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Can We Stop Paying Utility Bills for a Bit?

8-11 minutes

A utility bill moratorium could put extra money into the pockets of business owners and households during the pandemic.

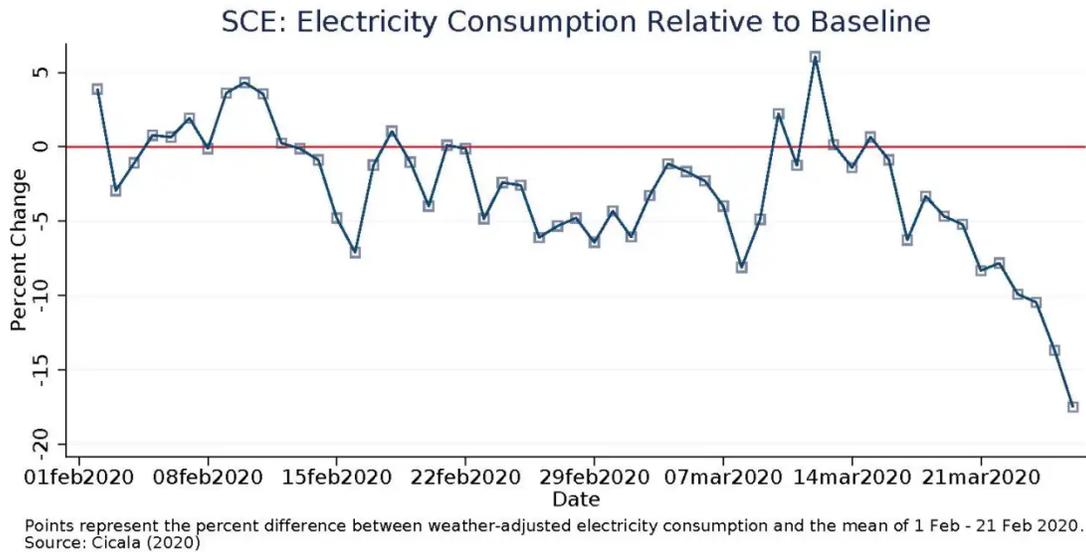
Utility services – like electricity, water and natural gas – are essential inputs into virtually all of our homes and businesses. In part for this reason, utility companies are carefully regulated. In most states, regulatory agencies control the prices companies such as Southern California Edison can charge, keep tabs on their operations and constrain their profits.

This careful regulation could be useful in the current pandemic-induced economic crisis. Here's what I have in mind: regulators should enact a *temporary utility bill moratorium*. This could provide some much needed liquidity as we hunker down and try to ride out the coronavirus.

The Cash Crunch

While sheltering in place and social distancing are good for

preventing the spread of the disease, they are wreaking havoc on the economy. Here's an indicator that might speak to readers of this blog: A colleague of mine, [Steve Cicala](#), at the University of Chicago, is using electricity data as a real-time measure of the economic slowdown. He produced a really interesting graph of Italian consumption that [The Wall Street Journal published](#) two weeks ago, and he sent me this picture for Southern California Edison, suggesting that weather-adjusted electricity consumption is down over 15% from normal levels:



This is a huge drop. Steve posted graphs for [PG&E and other US utilities on Twitter](#) last Friday.

A big fear is that the temporary cash crunch, faced by workers who are no longer taking home a paycheck and businesses that have no customers, will lead to longer-run changes if people are forced into foreclosure on their homes or businesses are forced into bankruptcy. If the large, but transitory, shock created by the pandemic leads to

permanent changes, that can be bad for the economy.

Take my friend [Stephanie's toy store](#). Pre-pandemic, she had a great business with several stores in the East Bay. I suspect a lot of parents and kids hope that she's still in

Five Little Monkeys



business when we make our way out of the pandemic. But, her stores are shuttered now. If this goes on for too long, Stephanie may have to close some stores permanently.

Utility Bill Moratorium as a Quick Helping Hand

So, to help relieve the cash crunch on households and firms, why don't we provide everyone with a temporary moratorium on paying their electricity, natural gas and water bills for the next 3-6 months? Specifically, state utility regulators and governing boards around the country could instruct their regulated utilities to offer 3-6 month bill reprieves (maybe longer if necessary). [Spain](#) and [Italy](#) have both taken similar steps in the last couple weeks.

This doesn't mean that customers should get free electricity, natural gas and water. They will just be able to defer paying for these services while we focus on stemming the spread of the virus.

Certainly, the utility companies will still need to provide

water, electricity and gas services. Yes, the utilities would be losing money in the short run and they would have to borrow to cover their expenses. The nice thing about utilities, though, is that regulators at places like the California Public Utility Commission set the prices that the companies are allowed to charge, so the regulators could guarantee that the utilities would be able to add non-payments during the pandemic to future bills.

Here's how it could work. Most households and businesses will still be customers as we come back to normal, so their bills will be a little higher for, say, the 6-12 months starting in August 2020 to pay for the electricity they consumed during the worst of the pandemic. Any losses from the small number of households that move away between now and August (and can't be tracked down) or from businesses that end up going bankrupt could be spread across everyone else's utility bills.



The Federal stimulus package includes [loans for small businesses](#) but the loan is forgiven (i.e., becomes a grant to the small business) if it's used to pay utility bills. This essentially means that Federal money will be used to pay the utility companies, which is a bad use of taxpayer dollars. Unlike the small business owners in the same boat as my friend Stephanie, the utilities are at no risk of going out of business for the very reason that they are regulated companies. If we impose a utility bill moratorium, that portion of the small business loans in the stimulus can be saved for better uses.

A Utility Bill Moratorium Is Well Targeted

From a macroeconomic perspective, a moratorium would have similar impacts to the \$1,200 per person checks in the CARES Act. It would provide much needed liquidity. The

nice thing about a utility bill moratorium is that it would get extra money in the pockets of business owners, too. For example, my next-door neighbor owns a couple bars and restaurants around Berkeley. With a bill moratorium program, not only will she be able to delay paying for her home electricity, she'll delay paying for her bars and restaurants, as well.

Essentially, this is using the utilities as banks. The advantage is that the paperwork for getting their loans into the economy is extraordinarily light. And – my now-bankrupt local utility PG&E notwithstanding – they have pretty good credit, especially, I'd hope for a debt that their regulators are guaranteeing they can pay back.

Moreover, not every utility customer would have to take advantage of the bill moratorium program. My family is very lucky – we have two salaried workers who have been able to work from home so we aren't facing a cash crunch. We have automatic bill payment and we wouldn't need to turn that off for three months.

There are a couple of details to work through, which I'll list here and hopefully commenters will expand on:

- Yes, some [utilities and regulatory agencies have suspended disconnections](#). A bill moratorium goes a couple steps further, though, and helps resolve uncertainty about, for example, whether late payments will still accrue, whether you'll be shut off the minute the disconnection suspension

ends, and whether you'd then have to pay to get service turned back on.

- This could be set up as either opt-in (customers would have to somehow apply for it) or opt-out (everyone would participate by default except customers like my family that choose to continue to pay their bills).
- This would not need to apply to all rate classes.
- This might not be a great idea for the one bankrupt utility in the country – my own PG&E– since their costs to borrow money are pretty high.
- This won't be as big a benefit in areas where there is retail competition, because it would only apply to the transmission and distribution component of the bill.
- It would be great if there were a way to coordinate across states. Could the National Association of Regulatory Utility Commissioners (NARUC) develop model regulations?

We don't want to get into the habit of treating our utilities as banks, but in desperate times we need to be creative about finding ways to keep good businesses—and hardworking people—afloat.

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Wolfram has published extensively on the economics of energy markets. Her work has analyzed rural electrification programs in the developing world, energy efficiency programs in the US, the effects of environmental regulation on energy markets and the impact of privatization and restructuring in the US and UK. She is currently implementing several randomized controlled trials to evaluate energy programs in the U.S., Ghana, and Kenya. She received a PhD in Economics from MIT in 1996 and an

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