

**TO:** Rhode Island Division of Public Utilities and Carriers

**FROM:** Carrie Gilbert and Kathleen Kelly

**DATE:** February 3, 2021

**SUBJECT:** Review of Purchase of Receivables Program as Proposed in Docket No. 5073

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## EXECUTIVE SUMMARY

The Petition of the Retail Energy Supply Association (RESA) for Implementation of Purchase of Receivables (POR) Program (the Petition) filed on September 16, 2021 in Docket No. 5073 would require the electric distribution companies (EDCs)<sup>1</sup> in Rhode Island to purchase the receivables of nonregulated power producers (NPPs or Suppliers) at a discounted rate. The purpose of the POR program is to shift the risk of non-collection of payment from Suppliers to EDCs thereby enabling Supplier entry into the market and facilitating the development of a competitive retail market for the provision of electric generation services in Rhode Island.

The Division of Public Utilities and Carriers (Division”) retained Daymark Energy Advisors (Daymark) to review the proposal. This memo summarizes our review and addresses the following topics:

- POR programs in other jurisdictions
- Key issues for a Rhode Island POR program
- Benefit-cost analysis of the program
- Timing of decisions and next steps

We offer the following observations and recommendations.

## Observations

- POR may enable municipal aggregation, although currently, there is little measurement of the benefits and costs of POR programs in the adopting states; benefits are difficult to quantify, but there are indications that POR has enhanced entry into the competitive retail market for customers
- POR is actively utilized in MA, CT, and NY and appears to have achieved increased market entry by Suppliers

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<sup>1</sup> National Grid is the only EDC in Rhode Island open to competition

- RESA, Good Energy, and National Grid support adoption of POR in Rhode Island
- RESA has proposed a formula for POR in Rhode Island to match the formula of National Grid in Massachusetts
- Shifting collections responsibilities from the Suppliers to the EDC will allow customers that choose to purchase their electricity supply either directly from a Supplier or through municipal aggregation to participate in an Arrearage Management Program (“AMP”) and budget billing

## Recommendations

- COVID-19 has increased the non-payment issue for EDCs and should be addressed in the POR discounting approach to protect customers
- The established discount rate should ensure that, as proposed by RESA, no customer is shouldering any responsibility for the program
- Recommend that the Commission schedule a technical session to discuss the POR program parameters and then allow time for settlement discussions among the parties ahead of the planned hearing on this proposal so that the parties may work out the POR program details and offer a joint settlement. We expect that this approach will allow POR program adoption during 2021 as opposed to the proposed April 2022 adoption suggested in National Grid’s Joint Pre-filed Direct Testimony and thereby move municipal aggregation forward sooner.

## INTRODUCTION

As described in the Petition, “RESA is a broad and diverse group of retail energy suppliers dedicated to promoting efficient, sustainable and customer-oriented competitive retail energy markets. RESA members operate throughout the United States delivering value-added electricity and natural gas service at retail to residential, commercial and industrial energy customers.”<sup>2</sup> The Petition by RESA requests Commission approval of a POR program where the EDC, which in this case is National Grid, purchases all receivables from Suppliers. This shifts bill payment collection responsibility fully to the EDC, thereby leveling the playing field for Suppliers with the goal to increase Supplier participation, creating more competition for energy supply purchasers. The receivables would be purchased at a discounted rate to allow the EDC to recover all costs for administration of the POR program and any associated uncollected amounts (bad debt).

RESA’s Petition states the following:

*Since EDCs bill customers for both distribution and supply charges, and suppliers do not terminate customers for non-payment, this model permits a greater diversity of suppliers to more cost-effectively serve all classes of customers. As a result, a broader segment of*

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<sup>2</sup> Petition, p. 1, footnote 2.

*consumers would be able to access the benefits of retail competition, including having the ability to select from a wider array of energy options.*<sup>3</sup>

The Petition states that since only the EDC has the legal authority to terminate a customer for non-payment and have customer-funded systems in place to exercise this ability, then it is appropriate to place the risk of non-collection on the EDCs.

*The reason it is appropriate to place the risk of non-collection on the EDCs is that because in Rhode Island today, only the EDCs can terminate a customer for non-payment. The EDCs have well-established, ratepayer-funded systems in place to exercise this ability within the requirements of the law. Conversely, suppliers do not have the opportunity to pursue collection of charges in the event of non-payment. As a result, the risk of nonpayment for services rendered may create obstacles for suppliers to enter the market because – as competitive market entities – they are dependent on receiving payment for their services to continue to operate.*

The Petition further states that the risk of non-payment for services creates an obstacle for Suppliers to enter the market and that adoption of a POR program would enable a wider variety of Suppliers to participate in the market.<sup>4</sup>

An aspect of Supplier choice programs in Rhode Island is municipal aggregation which allows a municipality to choose an electric supplier for its residents and businesses within that municipality.<sup>5</sup> RESA claims that a POR program “would facilitate supplier participation in municipal aggregation and increase the likelihood of its success.”<sup>6</sup>

The Petition specifically “...encourages the Commission to take the necessary steps to develop the rules for a POR program so that Rhode Island’s electric choice program can achieve the goals for a competitive generation market envisioned by the General Assembly in enacting the restructuring legislation over twenty years ago.”<sup>7</sup>

Only two intervenors filed testimony in this docket on January 15, 2021. National Grid filed the joint testimony of witnesses Donald Kirley, Josh Pasquariello, and Jonathan Cohen (Joint Witnesses). Good Energy filed the testimony of Philip Carr. Both parties support the establishment of a POR program.

Witness Carr observes that the establishment of a POR program in Massachusetts increased the participation of Suppliers that serve municipal aggregations. He indicated that from 1999 through 2013, only 13 municipal aggregation plans were filed with the Department of Public Utilities in Massachusetts; but after POR was introduced in Massachusetts in 2014 through the end of 2019, 203 municipal aggregation plans had been filed.<sup>8</sup>

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<sup>3</sup> Petition, pp. 1-2.

<sup>4</sup> Petition, pp. 3-4:6.

<sup>5</sup> § 39-3-1.2. <http://webserver.rilin.state.ri.us/Statutes/TITLE39/39-3/39-3-1.2.HTM>

<sup>6</sup> Petition, p. 4.

<sup>7</sup> *Id.*

<sup>8</sup> Carr testimony, p. 1, line 24 – p. 2, line 19.

National Grid's Joint Witnesses support the POR program and also elaborate on ways to mitigate or eliminate risks in a manner not detrimental to customers. Joint Witnesses explain the cash flow risk to National Grid by stating:

*Cash flow is a risk to the Company. The size of the risk is dependent on participation in POR. If a significant population of customers are unable to pay their bills on time and the Company is paying NPPs based on an historic average payment lag which the Company is not experiencing in a scenario such as the current COVID-19 pandemic, it may create cash flow challenges for the Company."*

Joint Witnesses go on to offer an option to include a lead-lag study as part of each annual POR filing to calculate the discount rate in order to mitigate the cash flow risk.

Joint Witnesses also support RESA's proposal that National Grid recover its costs to implement a POR program through the discount rate provided to Suppliers.

## **PROGRAMS IN OTHER JURISDICTIONS**

The POR program has been implemented in nearby states for a number of years. For example, Massachusetts, Connecticut, New York, and Pennsylvania have POR programs. However, each state has their own method of calculating the discount factor.

Massachusetts calculates a separate discount factor for each Supplier, specific to the EDC service territory. It is calculated each year based on the uncollectible amount from the previous year of that Supplier's customers, the administrative expenses of the POR program, and a true-up of the previous year's estimated and actual uncollected bills.

Connecticut's discount factor is calculated separately for each utility, but applies that discount factor to all Supplier's serving customers within that utility's service territory. The factor contains a projected "non-hardship" designated uncollectible amount. Eventually, these uncollectible amounts get amortized and recovered through rates for all customers. Additionally, Connecticut does not allow "hardship" customers to have retail choice and so they do not participate in the POR program, as the PUC found hardship customers were paying more on average to be on third party supplier plans.

New York also calculates a discount factor specific to each utility. This is typically updated during a rate case. New York's calculation contains the actual uncollectible amount of the previous year(s), an adder for the administrative expense of the POR program, and an adder for taking on the risk of uncollectible accounts.

Typically, the implementation of these POR programs has been followed by an increase in competitive suppliers and customers that choose third party services. RESA cited reports that have stated this increase in competition could be attributed, at least, partially, to the POR program<sup>9</sup>.

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<sup>9</sup> Petition, p. 7: 19-20, p. 8:21.

Currently, Massachusetts and Connecticut have some form of Budget Billing and an Arrears Management Program available to utility customers. New York has a Budget Billing option. In all three of these states, any customer can sign up for Budget Billing, including those served by third-party suppliers. National Grid makes this clear in their Budget Billing brochure<sup>10</sup>. Both Eversource and National Grid in Massachusetts have an Arrears Management Program (National Grid's program is the Forgiveness program<sup>11</sup> and Eversource's program is New Start<sup>12</sup>). To qualify for New Start, Eversource requires the customer's household income to be below 60% of state median. National Grid requires the customer to already be on the Low-Income Rate to be eligible for the Forgiveness program. However, it appears there is no restriction on third-party Supplier customers participating.

A POR program in Rhode Island could be designed to include Budget Billing and Arrears Management Program options to all participating customers, rather than just those on standard service. As noted by Good Energy's testimony<sup>13</sup>, a Budget Billing program would not reduce customer debt, but may be a desirable option for customers looking to even out their payments. The Arrears Management Program would provide a form of debt forgiveness, which would certainly be a customer benefit. The details of these options and how the impact of the discount rate calculation would be appropriately determined in the context of a technical session and then through follow-up settlement discussions by the parties.

## KEY ISSUES FOR RHODE ISLAND POR PROGRAM

Any POR program should be specific to Rhode Island and not simply a match of the National Grid POR program in Massachusetts. Daymark recommends that the Commission hold a technical session to discuss options that would best serve the customers of Rhode Island followed by settlement discussion among the parties to craft a POR approach for appropriate Commission consideration prior to the hearing in this docket. Some issues to consider relative to program adoption include ensuring that:

- Customers who do not utilize third-party Suppliers do not subsidize those who opt for third-party supply
- The effect of COVID-19 related bad debt is explicitly considered when developing the initial discounting
- The Commission consider establishing a requirement for a benefit-cost analysis of the POR program at the completion of the first year by National Grid
- That the timing of the POR program implementation is set to ensure that municipal aggregation programs are not further delayed

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<sup>10</sup> [https://www.nationalgridus.com/media/pdfs/billing-payments/budgetplan\\_maeenglish.pdf](https://www.nationalgridus.com/media/pdfs/billing-payments/budgetplan_maeenglish.pdf)

<sup>11</sup> <https://www.nationalgridus.com/MA-Home/Bill-Help/Forgiveness-Program>

<sup>12</sup> <https://www.eversource.com/content/ema-c/residential/my-account/billing-payments/help-pay-my-bill/nu-start>

<sup>13</sup> Direct Testimony of Philip Carr, p. 3, lines 3-10.

## BENEFIT-COST ANALYSIS

RESA addressed the programs benefits as:

- 1) reliance on utility billing reduces cost of entry for competitive suppliers,
- 2) POR reduces the risk of non-payment, reduced credit screening costs, and limits selective customer signup,
- 3) POR allows customers who have been rejected due to credit reasons to be able to choose a competitive supplier and that each of these incents the participation of more competitive suppliers in Community Choice Aggregations which gives customers greater access to the market.

All of these benefits are qualitative in nature but are referenced and accepted in the other states that have adopted POR programs. Program costs are expected to include information system costs to set up and manage the POR program, billing system modifications and additional tasks, costs of legal liens to recover payments, increased legal fees associated with program implementation, and other administrative costs. RESA envisions that all program costs will be recovered through the discounting formula used with competitive suppliers.

One key concern is whether the discounting approach will be sufficient to address increased non-payment, and the associated implications on utility revenues, due to the unfortunate impacts of COVID-19 on customers' ability to pay. We recommend that the Commission require quarterly reporting through the initial year of adoption demonstrating that the discount factor is sufficient or allow an interim adjustment during the first year to reduce the potential for significant subsequent year impacts on the discount factor. Based on the record in this case, the POR program is fully funded through the discount factor that is applied to Supplier receivables; therefore, no customers are subsidizing the POR program.

On a qualitative basis the program benefit is primarily increasing competition and the costs (since fully recovered from Suppliers) are zero to customers; with the limited information available, we find that the POR program is cost-effective based on that information. However, we recommend that a benefit-cost analysis should occur at the conclusion of the first program year and that National Grid should also report on total program costs and assess the benefits of program introduction in a report to the Commission.

## TIMING OF DECISION AND NEXT STEPS

The Petition proposes that the "POR programs will take effect within three months after final Commission approval of an EDC's POR implementation plan."<sup>14</sup> RESA further recommends the following steps in that process "...that the Commission issue an Order, which (i) grants this Petition; (ii) establishes a date certain for implementation of POR programs in Rhode Island; (iii) schedules a series of workshops for interested stakeholders to address details and operational issues; and (iv) directs the filing of POR implementation plans by the EDCs within three months after the conclusion of the workshops."<sup>15</sup> Good Energy provided testimony in support of adoption of a POR program in Rhode Island but did not address the timing of such

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<sup>14</sup> Petition, p. 12:30(4)

<sup>15</sup> Id, p. 13:31

adoption. National Grid, in testimony filed on January 15, 2021, Joint Witnesses agreed that a technical session would be a good approach to finalize the details of the POR program. However, the Joint Witnesses pointed out that in Mr. Allegretti's testimony, he proposed a start date of "April following a decision by the Commission" and further indicated that an April 2021 start date is unlikely with the current process. National Grid's testimony stated that "April 2022 is reasonable provided that all contested issues in implementing POR are resolved by January 1, 2022. If contested issues extend into calendar year 2022, the Company proposes that it be provided 90 days following the resolution of such contested issues."<sup>16</sup>

Daymark acknowledges that customer aggregation programs have increased in states where a POR program was adopted, and we are concerned that delays in adoption could impact customer interest in Rhode Island's aggregation programs. We propose that the Commission modify the process of issuing a decision in this case by implementing a technical session approach proposed by RESA and supported by National Grid before the anticipated (and scheduled) hearing process. However, we also suggest that the Commission rely on one technical session to 1) establish the points of agreement and 2) identify the areas requiring additional information and negotiation to reach agreement, followed by settlement discussion by the parties who will submit agreed upon POR terms and processes to the Commission for further consideration.

The recommended solutions should include incorporating sufficient preparation time for National Grid but aggressively moving up the date of POR program rollout from a potential April 2022 timeframe. We propose that both the technical session and settlement discussions could occur and a negotiated solution document be submitted to the Commission for consideration by mid-April. Assuming a Commission order in May and addressing National Grid's 90-day preparation requirement, then a September 1, 2021 rollout (or sooner) could be possible.

## CONCLUSION

Daymark believes a POR program that requires EDCs to purchase the receivables of Suppliers will level the playing field for Suppliers and allow for greater participation of Suppliers and therefore more supply options for customers. Any such POR program should ensure customers are not unduly harmed by such a program. The best approach to work out the details of such a program is through a technical session followed by settlement discussion that allow the parties to collaborate on such details and submit a joint proposal to the Commission for consideration.

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<sup>16</sup> National Grid Testimony, p. 10, lines 15-18