

Ongoing Impacts of COVID-19 on North Carolina Utilities Through December 2020

Environmental Finance Center

Executive Summary

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In the fall of 2020, as one of multiple research projects funded by the NC Policy Collaboratory, the EFC assessed the ongoing impacts of the COVID-19 pandemic on water and wastewater utilities in North Carolina to help inform state decision makers about the financial fallout and potential relief needs of these utilities. The EFC research focused on the various impacts experienced by these utilities during the months of August through December 2020 and looked specifically at the impacts of Executive Orders 124 and 142 (EO 124/142), which prohibited residential disconnections due to non-payment and required the institution of payment plans. This research follows from previous work published in August of 2020 that assessed impacts from the COVID-19 pandemic from March through July 2020.

The EFC has been collecting water and wastewater rates, as well as other financial data from North Carolina's utilities for more than a decade. However, to better understand the specific impacts on utilities from COVID-19 and EO 124/142, the EFC sent out a survey and interviewed staff at 16 utilities across the state. Some broad themes emerged from the EFC's research. First, utilities experienced lost or delayed revenue for a variety of reasons. Second, utility staff needed extra time and effort to serve customers and create payment plans. Third, utilities experienced challenges associated with distributing assistance funds to both customers and utilities. Examples of specific impacts reported include:

Disruptions to office and field operations: Many utilities were forced to close offices and adjust payment processes to allow for socially distanced and online payment options. Field operations were also modified to accommodate social distancing and safety measures.

Lost revenue from changes in consumption patterns and prohibition of late fees: Utilities that rely heavily on revenue from large customers are vulnerable to reductions in consumption resulting from shutdowns, and many utilities saw a decrease in larger commercial and institutional usage and a shift to residential usage. Additionally, utilities were prohibited by EO

1. "COVID-19 and North Carolina Utilities", EFC at UNC, August 26, 2020

124/142 from charging late fees on utility bills that were due between March-July 2020. Revenue lost because of changes in consumption or lack of late fees can never be recovered.

Delayed revenue from delinquencies and payment plans: Utilities were required by EO 124/142 to set up 6-month payment plans, and many offered payment plans longer than that for past due bills (delinquencies) accumulated by customers between March-July 2020. Creating and implementing these payment plans required significant effort from utility billing staff, but most of that work was completed in the months following expiration of EO 124/142 (Aug/Sept/Oct).

Interruption to typical collection practices (such as disconnecting for non-payment):

Utilities are still navigating the transition back to historic collection practices and many found that customer disconnections resumed between August-October 2020 (following expiration of EO 124/142), many customers paid their past due balances in full.

Lack of clarity for how to use assistance funding led to confusion: Some utilities received funds from the CARES Act distribution, though many had a hard time interpreting the guidance and deciding whether or not to use those funds to help customers with past due bills. The financial assistance for utilities helped to cover costs for cleaning supplies, extra shifts, personal protection equipment (PPE), and supplies for employees to work from home but was not enough to cover shortfalls in revenue caused by other factors.

Several policy takeaways also emerged from the EFC's research that can inform future decision-making. In order to be effective, a system for providing financial relief to local governments and utility customers, needs to be in place prior to an emergency occurring. Distributing funds to customers in need is a large undertaking, and many counties, utilities, and non-profit partners have struggled during the COVID-19 pandemic to get the large influx of assistance funds to customers in a timely manner. In addition, flexibility and an understanding that diversity of strengths and challenges for utilities across the state is necessary to create mandates that help both customers and utilities in emergencies. Utilities vary widely, and prior knowledge of a utility's customer base, financial position, billing software, number of staff, infrastructure

needs, and customer delinquencies are important in setting policies to efficiently address emergencies. Support for the development and funding of bill payment assistance programs prior to an emergency is also needed. Ongoing support for these programs will improve the ability of customers to get assistance in paying bills, which leads to a more financially stable utility. While state and federal support for local governments and utilities at a time of emergency is important, support for the long-term viability of utilities to enhance their resilience against future crises could provide lasting benefits and improve their ability to address challenges locally.



Looking forward

The COVID-19 pandemic is far from over and the need for water and wastewater services to protect public health remains critical. Since the expiration of EO 124/142 many utilities have experienced a return to more historic collection practices, however consumption patterns in many areas continue to be impacted by COVID-19. The effect on utility customers as lengthy payment plans end and any payments (which may be large, if the customer was not able to complete the payment plan and/or continued to accrue bills) will be seen in 2021. As 2021 continues, some utilities will recover bills that were past due or gain a better understanding of what portion of past due bills may prove uncollectable. The effects of delayed revenue and rate increases as well as deferred capital improvement projects will be seen in the months and years to come.

Utilities in COVID-19

Financial Impacts on Water and Wastewater Utilities in North Carolina*

Combating the COVID-19 pandemic requires clean, reliable water service. The critical public health role of water and wastewater systems means they must stay economically viable while serving customers who cannot pay.

Executive Order 124/142

The enactment & extension of EO 124 prevented utilities from disconnecting customers due to missed payments and required 6-month payment plans.

Revenue Losses and Delays

With consumption changes, a pause on late fees, more past-due bills, and payment plans, some utilities lost revenue.

Policy Takeaways

Develop programs and fund distribution methods before they are needed

Better clarity needed for CAPs, one-time orders, and funding rules

Flexible deadlines and continual funding of assistance programs

Assistance for customers and utilities

Payment Plans

Logistically challenging
Time-intensive for staff
Billing software inadequate or difficult
Type and duration vary by city/utility
Difficult to get consumers to register
- Communication is challenging
Revenue is delayed for utilities

Customer Assistance Programs

Some cities already had programs (formal and informal), and others started or accelerated their development during COVID-19
Can be helpful, but utilities still need financial help and legal guidance to assist customers with past-due bills

CARES Money

Good for PPE, cleaning supplies, operations
Unclear if it could help customers with past-due bills
- Interpretation / use varied greatly
Ambiguity caused some delayed assistance programs

Building Resilient Framework

Supporting the longer-term viability of utilities and pre-developing some pipelines for financial relief helps utilities' resilience against future crises.

Looking to the Future

The effects of the pandemic are ongoing and operations are still affected. There is more financial assistance coming, but it remains unknown how utility revenue will be affected in months to come.