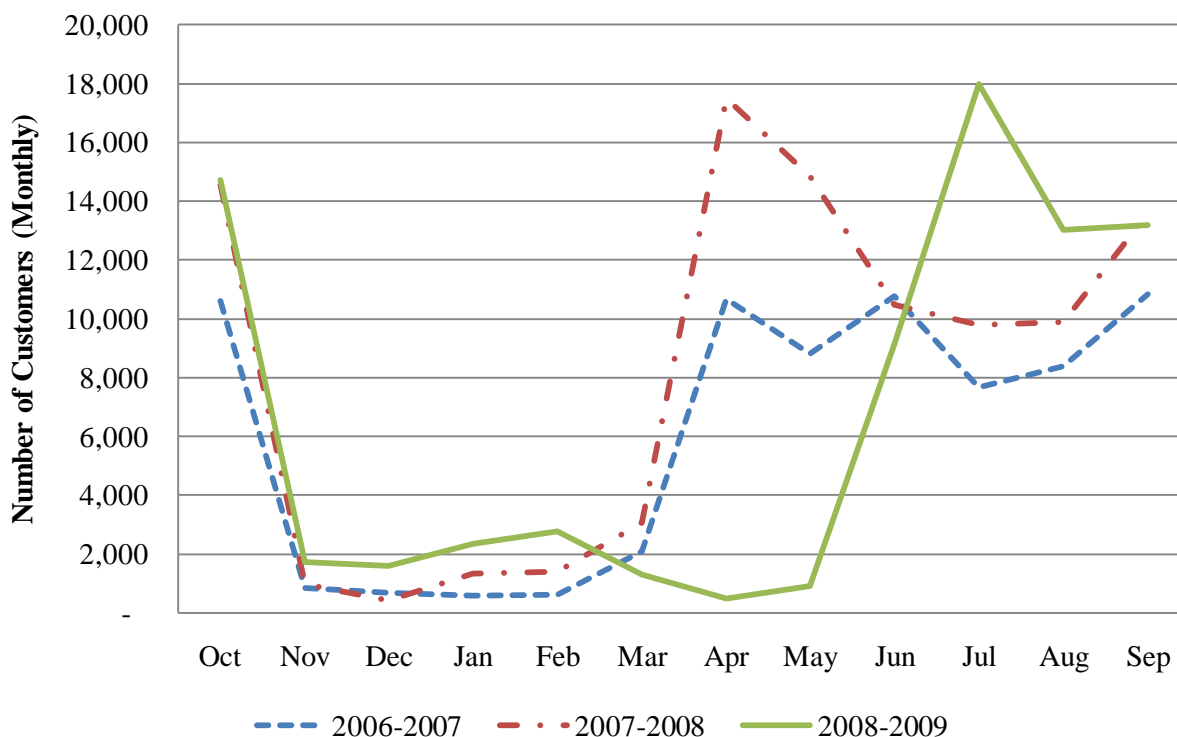
PSC Action on Customer Arrearages and Terminations

Pursuant to Case Number 9175, PSC Order Number 82509 (March 11, 2009) directed all utilities, subject to the commission's jurisdiction, to refrain from terminating any residential electric or gas service for delinquent payment or outstanding balances until PSC directs otherwise. The order created a work group to convene and develop procedures and criteria for payment plans that each utility must offer all customers before the utility can commence termination procedures.

As a result of the workgroup's activities, PSC issued an order lifting the temporary restriction on terminations and issued Order Number 82628 (April 24, 2009) directing Baltimore Gas & Electric, Potomac Electric Power Company, Delmarva Power & Light Company, and Washington Gas Light Company to make alternative payment plans available to *all residential customers* with arrearages – not just low-income customers, as currently required under COMAR. The utilities were required to offer flexible payment plans, free of interest or late fees, to each requesting customer that has not yet been terminated for up to 12 months in duration. The order included other provisions, including additional notification requirements and procedures for reconnection of previously terminated customers. However, this order was meant only to apply to customer arrearages that had occurred as of the date of the order. The terms of the order do not apply to current arrearages, although PSC urges utilities to continue to offer a reasonable payment plan to residential customers in arrears prior to termination.

Background: During the 2008-2009 heating season, increased costs for electricity, coupled with colder than average weather and an economic downturn resulted in a significant increase in the number of pending customer terminations near the end of the heating season. Although the overall number of utility customers with arrearages had decreased from the prior year, customers with arrearages saw an increase in the average outstanding balance. Due to the temporary restriction on customer terminations imposed by PSC in April 2009, and the subsequent requirement that utilities enter into alternative payment agreements for those customers with outstanding balances, overall terminations decreased from 97,897 in the 2007-2008 heating season to 79,198 in the 2008-2009 heating season. **Exhibit 1** compares the customers terminated for the past three heating seasons.

Exhibit 1
Maryland Utilities Residential Customer Terminations



Source: Public Service Commission, Department of Legislative Services

As shown in the exhibit, customer terminations in spring 2009 decreased significantly as PSC imposed temporary restrictions on customer terminations and required alternative payment plans; however, there was a significant increase in customer terminations in July 2009.

PSC has not yet published its annual report on customer arrearages and terminations for the 2008-2009 heating season.

Additional Comments: An increase in bad-debt write-offs by utilities may result in a minor rate increase to all customers. Such an increase would be authorized through a formal rate proceeding to be held by PSC. To the extent that alternative payment agreements allow customers to pay arrearages, all ratepayers benefit; however, to the extent that customers are not able to correct arrearages, the potential for increased bad-debt write-offs exists.

Additional Information

Prior Introductions: As passed by the House, HB 1002 of 2009 was similar. The bill received an unfavorable report from the Senate Finance Committee.

Cross File: SB 971 (Senator Klausmeier, *et al.*) - Finance.

Information Source(s): Public Service Commission, Department of Legislative Services

Fiscal Note History: First Reader - March 11, 2010
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Analysis by: Erik P. Timme

Direct Inquiries to:
(410) 946-5510
(301) 970-5510