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April 17, 2020

Mark D. Marini, Secretary  
Department of Public Utilities  
One South Station, 5<sup>th</sup> Floor  
Boston, MA 02110

Re: Request for Comments Regarding Best Practices for the Resumption of Shut-off Activities

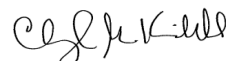
Dear Mr. Marini:

On behalf of the Distribution Companies, enclosed for filing with the Department of Public Utilities (the “Department”) is the joint response to the Department’s March 31, 2020 Request for Comments Regarding the Best Practices for the Resumption of Shut-Off Activities. The Distribution Companies sponsoring these comments are:

- Massachusetts Electric Company and Nantucket Electric Company each d/b/a National Grid
- Boston Gas Company and the former Colonial Gas Company d/b/a National Grid
- NSTAR Electric Company and NSTAR Gas Company each d/b/a Eversource Energy
- Fitchburg Gas & Electric Light Company d/b/a Unitil
- Bay State Gas Company d/b/a Columbia Gas of Massachusetts,
- Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty Utilities,
- The Berkshire Gas Company
- Aquarion Water Company of Massachusetts (“AWC-MA”).

Thank you for your attention to this matter.

Sincerely,



Cheryl M. Kimball, Esq.

cc: Joseph M. Truschelli, Acting Director, Consumer Division  
Shane Early, Esq., General Counsel

**COMMONWEALTH OF MASSACHUSETTS**  
**DEPARTMENT OF PUBLIC UTILITIES**

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Request for Comments Regarding Best Practices )  
for the Resumption of Shut-off Activities )  
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**JOINT COMMENTS OF THE MASSACHUSETTS DISTRIBUTION COMPANIES**

**I. INTRODUCTION**

On March 24, 2020, the Chairman of the Department of Public Utilities (the “Department”) issued directives prohibiting investor-owned electric, gas and water distribution companies (collectively, the “Distribution Companies”) operating in the Commonwealth of Massachusetts from shutting off utility service to any customer for failure to pay a bill or any portion of a bill (the “Emergency Directives”). The Emergency Directives further prohibit the Distribution Companies from sending communications to customers that threaten to shut off gas, electric or water service for failure to pay a bill or any portion of a bill. The Emergency Directives will remain in place until the state of emergency in the Commonwealth of Massachusetts related to the coronavirus (“COVID-19”) is lifted or further direction is otherwise provided by the Department.

On March 31, 2020, the Department issued a request for comments regarding the best practices that distribution companies would implement when shut-off activities resume (Emergency Directives at 3). The Department stated that its goal is to reduce uncertainty around the financial impact of curtailing shut-off activities for both customers and the Distribution Companies (*id.*). Subject to comment by interested stakeholders, the Department indicated that customers who have been unable to pay during the state of emergency should be given a reasonable

time period and payment schedule of at least 12 months to repay their utility bills, taking into account the ultimate length of the emergency (id.).

In these joint comments, the Distribution Companies respond to the Department's request for input.<sup>1,2,3</sup> As discussed below, these comments are designed to present the Department with a broad view of the severe financial challenges that are emerging for significant numbers of utility customers and the Distribution Companies that serve those customers. The Department's request for comments – coming at the time it did – focuses on methods for resuming shut-offs and for addressing arrearage balances. However, as time and circumstances progress, it is clear that it may be some time before shut-offs are reasonably re-instituted and that the effectiveness of the shut-off for encouraging customer payment may, in fact, be diminished by broader economic turmoil.

Accordingly, these joint comments take a longer view of the crisis and its after-effects, addressing the critical need for the Department to adopt an over-arching strategy that will position the Distribution Companies to extend sustained customer aid, while maintaining the financial integrity necessary to continue to conduct – and finance – utility operations. It is also abundantly clear that this crisis and the multi-dimensional challenges it presents will continue to evolve, such that any strategy adopted now must incorporate flexibility and adaptability to be successful. Within this context, these joint comments provide the Department with possible strategies that

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<sup>1</sup> The investor-owned “Electric Companies” responding to the Department’s solicitation of comments are Massachusetts Electric Company and Nantucket Electric Company each d/b/a National Grid (“National Grid”), NSTAR Electric Company d/b/a Eversource Energy (“Eversource”), and Fitchburg Gas & Electric Light Company d/b/a Until (“Unutil”).

<sup>2</sup> The investor-owned “Gas Companies” responding to the Department’s solicitation of comments are NSTAR Gas Company d/b/a Eversource Energy (“Eversource Gas”), Boston Gas Company and the former Colonial Gas Company d/b/a National Grid (“National Grid”), Bay State Gas Company d/b/a Columbia Gas of Massachusetts (“CMA”), Fitchburg Gas & Electric Light Company d/b/a Unutil (“Unutil”), Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty Utilities (“Liberty Utilities”), and The Berkshire Gas Company (“Berkshire”).

<sup>3</sup> The investor-owned “Water Company” responding to the Department’s solicitation of comments is Aquarion Water Company of Massachusetts (“AWC-MA”).

could be implemented to assist customers in need, with appropriate regulatory support for the Distribution Companies so that they are positioned to extend payment flexibility to customers over the longer term.

Currently, the Distribution Companies are intensively focused on assessing the scope of the challenge and creating the strategies necessary to assist customers on a sustained basis. In that regard, the Distribution Companies recognize that it will take the close cooperation of the Distribution Companies, the Department, the Office of the Attorney General (“AGO” or the “Attorney General”), the Massachusetts Department of Energy Resources (“DOER”), the Low-Income Energy Affordability Network (“LEAN”), National Consumer Law Center<sup>4</sup> (“NCLC”) (on behalf of its low-income clients), and other stakeholders to surmount the challenges that confront utility customers in Massachusetts. This joint response is designed to provide a foundation for that cooperation and to inform the Department’s actions to protect the interests of customers and the provision of utility service in Massachusetts over the long term.

## **II. EXECUTIVE SUMMARY**

The Distribution Companies are uniquely positioned to assist customers in need and are resolutely committed to deploying their expertise and resources to continue to serve all customers on a safe and reliable basis, including those customers who will now struggle to pay their utility bills due to the impacts of the COVID-19 pandemic. The Department’s request for comments appropriately recognizes that utility service is a public necessity and setting a strategic course to assist customers in paying for that service is a critical path. At the same time, the Distribution Companies have finite resources that must be utilized efficiently as possible, so that rates are not

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<sup>4</sup> National Consumer Law Center submitted comments in response to the Department’s request on April 10, 2020, on behalf of the Massachusetts Union of Public Housing Tenants and the Massachusetts Energy Directors’ Association, pertaining to residential utility customers. The Distribution Companies appreciate the level of detail in these comments and support many of the concepts, ideas and recommendations set forth therein.

needlessly raised for customers in the future, as we work through the problems of today. Therefore, the Department's decisions as to how best to help customers in need will be *pivotal* in terms of securing needed assistance for customers and, at the same time, signaling to the marketplace that aid will be provided to customers without undermining the financial integrity of the Distribution Companies.

Maintaining this delicate balance is an absolute imperative for the Commonwealth of Massachusetts. The Distribution Companies cannot finance ongoing operations and unpaid customer utility bills at a dimension beyond all historical experience without the ability to access capital markets to the extent necessary to support utility operations, at a cost that is manageable for customers. Therefore, the Distribution Companies are taking this important opportunity to lay out the challenges for the Department in detail and to identify strategies for both customers and the Distribution Companies that will be critical to successful navigation of this crisis.

In Section III of these comments, the Distribution Companies explain why it is necessary to couple initiatives to provide customers with payment flexibility with regulatory mechanisms that help to maintain adequate cash flow. The Distribution Companies are providing a public necessity that requires safe and reliable delivery, through these challenging circumstances and the ability to remain ready to address severe weather events and other emergencies has not diminished. The Distribution Companies' internal workforce and contractor resources are critical to reliable operations and readiness, but come at an unavoidable cost.

Unpaid utility bills and the inability to collect amounts due from a material portion of the customer base, on a timely basis, will impair the cash flows that are necessary to support operations and to maintain ongoing access to critically needed capital resources. If customers do not pay, the Distribution Companies will need to obtain capital resources from the marketplace at a level

exceeding normal operations, or even substantially exceeding normal operations. The availability and cost of cash resources is a function of the credit-rating process and the perspective of equity market analysts on the probability of recovery. Therefore, it is critical that the Department anticipate extreme customer-payment lag so that the Distribution Companies remain poised to support utility operations and extend sustained aid to customers.

In Section IV, the Distribution Companies propose that the Department establish a Customer Assistance & Intervention Working Group involving the participation of representatives of all of the Distribution Companies, the AGO, DOER, LEAN, NCLC and other customer advocacy groups to develop strategies to create, expand or modify needed programs to assist both residential and commercial and industrial (“C&I”) customers in paying their bills over time or in obtaining relief from payment. A substantial time period will pass before it will be possible to assess the true extent of the economic impact of the ongoing pandemic and the strategies for addressing customer issues will evolve and emerge over time. In its comments, NCLC has identified a series of initiatives that should be considered, recognizing that quick and effective action to help customers is needed. In this context, coordination with the Distribution Companies is vital because they bring substantial resources and expertise to the table and are positioned to work closely with customers and consumer advocates to deliver assistance. Convening a Customer Assistance & Intervention Working Group under the Department’s auspices will provide the Department with a valuable and effective tool to address customer issues effectively and quickly.

For example, the disruption of the traditional utility/customer dynamic caused by the moratorium on shut-offs creates a conundrum in that the Distribution Companies typically cannot provide customer-specific guidance, assistance and aid to customers, if customers do not first reach out to the utility for help. Utility credit processes inclusive of credit notices and, in many cases,

service disconnections, are the primary tool available to the Distribution Companies to motivate customers to engage with the utility so that an assistance strategy can be mapped out for the customer. Therefore, although counter-intuitive, it may make sense to restart utility credit processes after the state of emergency is lifted earlier rather than later, to encourage and motivate customers to seek out assistance from the Distribution Companies. However, before this can occur, it will be necessary for the Department and the Working Group to have a plan in place as to how those customers will be assisted and whether and how the utility credit and collection processes would be executed. A robust, effective, multi-dimensional customer outreach program will be necessary for each Distribution Company to implement and the Working Group process would provide a strong platform for the development of these strategies.

In Section IV, the Distribution Companies also describe the initiatives that are currently in place to protect customers who have difficulty paying their bills and discuss a number of initiatives that the Department could consider on a going forward basis to provide customer aid as utility credit processes are resumed. The Distribution Companies recognize that some customers will continue to have the ability to pay. Therefore, the Distribution Company proposals are targeted to provide useful and sustained customer aid to customers who need it; and to rely on payments by customers who can continue to pay.

In Section V, the Distribution Companies provide specific responses to the Department's six questions. In this section, the Distribution Companies propose an approach to institute regulatory support for the severe lag in customer payments that is expected as a result of the economic duress emerging in the Commonwealth. As discussed in Section VI, the Distribution Companies expect that a substantial lag will develop between the time that the Distribution Companies must outlay funds to support operations and the continued provision of utility service

to all customers, and the time that customer payments are received. With the establishment of a regulatory asset and an adjustment to the cash working capital mechanisms already in place for all of the Distribution Companies, the Department will have positioned the Distribution Companies to have the financial flexibility necessary to support customer-focused initiatives and to withstand the (substantial) lag in payment that the Distribution Companies currently anticipate. This will enable the Department and the Distribution Companies to focus on the processes developed through the Working Group to help customers with management or relief of their individual arrearages.

The Distribution Companies greatly appreciate the opportunity to discuss the growing financial challenges with the Department, the AGO, DOER, LEAN, NCLC and other stakeholders. The Department's initiative to begin working on these important issues is helpful and productive and will make a difference to customers and the Distribution Companies over the long run.

### **III. THE MODEL FOR PROVIDING SUSTAINED CUSTOMER AID**

#### **A. Overview**

The COVID-19 pandemic is causing profound, immeasurable damage to the U.S. economy and the ultimate impact of the pandemic for the Massachusetts economy and socio-economic outlook is unknown. In Massachusetts, layers of businesses within the economic strata are facing severe financial hardship as many were forced to close or dramatically reduce operations as the Commonwealth struggles to respond to and contain the virus. Utility customers are both businesses and employees. Therefore, as the shutdown of the economy causes financial hardship for businesses and households across the region, the ability of many customers to pay for utility services will be diminished or even eliminated. At this early stage, the Distribution Companies are working to develop approaches to reasonably assess what the impact might be for the payment



of utility services. Yet, at the same time, the need to provide highly reliable energy resources is not only undiminished, it is heightened when social distancing has people sheltering at home with stores of supplies and many other public and private support systems are stressed.

In these circumstances, the Department is taking judicious steps to develop the strategies necessary to assure that customers have the reliable energy resources they need, while alleviating the payment pressures that would normally follow. Extraordinary actions to help customers are necessary. Therefore, it is incumbent upon the Department, the Distribution Companies, the AGO, DOER, LEAN and other stakeholders to do everything possible to facilitate utility efforts to help customers in need. The Distribution Companies are wholly committed to customers and to the effort to assist customers through this challenging period.

In turn, the Distribution Companies will need regulatory support for their efforts. The cash resources available to the Distribution Companies are finite and continued access to capital markets at affordable rates is predicated on the regulatory climate and the certainty that debt holders and equity investors have for recovery of utility costs. To the extent that large swaths of customers cannot or do not pay for the utility service they continue to need and consume, the Distribution Companies will encounter costs and challenges in securing capital resources to finance operations and to support large amounts of working capital, unless there are regulatory mechanisms in place to maintain adequate cash flow from utility operations. Market analysts are watching the situation closely, and the availability and cost of cash resources for the Distribution Companies will be substantially and *directly* affected by the market's assessment of the risk associated with financing utility service in each jurisdiction.

In addition, the Distribution Companies are incurring expenses to modify operations to take account of the social distancing and personal protection protocols necessary to keep

employees and customers safe, which will have to be addressed, although the challenges associated with cash flow are the more immediate and greater concern for the Distribution Companies at this juncture.

Thus, the challenge must be recognized by the Department as a balancing exercise where inputs and outputs are almost perfectly correlated, requiring the Department to assure that each quotient of customer aid is balanced by thoughtful consideration of how the financial integrity of the associated utility will be backstopped. Without this balance, the Distribution Companies cannot continue to serve customers and provide aid for the duration of the crisis. All of the Distribution Companies expect that working capital requirements and bad debt could grow to a dimension not experienced in the past, nor envisioned in previous worst-case scenarios. The impact on cash working capital will emerge immediately, as the period between the issuance of a customer bill and the utility's receipt of payment becomes extended, perhaps even as a result of slowed payments by customers who can continue to pay their bills. Cash working capital requirements will therefore increase both as a result of the Distribution Companies' need to rely on all sources of capital, but also in terms of the cost of those resources. Without regulatory support for cash working capital requirements, the Distribution Companies flexibility to assist customers is substantially restricted, creating a thoroughly counter-productive cycle.

Unpaid customer bills and customer payments that are lagged for recovery by a substantial time period will impair cash flows that are necessary to support operations and to maintain access to critically needed capital resources. If customers do not pay, the Distribution Companies will need to borrow funds at a level exceeding normal operations, and perhaps substantially exceeding normal operations. As noted, the availability and cost of cash resources is a function of a company's credit rating and the perspective of equity market analysts. Therefore, it is critical that

the Department provide adequate regulatory support so that the Distribution Companies remain poised to extend useful and sustained aid to customers.

### **B. Balancing Customer Aid and Regulatory Support**

On April 2, 2020, S&P Global Ratings issued guidance entitled “COVID-19: The Outlook for North American Regulated Utilities Turns Negative” [Appendix 1]. Standard & Poor’s assessment is that the utility industry will remain a high-credit quality investment-grade industry, but S&P concludes, however, that COVID-19 will weaken the industry’s 2020 funds from operations (“FFO”) to debt ratio and anticipates that many utilities that are currently rated with a “stable” outlook have “minimal financial cushion” at the current rating level and may experience downward ratings pressure (App.1, at 6). In particular, S&P anticipates that the COVID-19 pandemic will reduce C&I customer usage and cause the creation of increased bad-debt expense as it becomes increasingly more difficult for customers to pay their bills (App.1, at 7). As a result, S&P currently anticipates that the industry’s median rating, which is A-, could weaken to BBB+ (App.1, at 1). It is possible, therefore, that utilities operating under the Department’s jurisdiction will become susceptible to challenges and changes in relation to their credit ratings as circumstances evolve, which would have an impact on access to reasonable cost capital during a period when the Department is looking for the Distribution Companies to extend maximum flexibility to customers.

S&P’s guidance recognizes that utility companies may have regulatory mechanisms in place such as revenue decoupling to offset declining sales experienced as a result of substantially reduced sales to C&I customers (App.1, at 7).<sup>5</sup> However, S&P’s guidance also notes that, although bad-debt expense is typically deferred for future recovery, pressure to write-off these costs “will

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<sup>5</sup> Even then, bill impacts may vary and should be considered when evaluating loss of sales.

result in a weakening of credit measures” (App.1, at 7). In Massachusetts, electric and gas distribution utilities have revenue decoupling in place; water distribution companies do not. However, if customers cannot pay, then there is no recovery through a revenue decoupling mechanism because the revenue decoupling mechanism is a factor on the customer bill like all other factors. Moreover, the revenue decoupling mechanisms do not recover uncollectible revenues associated with customer consumption. Thus, anticipating and dealing with the expected increase in working capital requirements, arrearage balances and eventual bad-debt write-offs becomes the *number one* challenge for the Department and the Distribution Companies that operate under its jurisdiction.<sup>6</sup>

Below, in Section IV, the Distribution Companies provide a detailed discussion of the types of customer aid that could be extended to customers that continue to rely on utility service, but cannot pay for it, or need an extended timeline for payment. However, the equation is simple: customers need relief on paying their bills. A substantial number of customers will not be able to pay their bills for a very extended time period and, in some cases, may never be able to pay. This will create increased working capital costs as the Distribution Companies have to carry increasing levels of customer account receivables, and eventually, bad-debt write-offs. Therefore, the Distribution Companies will need to be positioned to endure and defer the costs of supporting this situation. Large numbers of customers may regain the ability to pay after the crisis is over; but will need an extended time period to recover. This will require creative solutions for both

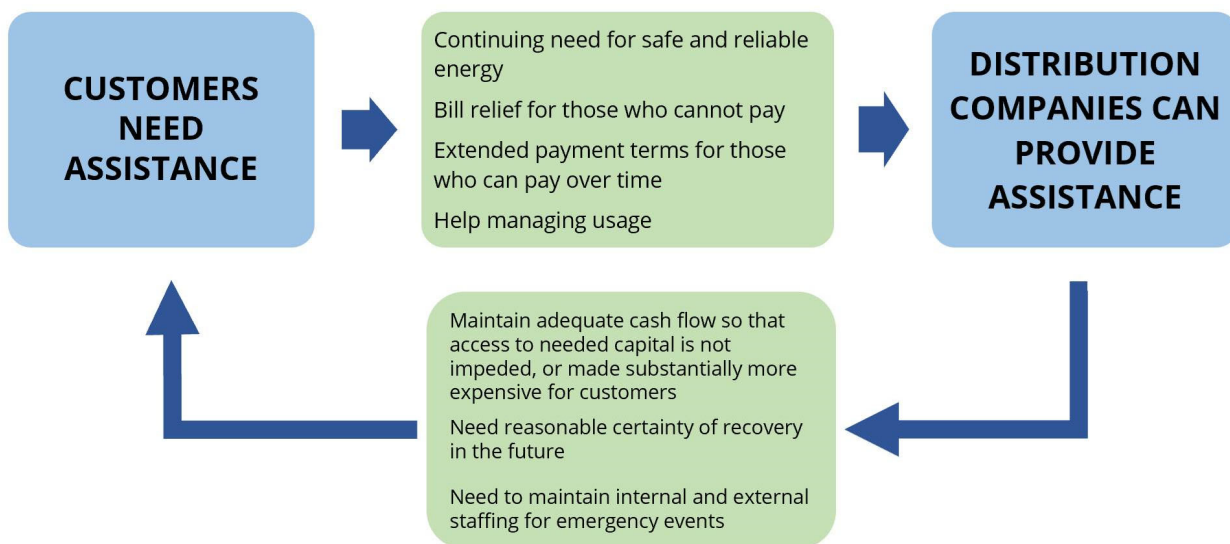
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<sup>6</sup> The Gas Companies’ revenue decoupling mechanisms (“RDM”) are based on a revenue-per-customer model. To the extent that any C&I customers go out of business, the Gas Companies will see a reduction in distribution revenue to be retained through their RDMs needed to support their operations. This phenomenon does not occur with the RDMs of the Electric Companies that operate under an Annual Target Revenue structure that has a stated amount of distribution revenue to be retained each year. In addition, absent any adjustments to the mechanism, the mechanics can produce unintended results. For example, because the benchmarks contain customer classes with different usage levels, if customers with below average revenue terminate service, the resulting actual revenue per customer would be higher than the benchmark, leading to an over-collection.

residential and C&I customers, which should be addressed through the cooperation of stakeholders with specific expertise, experience and information so that utility resources are used efficiently. At the same time, customers who retain the ability to pay should be encouraged to pay to ease the burden on cash flow.

Thus, as the Department considers how best to address the impacts of the COVID-19 pandemic on Massachusetts utility customers, it should recognize that there is a need to correlate efforts to provide customers with sustained aid to workable regulatory-support mechanisms. This will signal the financial marketplace that the financial integrity of the Distribution Companies will not be undermined by efforts to provide customer aid.

**Figure 1. Balancing Customer Aid and Regulatory Support**



**C. Assessing the Dimensions of Emerging Bad-Debt Exposure**

In the municipalities served by the Distribution Companies, financial hardship is emerging as businesses are forced to close or dramatically reduce operations to maintain social distancing measures to contain the virus. Many customers are out of work, laid off or furloughed as a result

of the shelter-in-place advisory implemented in Massachusetts for the public health and welfare. The Distribution Companies have already modified their existing credit and collections practices to support customers, including adhering to the Department's directives to suspend account disconnects and late-payment fees and offer new longer-term payment arrangements.

The normal models that the Distribution Companies employ for predicting and managing customer arrearages and bad-debt write-offs are not designed for the unprecedented economic scenarios that are currently emerging, nor do the current models incorporate assumptions about mitigation plans that utilities may be able to put in place to address customer needs due to COVID-19. Therefore, to differing degrees, the Distribution Companies are working to develop tools to assess the emerging scenarios for customer arrearages, bad-debt growth and ebbing working capital resources. Some of the initiatives that are underway by the some of the Distribution Companies include the following:

- Development of base case bad-debt models to identify and forecast accounts receivables and associated bad-debt assuming a company's established credit and collections practices.
- Enhancement or modification of the base case bad-debt model to address the COVID-19 situation through a scenario-based model that will provide insight to how various credit and collection initiatives impact overall accounts receivables and bad debt.
- Analysis of customer demographics and segmentation for individual service territories. For example, understanding the number of small businesses by business type (or maybe employee count).
- Analysis of account receivables making use of any available real time information for ongoing decision making and management.<sup>7</sup>

Preliminary information gathered at the beginning and end of March is already showing alarming trends. Examples of trends already detected by the two largest Distribution Companies are as follows:

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<sup>7</sup> Development of a model designed to differentiate COVID-19 related bad-debt expense versus a normal or seasonal bad-debt expense experience is also a possibility.

<b>Eversource Energy</b>	
<b>Drop in Average Daily Payment Amount</b> (since first two weeks of March)	
Residential	-20.0%
Commercial	-23.9%
Industrial	-23.6%
<b>Drop in Average Daily Payment Volume</b> (since first two weeks of March)	
Residential	-10.3%
Commercial	-19.7%
Industrial	-22.9%
<b>Eastern MA Customers Eligible for Notice</b>	
Residential	+630%
Commercial	+1,800%

<b>National Grid</b>	
<b>Drop in Average Daily Payment Amount</b> (since first two weeks of March)	
Residential	-21%
Low Income Residential	-22%
Small C&I	-42%
Medium C&I	-48%
Large C&I	-45%
<b>Drop in Average Daily Payment Volume</b> (since first two weeks of March)	
Residential	-13%
Low Income Residential	-11%
Small C&I	-29%
Medium C&I	-38%
Large C&I	-39%
<b>Customers Eligible for Notice</b>	
Residential	N/A
C&I	N/A

From another perspective, Unitil is experiencing a significant decline in payment amounts and payment volumes from all classes of customers as well. In addition, Unitil's customer service call center has experienced a severe decline in telephone calls from customers who normally at

this time inquire about funding assistance or to establish flexible payment arrangements. Because disconnection activity has been suspended, the numbers of customers who normally seek assistance during this time of year have fallen off dramatically. Unitil is anticipating some offsetting increases in collections related calls from a different set of customers who are experiencing a new financial hardship from the impacts of the COVID-19 pandemic. Some of these alarming trends are highlighted below:

Increase in Customers Eligible for Disconnect (C&I Classes Only) (since March 1, 2020)	246%
Reduction in Inbound Call Volume (All Unitil Companies) (April 2020 v. April 2019)	-44%

The Department has already honed-in on the need to start gathering data and statistics about customer payment behavior. Currently, the Distribution Companies are completing a detailed worksheet with statistics for the Department and submitting the data weekly.<sup>8</sup> The customer information systems operated by the Distribution Companies work from monthly billing cycles. Therefore, the most probative, comprehensive data will emerge on a month-to-month basis; however, weekly reporting will allow the Department to stay on top of any emerging trends captured in anecdotal data that the Distribution Companies may be collecting. Critical datapoints that the Distribution Companies are collecting or working on the capability to collect including the following:<sup>9</sup>

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<sup>8</sup> The Department has not required the water distribution companies to participate in this effort.

<sup>9</sup> Not all Distribution Companies are collecting all datapoints. Each Distribution Company is collecting data consistent with capabilities of existing customer information systems.



#### Customer Payment Indicators:

- Payment Amounts (as \$ and % of lagged revenues)
- Payments (as a # and %)
- Accounts eligible for a disconnect notice, if disconnects not suspended
- Accounts eligible for disconnect, if disconnects not suspended
- Days revenue outstanding (lagging indicator)
- Aged receivables (>30, >60, and >90 A/R compared to lagged revenue)
- Broken payment arrangements (including arrearage management plans)
- Accounts eligible for late payment charge, if not suspended.

#### Enrollment in Hardship Programs

- Number of new customers in Arrearage Management Program
- Number of customers in Arrearage Management
- Number/percent of customers successfully meeting payments
- Number/percent of customers eligible for Arrearage Management
- Number/percent of customers on Arrearage Management of eligible customers

The Distribution Companies will continue to work to gather data and statistics on the status of customer bill payments, as this information is critical to discern and manage customer payment trends. Over time, the Department's weekly worksheet and other compiled data will help the Distribution Companies and other stakeholders assess and manage the parameters of the challenge on bad debt and customer arrearages.

## **IV. UTILITY ASSISTANCE FOR CUSTOMERS**

### **A. Introduction**

The Department issued its Emergency Directives on March 24, 2020. As noted above, the Emergency Directives prohibit the Distribution Companies from: (1) shutting off utility service to any customer for failure to pay a bill or any portion of a bill; and (2) sending communications to customers that threaten to shut off gas, electric or water service for failure to pay a bill or any

portion of a bill. The Emergency Directives will remain in place until the state of emergency in the Commonwealth of Massachusetts related to COVID-19 is lifted or further direction is otherwise provided by the Department. However, in some respects, whether lifted or not, the overarching issue is the scale and magnitude of uncollectible accounts and the need to provide customers with flexibility to pay over extended time periods, if they can pay.

The Department's directives were directly aimed at protecting customers from the loss of electric, gas or water service while emergency conditions exist. If they had not done so already, all of the Distribution Companies immediately ceased processes to shut-off customers and issue disconnect notices immediately. However, as indicated by the Department's request for comments in this proceeding, the state of emergency will not apply indefinitely; but, when it is removed, the economic emergency will continue unabated for customers. For that reason, it may not be feasible to resume shut-offs for an extended time period after the termination of the state of the emergency and, in the meantime, customers will be burdened and may not have the wherewithal to pay. Thus, the Distribution Companies recognize it will be tough going for many, many customers for a long period of time. For this reason, creativity will be needed to develop options for sustained customer aid balanced with the mechanisms necessary for adequate regulatory support.

Below, in section IV.B, the Distribution Companies describe the initiatives that are currently in place to assist customers with payments and present a number of initiatives that the Department could consider on a going forward basis to provide customer aid as shut-offs are resumed. In section IV.C, the Distribution Companies describe new or expanded initiatives that could be instituted to provide customers with sustained assistance. In Section IV.D, the Distribution Companies discuss the mechanisms by which it will be necessary to manage working capital requirements and bad-debt balances over time.

## **B. Existing Customer Assistance Initiatives for Residential Customers**

The customer assistance initiatives that the Distribution Companies have in place, prior to the COVID-19 pandemic, include the following:

### **▪ Arrearage Management Programs**

All of the Distribution Companies offer residential Arrearage Management Programs (“AMPs”) available to eligible customers, along with an arrearage forgiveness component, although the details of the programs may differ between companies.<sup>10</sup> Generally, to qualify for participation in a Distribution Company’s AMP, a participant must have an active residential gas or electric account in their name; have a delinquent balance totaling a minimum amount; and receive (or agree to receive) utility service on the discount rate, and accept a budget payment plan. The initial monthly budget payment is based on the average of the customers regular monthly bill and pending Fuel Assistance award. The customer must pay on time each month to remain active in the program. When the customer makes a first monthly payment under the AMP, 1/12 of their past due balance is forgiven, thus reducing the amount the customer owes. The annual amount forgiven is not to exceed a predesignated amount.

For example, on the Eversource Energy system in Massachusetts, the amount is \$4,500 (Eastern Massachusetts) or \$9,500 (Western Massachusetts). Under normal circumstances, Eversource does not allow all its AMP customers the ability to re-enroll without penalty or down payment. Under the National Grid AMP, participants are eligible for forgiveness of 100 percent of their pre-plan arrears balance up to an annual maximum of \$4,000. Customers who have defaulted from the program for non-payment will have the opportunity to reinstate by providing all missed payments and the current payment. Columbia Gas does not require a down payment

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<sup>10</sup> AWC-MA does not have a formal arrearage management plan in place, but does work individually with customers to create flexible payment plans.

and has a maximum forgiveness of \$3,600 per year. Unitil also does not require a down payment and has a maximum forgiveness of \$1,200 per year.

- **Low-Income Discount Rate for Eligible Customers**

All of the Distribution Companies provide a discount rate to residential customers who meet income eligibility requirements and/or receive government means-tested offerings can receive a discounted rate on their energy bill with proof of eligibility.<sup>11</sup>

- **Budget Billing**

All of the Distribution Companies offer budget billing, which equalizes monthly payments to avoid seasonal peaks. Budget billing programs run for 12-month cycles with the customer payment amount determined based on estimated annual energy costs over those 12 months. At the end of that 12-month period, the final budget payment amount will be the customer's account balance at that time or it may be rolled into the next budget season. Reviews are performed periodically so that if there is a significant difference, the budget amount will decrease or increase accordingly.

- **Low Income Home Energy Assistance Program (LIHEAP)**

LIHEAP is a federal program that helps low-income households pay for heating or cooling their homes. The highest benefits go to those households that have the highest home energy costs or needs, taking into account income and family size. The amount of help received will depend on the customer's income, energy costs or needs, family size, and possibly other factors.

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<sup>11</sup> As a water distribution company, AWC-MA does not budget billing or a low-income discount in place. However, AWC-MA does offer a one-time credit through a hardship customer assistance program of \$50 to residential customers if certain qualifications are met. The program is voluntary, is not covered in rates and has a maximum yearly cap of \$20,000.

- **Good Neighbor Energy Fund**

The Good Neighbor Energy Fund is available to any Massachusetts resident who, because of temporary financial difficulty, cannot meet a monthly energy expense and is not eligible for state or federal energy assistance. Income must fall between 60 and 80 percent of the state median income levels.

**C. New or Expanded Initiatives for Sustained Customer Aid for All Customers**

Assisting customers with the gravity of the situation that is before them will take innovation and cooperation between consumer advocates, the Department, DOER and the Distribution Companies. Therefore, the Department should establish a Customer Assistance & Intervention Working Group involving the participation of representatives of all of the Distribution Companies, the AGO, DOER, LEAN, NCLC and other customer advocacy groups to develop strategies to create, expand or modify needed programs to assist both residential and C&I customers in paying their bills over time or in obtaining relief from payment.

A substantial time period will pass before it will be possible to assess the true extent of the impact that has occurred, and is occurring, and the strategies for addressing customer issues will evolve and emerge over time. NCLC has identified a series of initiatives that should be considered for residential customers, and quick and effective action to help customers on those types of initiatives will be furthered by coordination with the Distribution Companies and the substantial resources and expertise they bring to the table. Convening a Customer Assistance & Intervention Working Group under the Department's auspices will provide the Department with a critical tool in addressing customer issues effectively and quickly.

For the Distribution Companies, it is important for the Department to understand that a utility typically cannot provide customer-specific guidance, assistance and aid, *if customers do not*

*reach out to the utility for help.* Utility credit and collection processes are effective in motivating customers to seek out help from the utility, which provides the opportunity to map out an assistance strategy for the individual customer. Therefore, although counter-intuitive, it may make sense to restart the utility credit and collection processes after the state of emergency ends, earlier rather than later, to motivate customers to seek out assistance. However, before this can occur, it will be necessary for the Department and the Working Group to have a plan in place as to how those customers will be assisted and whether and how the utility credit and collection processes would be executed.

In addition, there are several initiatives that have the potential to assist customers above and beyond current mechanisms for customers who cannot pay or need an extended time period to pay. The Department's approval will be needed for many of these initiatives.

Today, some of the Distribution Companies are already offering or working towards solutions that would enable greater customer flexibility and assistance to the extent feasible, such as the following:

- More flexible payment arrangements for residential and business customers.
- Business Support for navigating federal stimulus funds.
- Business Support for navigating state stimulus funds.
- Virtual Home Energy Assessments to Reduce Usage - Eversource is offering virtual Home Energy Assessments, allowing customers to interact with energy specialists remotely, by phone or video service. Eversource is reaching customers who had in-home assessments scheduled but were cancelled due to the restrictions.

Additional efforts that are contemplated include the following:

1. Start sending notifications of lateness. The notifications would not present the possibility of disconnects, but instead, would: (1) inform customers of a missed payment; (2) encourage customers to participate in promotional, flexible payment arrangements (pay what you can, when you can...); (3) proffer information on available federal or state stimulus funding; and (4) provide energy efficiency tips.

2. Apply deposits on hand to arrearage balances for commercial customers.
3. Auto-enroll all low-income customers in the arrearage forgiveness program, if they have a delinquent balance instead of requiring proactive sign up.
4. Allow fee-free credit card transactions for residential customers and businesses, and waive other normal fees associated with service connections and other services.
5. Consider leveraging stimulus funding proof of application for businesses as entry criteria for more lenient business payment arrangements.
6. Consider leveraging stimulus funding proof of acceptance/success for businesses for a new business matching payment arrangement program, if feasible for utility information systems.

New or expanded initiatives to provide customer aid include the following:

- **Suspension of Shut-Offs and Notice of Shut-Offs**

All of the Distribution Companies have suspended shut-offs for non-payment, and no Distribution Company is sending disconnect notifications across any channel (residential or commercial). The Distribution Companies are not currently charging late payment fees to commercial customers. All of the Distribution Companies are offering more flexible payment plans for residential customers and businesses. For example, Eversource is allowing non-hardship residential customers to participate in payment plans with \$0 down payment, plus 8 months to pay, and is allowing small business customers to participate with \$0 down payment; the first payment deferred until June, and the remaining balance to be paid over 12 months. National Grid is currently offering all residential customers a zero-down, 12-month deferred payment arrangement. For C&I customers, National Grid is offering a zero down, 3 to 6-month installment deferred payment arrangement. Columbia Gas is offering very flexible payment plans extending for multiple months. Unitil is allowing residential and commercial customers to participate in \$0 down payment, plus 12-month payment term arrangements.

- **Modification and/or Expansion of Arrearage Management Programs.**

The Department could consider authorizing changes to existing residential AMPs that would allow increased payment flexibility and/or waive initial “goodwill” payments. As a result of the COVID-19 pandemic, National Grid and Eversource have already suspended all AMP terminations, and no AMP customer termination letters are being mailed. A halt will be implemented in the system on all AMP customers defaulting so that it will not be possible for a customer to default on the AMP for the duration of the emergency. Through the process initiated by the AGO and National Consumer Law Center, National Grid and Eversource are simultaneously drafting proposals for how customers who would have defaulted in the AMP under normal circumstances will be handled after the emergency is over. National Grid and Eversource are planning to compare their proposals and resolve any differences in approaches in order to propose a joint National Grid-Eversource approach to administering the residential AMP post-emergency. This is a process that could be leveraged for the proposed Working Group to evaluate other appropriate actions with all of the Distribution Companies.

- **Modification and/or Expansion of Arrearage Forgiveness Programs for Non-Hardship Residential and C&I Customers**

Existing arrearage forgiveness programs that are offered by the Distribution Companies are offered to residential customers receiving service on the Distribution Companies’ discount rates. Under the unusual circumstances that exist today, the Department may need to consider developing arrearage forgiveness for residential customers not taking service under discount rates, or not eligible for discount rates, as well as one or more classifications of C&I customers after consideration of state and federal stimulus funds that may be available. The Distribution Companies can work collaboratively with each other and with the AGO, DOER and LEAN to develop AMPs for non-hardship customers. These programs would operate similar to the existing



AMP and provide forgiveness to customers in exchange for successful completion of a long-term payment plan.

- **Matching Payment Programs**

The Department could consider creating matching payment programs that would be designed to enable the Distribution Companies to apply one-time credits to customer bills where the customer is able to make a payment of their own. These programs could be offered to both residential customers and small and medium C&I customers. The level of credit would be designed to promote customer payments, while at the same time recognizing that the customer needs assistance to catch up.

- **Postpone Removal of Low-Income Rate from Accounts**

The Department should also consider postponement of the annual process to reclassify customers who do not successfully recertify for the Distribution Companies low-income rates allowing these customers to remain on the low-income rate for an additional year.

- **Review of Competitive Supply to Residential Customers**

The Department should consider whether there are opportunities to help customers, particularly low-income customers, who are currently purchasing commodity through a competitive supplier. Some residential customers are subject to extreme supply pricing, sometimes up to two times more than the Electric Companies' Basic Service offering, which is exorbitant under the circumstances. The Electric Companies should be authorized to move these customers back to Basic Service without penalty for the customer. This is a concern that has been voiced by the Attorney General and by NCLC.

## V. RESPONSE TO DEPARTMENT'S QUESTIONS

In this section, the Distribution Companies provide responses to the Department's specific questions. To the extent that the Distribution Companies have differing perspectives, those differences are noted.

1. *Whether categories of customers should be treated differently (e.g., customers who suffered hardship because of COVID-19 or the state of emergency, residential customers v. C&I customers, customers notified prior to the Order of a potential shut off for non-payment)*

Customers who demonstrate inability to pay all or a portion of their utility arrearages during the state of emergency should be given payment plans and permitted a period of at least 12 months to complete repayment of their arrears outstanding at the time they enter the payment plan. Because the Distribution Companies have limited visibility into the financial standing of individual households and businesses, and because circumstances are currently evolving in real time, customers should not be segmented by class or other criteria for differing treatment. It is safe to assume that all customers that would be seeking assistance to pay are likely experiencing negative impacts due to the current pandemic and state of emergency, even if other circumstances factor into their situation. Fairness and feasibility of administration requires that protection from termination of service and suspension of collection activities should be extended to all customers on an equal basis, without differentiating between customer classes, e.g., residential or C&I.

That said, certain customer groups may merit particular attention and may benefit from additional outreach during and after the state of emergency to address accumulating arrearages while the COVID-19 pandemic persists in the region, and in the period following the end of the state of emergency. In addition to low-income customers and customers that are currently on protected status, residential customers and small commercial customers that, in normal

circumstances, would be current on their bills are likely to be suffering economic hardship due to job losses, furloughs, and business closures.

2. *The procedures to notify a customer of a potential shutoff after shutoff activities are allowed to resume.*

The Distribution Companies have suspended issuing overdue billing and collection notices for the duration of the COVID-19 state of emergency and will continue to do so until the extended period for repayment that the Department may direct in this proceeding has ended. As the collection modules in the customer information systems used by the Distribution Companies function automatically, it will be a relatively simple matter when normal business resumes for the Distribution Companies to restore the notice process to generate collection notices in the normal course.

As noted above, a utility typically cannot provide customer-specific guidance, assistance and aid, *if customers do not reach out to the utility for help*. The Distribution Companies envision that a multi-tiered customer outreach process would be necessary following the lifting of the state of emergency, plus 60 days including special outreach to identified hardship customers and commercial customers that are in dire need of assistance. Through the Working Group, it would be possible to plot out the options that will be made available to customers and how to coordinate the roll-out of the shut-off process within that context.

At a minimum, the Distribution Companies propose that all electric, gas and water customers subject to collection action for nonpayment of charges would be reset to the beginning of the noticing timeline. For example, after resumption of normal business, a customer who, prior to the onset of the current crisis, had been scheduled for termination of service within 48 hours, would not be rescheduled for disconnection within a 48-hour period, but rather the termination procedures timeline established pursuant to 220 C.M.R. 25.00 would be reset for that customer.

In addition to IT resources that will be required to reset the clock for all customers, the Distribution Companies will incur increased costs associated with collections and customer communication and outreach programs, such as communication campaigns for deferred payment plans.

3. *A potential suspension of late payment fees*

The Distribution Companies have waived late-payment charges for C&I customers.<sup>12</sup> Late-payment charges are not assessed on residential accounts. Non-residential customers on a payment agreement and/or collection arrangement are normally subject to a late-payment charge under normal circumstances. The Distribution Companies will continue to waive late-payment charges for the duration of the state of emergency and for six months after the emergency for all non-residential customers, whether or not a customer is on a payment plan or collection arrangement.

4. *The type of payment plans that should be offered to customers*

The Distribution Companies all offer payment plans to residential customers. For C&I customers, the Distribution Companies are currently offering a zero-down installment payment plans. In addition to establishing new and modified AMPs and/or matching payment programs, the Department could establish a set of “post-event” parameters for the Distribution Companies’ payment plans accompanied with arrears forgiveness that would create consistency across the state and that could be designed for several tiers of arrearage amounts.

For post-event payment plans, much will depend on the duration of the event and the general economic impact – both of which are difficult to predict at this time. Many C&I customers may not know the actual impact of COVID-19 for at least two or three months. The Distribution Companies recommend continuing to offer the 12-month, zero-down payment option to residential

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<sup>12</sup> AWC-MA does not charge late fees to C&I customers.

customers until at least three months after termination of the state of emergency if it is only of moderate duration, and up to six months after the event if it is prolonged.

Similarly, the Distribution Companies recommend continuing to offer the zero-down, 3 to 6-month installment plan for C&I customers for at least three months after the end of the emergency. For customers with significant arrears, longer terms may be considered in order to keep the monthly installment above current usage and below a fixed threshold.

5. *Communications to ensure that customers know they are responsible to pay for the utility services they use while shutoffs are prohibited*

All messaging that refers to service disconnection for nonpayment is currently removed from customer bills, to the extent enabled by the customer systems used by the Distribution Companies.<sup>13</sup> During the current state of emergency and for any extended repayment period, the Distribution Companies will continue to issue monthly bills to all customers that will show the amount owed under the current bill and will display accrued arrears, consistent with the Department's regulations at 220 C.M.R. 25.00 *et seq.* and the Distribution Companies' normal practices.<sup>14</sup> Displaying accumulating arrears from month-to-month will serve as an important reminder for customers that, while their utility service is not disconnected for nonpayment, the arrears represent a debt that customers will ultimately be required to pay. A bill message could be added to remind customers that although service disconnects are halted, the cost of the customer's utility service is not waived.

The suspension of messaging regarding disconnections of service for nonpayment is necessary to minimize stress on customers experiencing economic hardship during these uncertain

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<sup>13</sup> For example, this messaging is appearing on the Liberty Utilities bills because it cannot be temporarily removed. However, other language is now included referencing the COVID-19 emergency and stated that Liberty Utilities has suspended service disconnections for non-payment until the state of emergency in the Commonwealth is lifted.

<sup>14</sup> AWC-MA bills its customers on a quarterly basis.

times. However, that periodic messaging, in the form of bill messages or separate mailings, that do not refer to termination but are designed to encourage customers to continue to make payments on their accounts from time to time to avoid being overwhelmed by unmanageable debt when normal shut-off activities resume, is equally important in ensuring customers are aware of their obligation when the state of emergency ends.

6. *The appropriate process to consider ratemaking methodology to consider the Distribution Companies management and collection of associated arrearage dollars and bad debt write offs related the state of emergency*

There are three categories of cost impacts that the Department will need to consider in addressing the exigencies of the COVID-19 pandemic. These categories are: (1) increased working capital costs associated with customer accounts receivables that are not collected over an extended time period, particularly through any period where shut-offs are prohibited; (2) increased cost of customer accounts receivables that cannot be collected, such as the cost of bad-debt write-offs and amounts forgiven to customers through AMPs, matching payment programs or other customer assistance programs; and (3) expenses incurred to conduct operations consistent with Center for Disease Control guidelines for safe operations, or other incremental cost associated with the shut-off moratorium and late-payment fees.<sup>15</sup> The most immediate impact is the increase in working capital costs associated with carrying increasing amounts of customer accounts receivables that are not collected over an extended time period.

Customers with arrearages who do not pay or who may pay over an extended time period create a cost for the Distribution Companies that will transcend all other considerations. If amounts billed to customers are not collected from customers on a timely basis, then the Distribution Companies must rely on their short and long-term capital resources to cover the shortfall in cash

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<sup>15</sup> In addition, consideration should be given to the lost revenue under the gas-related revenue decoupling mechanisms, as businesses facing substantial hardship may terminate service.

flow. Under current circumstances, the period between the issuance of customer bills and the utilities' receipt of payment will likely be extended substantially, even where customers are able to pay. As a result, cash working capital costs will increase both as a result of the need to rely on short and long-term capital resources to a greater extent than normal, but also in terms of the cost of those resources.

In light of the expectation that customer arrearages and eventual bad-debt write-offs will be of a dimension not experienced in the past, the Department should take steps to clear the path for work on customer initiatives by: (1) providing for the timely recovery of increasing cash working capital costs; and (2) establishing a regulatory asset for COVID-19 related costs, including delivery-related bad-debt write-offs, amounts associated with new arrearage forgiveness programs, waived fee revenue and expenses associated with the impact of COVID-19 on employees and utility operations, particularly through weather-related emergency events. Establishing a regulatory asset for COVID-19 costs and allowing timely recovery of cash working capital costs will send a critical signal to the marketplace that the financial integrity of the Distribution Companies will not be jeopardized as all stakeholders work to extend significant and sustained assistance to customers. This will enable the Department to defer consideration of the details of cost-recovery issues off to the future and to focus first on the development of needed customer assistance programs.

(a) Bad Debt Costs

The Distribution Companies recover bad-debt costs (*i.e.*, net charge-offs) in two ways. First, commodity-related bad debt is recovered by the Electric Companies through Basic Service rates and the Purchase of Receivable (“POR”) discount rate. Gas Companies recover commodity-

related bad debt through their Gas Adjustment Factors.<sup>16</sup> Commodity-related bad debt through Basic Service and Gas Adjustment Factors is subject to full reconciliation and this should continue in the future, although recovery may need to be extended over a reasonable time period calibrated to the extent of the bad-debt quantities accrued.

All of the Distribution Companies recover delivery-related bad debt through base distribution rates for all other components of an electric or gas bill. Delivery-related bad debt recovery is determined at the time of a base distribution rate case and included in base rates. With arrearages increasing to historical dimensions, the incremental level of delivery-related bad debt will need to be addressed through a deferral. The Department should authorize each Distribution Company to create a regulatory asset to allow for the future consideration and recovery of delivery-related bad debt above normal levels. These costs need to be measured over the entirety of the event and should be limited to the incremental impact associated with the COVID-19 pandemic through a reasonable means.

(b) Cash Working Capital

The Distribution Companies do not recover bad-debt expense until accounts are shut-off and written off. Therefore, bad-debt write-offs will not occur until the Department allows utility credit and collection processes to resume subject to the strategies and measures developed by the Working Group. In the interim, the immediate problem facing the electric, gas and water distribution businesses is the increase in cash working capital requirements due to the increased lag in customers paying their bills. To mitigate the potentially significant increase in cash working capital cost compared to the amount currently recovered in base distribution rates and the cash working capital on commodity costs for both electric and gas customers, the Department should

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<sup>16</sup> AWC-MA recovers the cost of bad-debt write-offs through base rates, exclusively.



direct the Distribution Companies to update the cash working capital lead lag studies approved in the most recent base distribution rate cases, by adjusting the average lag in days from the date bills are sent to customers to the date bills are paid by customers. This update should be performed monthly until further notice, when the economy begins to stabilize. All other components of the cash working capital computation would remain the same, as approved in the most recent base distribution case rates.

The cash working capital amounts currently recovered in base distribution would be subtracted from the updated cash working capital amounts. The resulting net difference will be multiplied by the pre-tax weighted average cost of capital, as approved in each company's most recent rate case, as appropriate. The resulting return on the net cash working capital amount would be recovered as an adjustment to the applicable revenue decoupling mechanisms or other mechanisms, as appropriate.

Also, it should be noted for future reference that the cash working capital calculation is designed to cover financing requirements associated with operating and maintenance expenses collected through base distribution rates, as the net leg is applied against the base distribution operating and maintenance expense established in a rate case. In typical ratemaking, the capital-related carrying costs are covered through application of AFUDC to construction work in progress balances, or through the application of the weighted average cost of capital on rate base for plant placed in service. In this environment with the potential for significant lag in revenue collections required to cover *all* aspects of company operations (*i.e.*, both capital and O&M related activities) the Distribution Companies may incur additional, substantial costs associated with financing capital related requirements, not covered by the cash working capital calculation referenced above or otherwise reflected in rates. As part of other directives to the Distribution Companies referenced

herein for cash working capital, the Department should direct the Companies to develop methods for quantifying the incremental impact of financing activities not captured by the cash working capital adjustment, if any, that are directly related to the pandemic so that such amounts would be recoverable upon a demonstration that the costs are incremental and not otherwise reflected in rates.

For cash working capital costs associated with electric company Basic Service, the Electric Companies propose to calculate a new cash working capital percentage using the same information included in the most recent rate case, updated only for the lag in customer payments. The Electric Companies would reflect this updated cash working capital percentage in their 2021 Basic Service Administrative Cost Factor filing. In subsequent filings, the Electric Companies would revert to the fixed cash working capital percentage, when appropriate. Gas Companies that do not have a cash working capital mechanism as part of the Cost of Gas Adjustment Clause would follow this same protocol. Some of the Gas Companies have a fully reconciling cash working capital mechanism as part of the Cost of Gas Adjustment Clause and will not need to follow this protocol.

Lastly, in relation to cash working capital for the Electric Companies' purchase-of-receivables programs, the Electric Companies propose to monitor the timing of their customer payment lags and be allowed to propose a revision to the timing of when payments are made to competitive suppliers for the purchase of the accounts receivable of the competitive suppliers. This ability is provided for pursuant to the Terms and Conditions for Competitive Suppliers and the Terms and Conditions for Municipal Aggregators (collectively, "Terms and Conditions").

Pursuant to the Terms and Conditions, the payments to competitive suppliers are currently made consistent with the average payment period of the relevant customer classes. ***Unless otherwise ordered by the Department***, the average payment period is to be based on actual historical

data for the most recent 12-month period for which data is available in the relevant classification, *or other appropriate period, as approved by the Department.* (emphasis added). The intent of the guidelines for payments to competitive suppliers is that the timing of payments to competitive suppliers is consistent with the timing of customer payments to the Electric Companies to, on average, eliminate the cost of CWC. As a result of COVID-19, the Electric Companies expect customers are taking longer to pay their electric bills, including payments for amounts they have purchased from competitive suppliers, while the Electric Companies continue to pay for the purchased accounts receivable on due dates that have and will reflect normal economic conditions unaffected by COVID-19. Consequently, through the operation of the POR program, the Electric Companies are operating in a net cash deficit position.

(c) COVID-19 Emergency Response Costs

Each Distribution Company is incurring incremental costs associated with facilities cleaning, personal protection equipment, maintaining its workforce and other costs to work safely in providing an emergency response to the Governor's state of emergency, all of which is incremental to the costs recovered through distribution rates. Because these costs are outside the normal course of business and may continue for a significant time period, this should be an item that is deferred as a regulatory asset for later consideration by the Department.

(d) Waived Fee Revenue

All of the Distribution Companies charge fees to customers for various services and the fee revenue is built into distribution rates in a rate case. The Distribution Companies are waiving fees in light of the exigent circumstances. These revenues are not included in the revenue decoupling mechanisms. Because it may be a significant time period before fees are charged, this should be an item that is deferred to the regulatory asset for later consideration by the Department. These

fees should include payment transaction and credit card fees, reconnection fees, late fees and other fees.

(e) Excess Deferred Income Taxes

The Distribution Companies have considered that any regulatory asset created for future recovery of costs associated with the COVID-19 pandemic response may be able to be offset by the use of the excess deferred income tax (“EDIT”) regulatory liabilities that exist on the books of each of the Distribution Companies. Currently, the Department has set up amortizations of the EDIT liabilities in the base distribution rates of some of the Distribution Companies and in a Tax Act Credit Factor for other Distribution Companies. However, it might be possible for the Department to draw on these resources to offset a portion of costs for customers in the future. EDIT associated with “unprotected” assets are able to be amortized for each company over relatively shorter time periods than the “protected” assets, avoiding the limitations on the time period over which the credit may be returned to customers under IRS regulation. Therefore, the use of the regulatory liabilities associated with the unprotected EDIT balance to offset bad-debt costs or other programs would essentially allow the Distribution Companies to draw from a customer savings account to assist them in this time of need. Each Distribution Company is in a different position on the EDIT liability. Therefore, this is a concept that would need to be carefully considered on an individual basis for each utility.

## **VI. NEXT STEPS**

For next steps, the Department should consider taking the following actions:

1. Convene a Customer Assistance & Intervention Working Group comprised of the Distribution Companies, the AGO, DOER, LEAN, NCLC and other important stakeholders to develop a detailed plan for providing standardized, meaningful and sustained aid to Massachusetts Utility Customers. The Department should set defined goals and timelines to enable a swift and efficient process.

2. Direct the Distribution Companies to collaborate and submit revisions to the respective revenue decoupling tariffs allowing for the modification of the cash working capital component of rates, based on monthly updates to the lead lag study, to be recovered through the respective revenue decoupling mechanisms of the Distribution Companies.
3. Authorize the Distribution Companies to create regulatory assets for the future consideration and recovery of bad-debt write-offs; new arrearage forgiveness amounts; matching payment amounts or other customer assistance; as well as COVID-19 related operations and maintenance expense and waived fee revenue.

## **VII. CONCLUSION**

The COVID-19 pandemic is an unprecedented, generation-defining event that has already exceeded September 11<sup>th</sup> and Hurricane Katrina in terms of devastating loss of life and potentially lasting impact on society and on the economy. The Distribution Companies, as essential businesses, have taken measures to ensure the safety and wellness of their customers and employees and the continuation of electric, gas and water service so that other critical functions, such as front-line health worker and first responders can continue to perform their public service roles in the Commonwealth. The Distribution Companies recognize and accept the public-service obligation that comes with providing electric, gas and water distribution utility service to customers. At the same time, the Distribution Companies appreciate the Department's consideration of the financial integrity issues and the need to support the Distribution Companies in fulfilling their obligations to customers.

The Distribution Companies also appreciate the opportunity to submit comments in this matter and look forward to reviewing the comments of other interested stakeholders.

Dated: April 17, 2020