



# Average Utility Payment Plan: Implications for Consumers

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### How Do Rising Energy Costs Effect Consumers?

The availability and cost of utility services influence the daily lives of Americans. Whether at home, work or play, virtually every activity involves the use of energy. Energy costs—second to rent or mortgage payments—are the next largest household expense. Increased energy costs often effect the ability of some households to afford housing. Indeed, the real “energy crisis” continues for those households on low and fixed incomes who lack the income to adjust for rising energy utility costs.

### What Factors Influence Energy Consumption?

Energy is used directly and indirectly for many activities in daily living. Consumers need to be conscious of actions that may encourage the use of energy. Several factors that may influence the amount of energy used by the household include:

- attitudes of residents
- energy conservation behavior of residents
- house size
- age of structure
- physical condition of structure
- factors such as insulation and weather-stripping, storm windows and doors

A variety of public policies have been established to respond to the increasing cost of energy utilities. As part of these policies, a number of assistance programs were proposed and implemented. The primary purpose of these plans was to reduce the impact of increasing utility costs on the consumer; however, many of the utility averag-

ing plans have introduced a short term solution to the problems without considering long term consequences on the household economy.

### What Is Utility Bill Averaging?

This fact sheet discusses an attempt by government officials and utility companies to assist consumers in adjusting to sharp changes in utility bills from month to month. Specifically, the advantages and possible disadvantages of utility bill averaging are discussed based on research using Oklahoma utility customers.

#### Definitions to assist the reader:

**AMP Customers (Averagers):** Utility customers who have chosen to use the average monthly payment plan.

**AMP Plan (Budget Billing):** The process of evenly distributing the total yearly utility costs or payments over 12 monthly billing periods.

**KWH (Kilowatt Hours):** The unit measurement of the consumption of electricity that is metered by a supply company during an accounting period.

**MCF (Million Cubic Feet):** The unit measurement of the consumption of natural gas.

**Non-AMP Customers (Non-averagers):** Utility customers who have chosen not to use the average monthly payment plan. Their monthly bills reflect actual consumption and charge for the billing period.

Some utility companies offer billing plans to help relieve the pressure of fluctuating monthly utility bills. The Average Monthly Payment (AMP) plan is a mathematical process that evenly divides a customer's yearly total utility cost over 12 monthly billing periods. This process has a variety of titles including: budget billing, leveled billing and the AMP plan. Utility bill averaging allows the consumer to pay a fixed amount each month rather than trying to manage fluctuation in monthly utility bills.

There are many ways that a utility company handles the debit/credit balance. One method is an annual payment. For example, if a consumer on the AMP plan has a balance with the utility company they must pay one final payment at the end of the 12 months. Some companies simply debit or credit balances to the next twelve monthly payments. In 1986, this policy was established in Oklahoma by a ruling from the Oklahoma Corporation Commission. It requires utility companies to offer the Average Monthly Payment plan to their customers. This policy, as others nation-wide, was implemented with the intent of assisting consumers in managing fluctuating monthly utility bills.

### Advantages and Disadvantages of the AMP Plan

The primary purpose of the average monthly utility payment plan was to assist low and fixed income utility consumers. Current studies indicate that the AMP plan is helping a different consumer group more than those households with the greatest economic need. Normally a customer receives a monthly utility bill indicating the actual energy usage and charges due.

One disadvantage of the AMP plan is that the normal price signal, indicating actual consumption, is muted. During peak consumption months, AMP consumers may be unaware of how much energy they are actually using. In order for a customer to understand the price signal that was included on the monthly utility bill, the consumer must carefully read and consider all the information provided on the utility bill, rather than simply considering the monthly payment. In fact, the AMP plan option does not appear to encourage energy conservation behavior. Rather, it may separate energy usage from actual cost which results in encouraging energy use rather than conservation. If consumers are choosing this payment plan option for convenience and for budgeting assistance or as a budgeting tool, they need to be aware of the potential costs. If consumers are unaware of potential energy use and cost increases, then an educational program is warranted.

Consumers may be using the plan as a budgeting tool rather than an assistance plan for low and fixed income consumers. If used for financial management, consumers need to be aware of the potential disadvantages of the AMP plan. In comparison, if a consumer has credit cards they must know and understand the billing and payment procedure in order to fully benefit. If a consumer is only concerned with paying the monthly minimum credit charge, a financially dangerous situation might occur. In the same way, a consumer on

the AMP plan must have the ability and motivation to read and understand the monthly utility bill.

### Implications for the Consumer

Recent studies of electric and natural gas consumers found that households using the average monthly payment plan (AMP) tend to use more energy than consumers not on the AMP plan. As a result of increased energy use, the amount paid for energy was also greater for AMP households. Figure 1 compares seasonal electric costs for AMP and non-AMP households during a 15-month period from December, 1985, to March, 1987. The AMP electric customer's average summer bill was over \$121 more than the non-AMP customer's bill. For the total 15-month period, the average difference in the bill was \$218.25 with AMP customers paying the higher cost.

A study of natural gas consumers during a 16-month period from October, 1987, to January, 1989, resulted in similar findings. AMP customers used more natural gas and spent more than non-AMP customers through the study period. AMP customers spent an average of \$88.63 more than non-AMP customers during the 16-month study period (Figure 2).

These Oklahoma studies indicated different energy use patterns for households choosing to average their utilities and those households not averaging their utility bills. One must be reminded that these differences could be attributed to many factors, including the structure of the house. How-

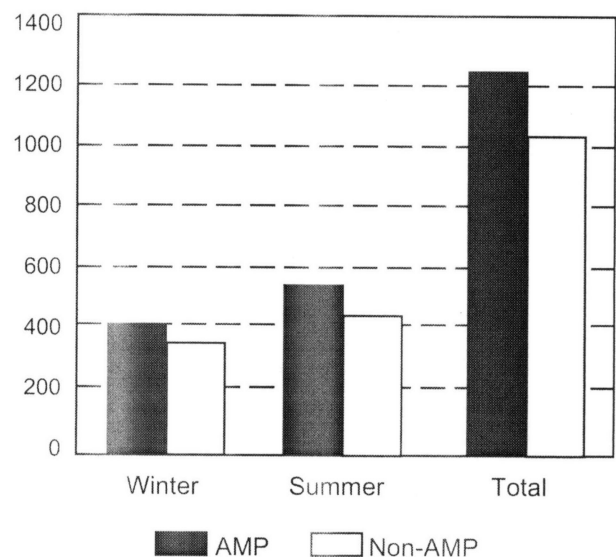
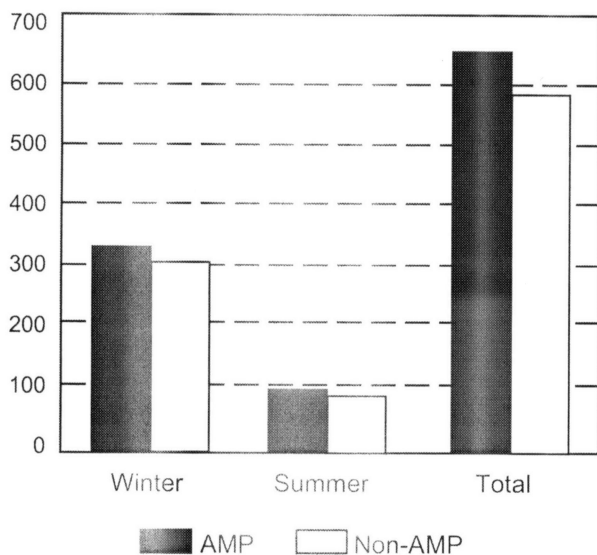


Figure 1. Average Seasonal Electric Cost.



**Figure 2. Average Seasonal Cost.**

ever, follow up studies indicated that the choice of payment plan does influence energy use and cost.

As a consumer, the value of averaging utility bills must be carefully considered in light of these findings. If a household chooses to average utility bills, they should also consider the potential for increased energy use. Careful analysis of monthly utility bills and attention to energy conserving household habits can result in controlling energy use while taking advantage of this budgeting tool. The key is realizing, in the case of utility bill averaging, that the amount paid in a given month is not necessarily a reflection of the actual amount of energy used.

### What Can Consumers Do?

There are many ways for consumers to effectively utilize the AMP plan and to also be more efficient energy consumers. Suggestions for becoming a responsible energy consumer include:

1. If you choose to participate in the AMP plan, be a knowledgeable AMP consumer by knowing about the:
  - quantity of electric or natural gas used each month
  - actual cost for the month.

2. Vote with your pocketbook—buy energy-efficient and environmentally-sound products.
3. Have a residential energy audit done and make suggested improvements, such as weatherization.
4. Keep thermostat setting on recommended temperatures for summer and winter.
5. Retrofit or improve the energy efficiency of your current place of residence.
6. Buy or build energy efficient homes.
7. Get involved in Consumer Advisory Boards or Consumer Councils. Make sure that they emphasize consumer participation in public utility decision making.

### Summary

The Average Monthly Payment plan can be a good financial management tool. It offers advantages to consumers if they are aware of the amount of energy they are actually using each month. Utility averaging can help reduce great fluctuations in monthly utility payments. Energy, whether electricity, natural gas, or other, should be considered a valuable commodity that should be efficiently used and not wasted.

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