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ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority to revise its credit and collection follow-up procedures. (Gas and Electric)	Application 83-12-30 (Filed December 16, 1983)

Peter W. Hanschen and Andrew L. Niven, Attorneys at Law, for Pacific Gas and Electric Company, applicant.
Jon F. Elliott, Attorney at Law, for Toward Utility Rate Normalization, protestant.
William Gaffney, for the Commission staff.

O P I N I O N

Pacific Gas and Electric Company (PG&E) requests authority to revise its credit and collection follow-up procedures for gas and electric domestic customers. It proposes to change the time it mails the 15-day notice of discontinuance of service to domestic customers.

PG&E now mails the 15-day notice of discontinuance to any gas and/or electric domestic customer about 12 days after mailing the 2nd month bill, that is, in a separate mailing. PG&E proposes to mail the 15-day notice with the 2nd-month bill to "higher-risk" customers and with the 3rd month bill to "lower-risk" customers. In all other ways PG&E's credit and collection follow-up procedures would stay the same.

PG&E proposes to classify as "higher-risk" any domestic customer:

1. Who has been receiving gas and/or electric service from PG&E for one year or less, or;
2. Who has been receiving gas and/or electric service from PG&E for more than one-year and who has:

a. Established credit by making a cash deposit that has not been returned,[1] or

b. Issued a check in payment in the prior six months which was returned unpaid, or

c. Had PG&E utility service terminated for nonpayment in the prior six months.

Gas and/or electric customers not classified as "higher-risk" would be classified as "lower-risk".

PG&E believes that if "higher-risk" customers are contacted earlier they will be in a better position to work out reasonable payment arrangements with PG&E. This in turn would tend to avoid actual discontinuance of service to these customers and help PG&E control its bad debt losses. PG&E also believes that if "lower-risk" customers are contacted later they will not cause a significant increase in bad debt losses.

Procedural History

On January 18, 1984, Toward Utility Rate Normalization (TURN) filed its motion to either dismiss the application or to hold hearings. During February and March 1984, PG&E and TURN held talks and PG&E provided information to TURN in an attempt to resolve their differences. On April 19, 1984, PG&E advised that these talks had concluded without any resolution of differences. Accordingly, Administrative Law Judge (ALJ) Baer set evidentiary hearings for May 25, 1984. At the hearing PG&E sponsored testimony and documentary evidence through its witness Frederickson; and TURN and a

[1] PG&E returns any cash deposit after the first year unless in the prior 12 months the customer either has had more than 2 past due bills or has had service temporarily or permanently discontinued for nonpayment of bills. (PG&E Tariff Rule No. 7.B.4.)

staff representative from the Utilities Division cross-examined. The hearing was submitted May 25, subject to the receipt of a late-filed exhibit, the filing of an opening brief by TURN on June 11, and the filing of a closing brief by PG&E on June 18, 1984, which have been received.

PG&E's Evidence

PG&E's current and proposed billing and collection schedules are as follows:

Event	Current System (Day)	Higher-Risk Customer (Day)	Event
1st Bill	0	0	1st Bill
2nd Bill + Reminder	30	30	2nd Bill+15-Day Notice
15-Day Notice	42	45	48-Hour packet
48-Hour Packet	57	48*	May Discontinue
May Discontinue	60*		

Event	Lower-Risk Customer (Day)
1st Bill	0
2nd Bill + Reminder	30
3rd Bill+15-Day Notice	60
48-Hour Packet	75
May Discontinue	78*

*Each discontinuance date meets the minimum standard set in D.93533 (September 15, 1981) in OII 49 of 34 days between billing date and discontinuance.

As a foundation for its proposed classification PG&E performed a statistical analysis of payment data from June 1983. PG&E concluded from these data that the percentage of one-year-or-less customers with uncollectible bills was 1.53%, while the percentage of more-than-one-year customers with uncollectible bills was 0.14%, and that the one-year-or-less customer group had almost 75% more uncollectible bills than the more-than-one-year group even though it had less than 1/6 the number of customers. Based upon the foregoing analysis, PG&E believes that new customers who have been receiving service for one year or less should be considered higher-risk.

PG&E believes that the proposed classification of domestic customers into higher- and lower-risk groups is reasonable, since it is based upon four objective criteria:

1. Length of service
2. Establishment of credit
3. Payment by returned check, and
4. Termination for nonpayment

Each of these criteria is directly related to the goal of identifying those customers who are more likely to fall behind in their payments. On this basis PG&E believes that the distinction is valid and nondiscriminatory.

According to PG&E, higher-risk customers will be able, under the proposed schedule, to communicate payment problems to PG&E earlier, and both PG&E and the customer will be dealing with smaller sums of money. Smaller sums will be easier for the customer to pay, either in monthly installments or with assistance from local community agencies.

PG&E may allow up to 4 months for customers to pay past due accounts. It may also refer customers to local community agencies which assist low-income, elderly, and handicapped customers. PG&E may also refer them to the Salvation Army to determine if they qualify for REACH, a community effort to provide emergency assistance to individuals who cannot pay their energy bills. REACH is funded by PG&E's customers, employees, and suppliers, and the public, whose contributions are matched dollar-for-dollar by PG&E's stockholders.

PG&E hopes that through earlier[2] contact with higher-risk customers, it can avoid many discontinuances and gain greater control over its uncollectibles. PG&E's ratepayers will benefit through lower rates if PG&E is better able to control this item of expense. However, PG&E does not base its proposal on any estimate of uncollectible reductions likely to occur as a result. It is unable to quantify uncollectible reductions resulting from its proposal due to the many variables that affect uncollectibles.[3]

Nevertheless, PG&E asserts that uncollectible expense is increasing at an alarming rate. Between 1982 and 1983 PG&E's uncollectibles as a percentage of total operating revenue increased from 0.251% to 0.326%, an increase of 30%.[4] PG&E's recorded and estimated uncollectibles for 1982 through 1985 are:

		Uncollectible Expense (Net) (000's Omitted)		Uncollectible Factor (Percentage)	
	Year*	Rec./Est.	Auth.	Rec./Est.	Auth.
Recorded	1982	$17,366	$10,380	.251	.150
	1983	19,965	9,195	.326	.150
Estimated	1984	20,872	17,699	.296	.251
	1985	25,511	21,633	.296	.251

*Uncollectibles in 1981 were $12,478 or 0.207%.

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2 PG&E asserts that the lower the bill when PG&E's credit and customer assistance representative make contact, the greater likelihood that payment arrangements can be made or that federal, local, or REACH programs, which have limited funds, can discharge the unpaid bill.

3 The primary variable is the state of the economy. When economic conditions are good, bad debt losses go down, and vice versa.

4 The 30% figure includes the effect of a $1,700,000 bad debt loss by Johns-Manville. PG&E does not expect a similar loss to occur in 1984 or 1985. Accordingly, its estimates for those years are lower than recorded 1983.

The performance of the residential class for 1983 was $14,473,455 in bad debt losses. Dividing that dollar figure by the residential class revenues produces an uncollectible rate of 0.668%, more than twice the company wide rate of 0.326%.

For comparison, the uncollectible rates for PG&E and three other major California utilities are as follows:

	(Percentage) 1982	1983
Pacific Gas and Electric	.251	.326
San Diego Gas & Electric	.188	.219
Southern California Edison	.289	.239
Southern California Gas	.412	.467

PG&E also compiled uncollectible rates for 41 other major combination gas and electric utilities outside of California using 1982 data. The percentages ranged from a low of .043% (Arizona Public Service) to a high of .965% (Rochester Gas & Electric). The mode[5] of the distribution is .4%. PG&E's 1982 uncollectible rate of .251% was higher than that of only 14% of the utilities included in the study.

As a side benefit of the proposed change in billing and collection procedure, PG&E expects to save $1,053,833, the annual cost of mailing 5,091,171 separate 15-day notices, based on 1983 data. Since 15-day notices would under the proposal be consolidated with either 2nd month or 3rd month bills, no separate mailing of the notices would take place.

TURN's Position

TURN argues that PG&E's proposed differentiation is discriminatory, and thus prohibited by Public Utilities Code § 728, unless PG&E can prove that the so-called "higher-risk" customers really are substantially different for the purpose of credit and

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[5] The mode is the center point of the distribution where one-half of the data points are below and one-half above.

collection. TURN points out that PG&E has offered no statistical evidence to support the part of its proposal to divide its more-than-one-year customers into higher- and lower-risk groups. PG&E concedes that it does not have data on uncollectible bills incurred historically by these more-than-one year subgroups.

TURN also contends that PG&E's evidence concerning less-than-one-year customers is not persuasive. TURN believes that an uncollectible rate of 1.53% for less-than-one-year customers is not sufficiently different than the 0.14% rate for more-than-one year customers to justify the proposed practices. It points out that in each case roughly 99% of the customers create no uncollectible problem.

TURN also complains that "higher-risk" customers would have half as long to pay their bills (30 days versus 60 days) before receiving a threatening letter from the utility and that this difference in practices is burdensome and oppressive.

TURN finally contends that there is no reliable evidence that PG&E's proposed practices actually support its stated goal. PG&E has produced no evidence that reducing the grace period between first billing and termination notice by 12 days for "higher risk" customers would actually improve PG&E's uncollectible rate. In fact, even PG&E expects no quantifiable change in terminations or uncollectibles. PG&E recognizes that uncollectibles continue to be dominated by the state of the economy, so that any increase or decrease resulting from the proposed changes could not be isolated.

The only quantifiable benefit of PG&E's proposal would be the cost savings from consolidating 15-day termination notices with regular monthly billings, which PG&E estimates as $1,053,822 per year. TURN proposes that the best way to make use of this efficiency saving would be to combine all 15-day notices with the third month's bill, as PG&E has proposed to do for "lower risk customers," and that this savings should then be passed through to ratepayers at the time of the next change in PG&E's rates (ECAC, CFA, etc.).

Discussion

PG&E's proposed changes are not supported by the scant record before us. In the first instance, the level of uncollectibles experienced by PG&E does not approach a level which requires a radical restructuring of the utility's billing practices. An uncollectible rate of 0.296% is hardly cause for alarm. Additionally, we would suspect that this rate of uncollectibles may be the product of the recent economic recession as well as rapidly escalating energy rates. Assuming both stable rates and an increasingly healthy economy, we may find PG&E's uncollectibles decreasing without the benefit of the changes requested by PG&E.

We are also not impressed by PG&E's plaint that "new customers are ten times more likely to become uncollectible accounts" than other customers. The fact is that but a small minority, whether measured against the total customer body or just new customers, creates the uncollectibles problem. In essence, PG&E requests that we authorize stricter billing procedures for new customers because 1.53% of that group do not pay their billings; PG&E seems to care not that the other 98.47% of customers in this group are innocent.[6] If we were to authorize the classifications PG&E is here requesting, we would be discriminating against the many PG&E customers whose payment records are irreproachable. PG&E has not provided us with sufficient evidence to follow that course.

[6] PG&E's contention that customers whose checks are returned or whose service has previously been discontinued for nonpayment are likely to be greater credit risks is only slightly more compelling. Although logical, PG&E had no proof to substantiate its claims. In dealing with customer credit and termination practices, we must require the utility to do more than speculate. We will expect reliable studies and hard proofs before adversely affecting the ability of ratepayers to obtain and retain service on credit.

PG&E disingenuously suggests that it is motivated by its humanitarian desire to provide earlier warnings to customers who are falling behind in rendering timely payment. Earlier warnings will, PG&E says, make it easier for customers to arrange payment schedules to suit their budgets and thereby reduce uncollectibles. This is pure speculation. PG&E presented no evidence as to the effect its proposals will have on uncollectibles. Against this failure of proofs, we must weigh the stark reality that affected customers will have 12 fewer days in which to clear their accounts before facing service termination. PG&E's case offers no comfort that we would do the right thing in approving its severe proposal. We will therefore reject the proposal in its entirety.

PG&E has not convinced us that its proposal should be implemented at this time.

Finding of Fact

There is insufficient evidence to support PG&E's proposal.

Conclusion of Law

The application should be denied.

O R D E R

IT IS ORDERED that the application is denied.

This order becomes effective 30 days from today.

Dated DEC 5 1984, at San Francisco, California.

DONALD VIAL
President
VICTOR CALVO
PRISCILLA C. GREW
FREDERICK R. DUDA
Commissioners

I dissent.

WILLIAM T. BAGLEY, Commissioner

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director