

Who Will Pay the Pandemic Utility Bill – and How?

By Ted Kury

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The COVID-19 pandemic has both spread and worsened in many areas, forcing widespread emergency responses, often at short notice and with minimal resources to help people cope with dire consequences. A major concern among most households, especially those struggling to meet basic needs, has been how to remain connected to essential utility services.

In response to this crisis, governments, regulators, and utilities around the world have taken initiatives to prevent people from losing access to essential utilities. The most popular approach has been to impose moratoria on late fees and disconnections for nonpayment of bills. Every state in the U.S., and most countries, has enacted some version of this policy, ranging from formal declarations from governments and regulators to voluntary programs offered by utilities.

Policy makers and regulators are currently attempting to address numerous issues and complex implications surrounding the modifications of these moratoriums, ranging from:

- Strategy for lifting them
- Whether to extend or modify them; and
- To what extent assistance can be provided and the implementation timeline.

Among the most challenging tasks facing regulatory decision makers are how to determine what data they need to make sound decisions and how to gather and assess useful information.

Although funds to maintain consumers' access to electrical power provoke the most attention, access to sufficient water, gas, and heat is also cause for concern, yet there is no source of comprehensive data on the combined costs of unpaid bills for these basic resources. This example of insufficient information is only one of many interrelated problems facing regulators. Another problem is the wide variation in the forms of information available – be it formal reports, computerized data, and testimony in committee hearings.

The financial impact of unpaid utility bills affects everyone. Due to the varied perspectives of important policymakers at many levels, collaboration among decision makers has become increasingly essential. The pandemic crisis therefore presents especially rich opportunities for revising policies for utility programs and reassessing priorities involving multiple utilities.

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How Will These Debts Be Settled? - No Straightforward Solutions

Several estimates of the total costs of moratoriums already reach approximately \$24 billion by the end of 2020. The costs may increase significantly because moratoriums in nine states including California, New York, and Wisconsin, covering more than 23 percent of residential electricity customers nationwide, are expected to extend into 2021. Furthermore, there is no policy-based end to the mounting costs in sight. Therefore, policy makers face a daunting challenge: How and when will such massive debts be settled?

Possible Solutions

1. Cost Causality

- a. Pro: The original customers of the utility would be responsible for restoring the accrued expenses, so those who did not miss any payments will not be affected
- b. Con: Unpaid costs would remain due to those who are unable to pay or who leave the system due to disconnection

2. Incorporating Debts into Utility Rate Base

- a. Pro: Debts are incorporated into future utility costs, spreading the cost over all utility customers
- b. Con: Rates are increased for everyone's utilities, causing those who were not in arrears to pay for the debts over time

3. Enlisting the State to Provide Funds by Issuing Bonds Subsidized by Taxpayers

- a. Pro: Debts are incorporated into state taxes and divided amongst all taxpayers over time
- b. Con: All taxpayers, regardless if they are customers of the utility, are responsible for the costs of the debt

4. Tapping into Investors' Assets

- a. Pro: May seem like a way to absolve customers of the responsibility for the debt
- b. Con: Municipal and cooperative utilities don't have outside equity investors, so this strategy will not be available to them. Investors in other types of utilities may require greater returns on their investment, or withdraw their capital from the sector altogether.

Unfortunately, no traditional options offer flawless, straightforward solutions. The most direct policy -- "cost causality" -- might seem like common sense. The policy would require those who caused the cost to pay for it; the original customers of the utility would restore the accrued expenses. Nevertheless, unpaid costs would remain due to those who are unable to pay or leave the system because of disconnection. Ultimately someone has to pay those unpaid debts.

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Other options pass the costs on to other entities in the form of increased rates over time or enlisting the state to provide funds by issuing bonds subsidized by taxpayers. Finally, a strategy based on tapping investors' assets will be unavailable to municipal or cooperative utilities who lack outside equity investors.

Other utilities are owned by investors, who provide the companies with capital in exchange for a risk-adjusted return on that investment. If the risk of the investment goes up, so does their expectation of their return.

If utility investors are asked to take on risks beyond what they perceive as fair, they may either require a greater return for their capital in the future – which would require the utility to raise its rates – or stop providing capital altogether and invest it somewhere else. This could affect the reliability and accessibility of utility service in the future. So while utility customers might not pay today, they are likely to pay in other ways in the future.

Questions and dilemmas accompany virtually all options that regulators must consider. For example:

- If a regulator prohibits the utility from disconnecting a delinquent customer when the utility is not able to finance the consumer's debt, who will cover the costs in the short run? And for how long a period?
- Should the regulator authorize disconnection of delinquent customers who cannot pay the bill after the moratorium expires?
- Some states have adjusted to this dilemma by setting differing deadlines – ending the moratorium for some customers but extending the moratorium for others due to extenuating circumstances. How should regulators enforce and explain such a policy to the public and to consumers?

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Four Fundamental Policy Issues

1. Because revenues are severely reduced, how should a utility determine how to make costly choices - which customers to disconnect, which bills to pay now and which to delay, and which financial agreements to restructure? There is no straightforward answer to some difficult decisions, especially if outside investors are involved. Even though situations may be similar in some ways, each decision will be different. What makes best sense for each situation?

2. How do regulators decide when to lift a moratorium? The classic economic answer - when the costs exceed the benefits - is simplistic. The challenge is how to quantify costs and assess benefits that differ among jurisdictions.

3. What has become critical in all these decisions is tracking the costs and then creating a reliable methodology for evaluating the benefits to the consumer.

4. What strategies can different jurisdictions and states learn from each other? For example, what kind of data should they be gathering to monitor the impact of a moratorium?

While states still have to decide on solutions for the issues and complex implications surrounding these moratoriums, it is certain that the people - utility customers, taxpayers or investors - will have to pay at the end. Ultimately, all that regulators and policymakers will decide is how and when.