COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

July 29, 2009

In the matter of adjustment of rates of Columbia] Gas of Kentucky, Inc.] Case No. 2009-00141

PREPARED DIRECT TESTIMONY OF

NANCY BROCKWAY

ON BEHALF OF AARP

July 29, 2009

Q. Please state your name, business address, and affiliation.

A. Nancy Brockway, 10 Allen Street, Boston, MA, 02131 I am the proprietor of NBrockway & Associates, and offer legal and consulting services on energy and utility issues.

Q. On whose behalf are you testifying today?

A. My testimony is filed on behalf of AARP.

Q. Please briefly describe your qualifications.

A. Since 1983, my professional focus has been the energy and utility industries, with particular attention to the role of regulation in the protection of consumers and the environment. I was for several years a hearing officer and advisor to the Maine Public Utilities Commission and then to the Massachusetts Department of Public Utilities, where I served two years as General Counsel of the commission. I was an expert witness on consumer and low-income utility issues for seven years, with the National Consumer Law Center. I was then appointed a Commissioner and served on the New Hampshire Public Utilities Commission from 1998 to 2003. Since leaving the New Hampshire Commission, I have been a consultant on regulatory utility issues to regulatory commissions, ratepayer advocates, low-income energy groups, and others. I also spent several months serving as the Director of Multi-Utility Research and Analysis with the National Regulatory Research Institute. My resume is attached as Exhibit NB-1.

Q. Have you previously testified before this Commission?

A. Yes. I testified in a Kentucky Power Company rate case in 1991 in Docket No. 91-066, and in a LG&E Demand Side Management case in 1993, Docket No. 93-150.

Q. Have you testified on utility matters before other Commissions?

A. Yes. I have filed testimony in over 30 proceedings. I have appeared before fifteen state or provincial regulatory commissions.

Q. What is the purpose of your testimony today?

A. I have been asked to provide my opinion on four issues in this docket:
(1) Should the Company be permitted to move as proposed to a Straight Fixed Variable (SFV) rate design;
(2) Should the Company be permitted to more than double its fees for reconnection after involuntary disconnections;
(3) Should the Company be permitted to institute a late charge on residential customers; and
(4) Should the Company be permitted to recover commodity-related uncollectible costs in a rider, as opposed to in base rates as is done today?

Q. How is your testimony organized?

A. After a brief summary of my recommendations, I address the topics in the order listed above. For each of the topics I address, I first set out a brief description of the Company's proposal, and then address the merits of the proposal.

Q. Please provide a brief summary of your recommendations in this docket.

A. I have three primary recommendations for the Commission in this docket:
First, I recommend that the Commission reject the Company's proposal to adopt a Straight Fixed Variable rate design.
Second, I recommend that the Commission order the Company not to increase the fee for reconnection after involuntary disconnection.
Third, I recommend that the Commission direct the Company not to impose the proposed residential late fee.
Fourth, I recommend that the Commission direct that commodity-related uncollectible costs be recovered in base rates, as under current practice.

STRAIGHT FIXED VARIABLE RATE DESIGN PROPOSAL

Q. Please describe the Company's SFV rate design proposal.

A. As described in the prefiled direct testimony of Company witness Mark P. Balmert, Columbia proposes to adopt a straight fixed variable ("SFV") rate design to recover Columbia's cost of service for the General Service - Residential rate class. Columbia proposes to move recovery of all fixed non-commodity costs to a single fixed monthly charge in two steps. It proposes to phase in a 100% shift of non-commodity base costs over 2 years to a fixed monthly charge, and phase out its non-commodity volumetric rates at the same time (other than the energy assistance and R&D riders and a proposed new Gas Cost Uncollectible Charge). Columbia seeks authority in this case to impose the second increase in fixed charges and implement the elimination of volumetric charges, without returning for further authority from the Commission to implement the second step.

Q. How would the SFV proposal affect residential rate elements?

A. Under the proposal, in the first year, Columbia would raise the residential customers' fixed monthly charge from $9.30 per month to $17.92 per month. This represents a near doubling of the customer charge in one step. In the second year rates from this docket are in effect (and thereafter until another change in rates authorized by this Commission), the Company would further increase the customer charge to $26.53 per month. The complete phase-in thus represents a near tripling of the fixed monthly charge that must be paid by residential customers merely for being hooked up to the Columbia system. Columbia proposes to decrease the volumetric charge from the current level of $1.871 5 per Mcf to $1.4604 per Mcf during the first year the proposed rates will be effective. Columbia proposes to be permitted to eliminate the volumetric charge for delivery service beginning with the second year after new rates are established in this docket.

Q. What does Mr. Balmert say is the justification for moving to an SFV rate design for the residential customers?

A. Mr. Balmert states at p. 32 of his direct testimony that "Columbia is proposing these rate design changes at this time because they best address the major business challenges faced by Columbia, such as: 1) declining use per customer; 2) volatile wholesale natural gas prices; and, 3) the desire to promote conservation." According to Mr. Balmert, these factors present serious challenges to the utility's financial integrity, and to the ability of its customers to manage their energy needs. He further states that, in addition, "the fixed cost nature of the gas distribution business warrants new approaches to the traditional ratemaking process in order that Columbia be given a reasonable opportunity to recover its fixed costs of providing gas delivery service, and that its customers pay for that service in an appropriate and equitable manner."

Q. Why do you recommend that the Company not be permitted to move to its proposed SFV rate design for the residential class?

A. The Company's SFV proposal is a bad idea for a number of reasons. First, shifting costs over to a flat monthly charge will hurt many customers with usage below the median. This group includes households headed by persons aged 65 and older, who typically use less energy, on average, than households headed by younger persons. Indeed, very few residential customers overall use enough gas to break even by the elimination of volumetric rates and the increase in flat monthly fees. Second, the usage level the Company estimates for its low-income customers is contrary to much other data regarding low-income customer usage. To the extent that some of Columbia's low-income customers may use more gas than non-low-income customers, this would argue for well-targeted and robust Demand Side Management (DSM) programs, not for masking the problem by a switch to flat rates, and offering only token DSM efforts as is the case here. Also, eliminating volumetric rates would discourage energy efficiency and conservation, not encourage it. Fourth, many businesses routinely fold their fixed

costs into their variable charges; if economic purity requires including them in fixed charges, economic theory is often recognized in its rejection in real life. In addition, the Company does not claim that 100% of its base rate costs are fixed. Fifth, the two-step movement to SFV violates the Bonbright ratemaking principles. As the Commission is aware, James C. Bonbright wrote the classic treatise on principles of ratemaking. His Criteria of a Sound Rate Design are attached as Exhibit NB-2. Sixth, eliminating volumetric rates could push some customers off the system entirely because they will have to pay much higher monthly charges just to stay connected, without regard to usage. Seventh, the Company's argument that it will lose sales between rate cases is unfounded. Finally, eliminating volumetric rates would significantly reduce the utility's risk, which is not reflected in the company's proposal. If SFV is allowed it should be matched by a significant reduction in the allowed return on equity.

Q. Please discuss your first objection to the SFV proposal, that most customers will be adversely affected because their usage is too low to benefit from the elimination of the volumetric rates?

A. Most of Columbia's customers have usage below the level needed to benefit more from the elimination of volumetric charges than the increase they will see in monthly fixed charges, at the Company's proposed revenue level.

Q. For a customer with the annual average usage, what would be the impact of the proposed rates in year 1 and year 2 of the proposed SFV plan?

A. As shown on Exhibit NB-3, at an annual average usage of 72 Mcf per year a customer's base rate bill would increase by $72 from today's bill, once SFV were in place in Year 2, as proposed by the Company. The lower a customer's usage, all else equal, the worse off they will be from the elimination of the volumetric charge as proposed by the Company.

Q. How will the Company's proposed adoption of a Straight-Fixed-Variable rate design affect seniors?

A. On average, senior householders use less natural gas than non-senior householders. For this reason, seniors will fare worse than non-seniors under the Company's proposal. Cross-tabulations of the data from the Residential Energy and Consumption Survey (RECs) for 2005 (the most recent year data are available) performed by John Howat of the National Consumer Law Center (NCLC) bear out this point. In the East South Central Census division, of which Kentucky is a part, households headed by persons 65 years of age or older that heat with natural gas use, on average, 67.72 Mcf/year, while non-elder households that heat with natural gas use, on average, 69.81 Mcf per year. These results are consistent with similar data based on the 2001 RECs.

Q. How will the proposed move to a Straight-Fixed Variable rate design affect low-income customers?

A. On average, low-income household use less natural gas than non-low-income households. For this reason, low-income households will fare worse than higher income households under the Company's proposal.

Q. The Company claims low-income customers will actually benefit from the switch to SVF because their average usage is higher than that of non-low-income customer. Is the Company correct?

A. No. The Company derives its estimate of low-income usage from the usage of customers who received energy assistance under the Low Income Home Energy Assistance Program (LIHEAP). Such customers' usage is not representative of the entire population of low-income households. According to Kentucky LIHEAP Facts, available at www.liheap.org, only about half of all potentially eligible low-income families apply for and receive LIHEAP in Kentucky. Also, all Columbia Gas customers who receive LIHEAP use natural gas for heat. In addition, the Company's conclusion that its low-income customers have higher than average usage is contrary to other sources of data on home energy usage by age and poverty. For example, according to cross-tabulations of data from the most recent federal RECs performed by John Howat, Senior Policy Analyst at the National Consumer Law Center, household natural gas usage in the East South

Central U.S. Census division was greater in households with incomes above 150% of the Federal Poverty Level (FPL) than in households with lower income. Columbia's residential customers who receive energy assistance under LIHEAP likely have disproportionately higher usage than the average for all low-income customers.

Q. Assuming that at least some low-income customers have higher-than-average usage, is moving to a SFV rate design the best way for the utility to respond to their situation?

A. No. Moving to SFV in order to lower the bills of high-use low-income households would not be an effective way of responding to bill-payment difficulties of high-use low-income customers. It would be much more beneficial for high-use low-income customers if the Company were to target well-designed and fully-funded demand-side management (DSM) programs for such customers. In this way, these customers could benefit from lower bills without the utility having to shift costs over to other customers, including other low-income customers and seniors. The Company instead proposes to benefit customers who use higher-than-average amounts of natural gas, discouraging energy efficiency and failing to address the needs of low income customers.

Q. The Company is proposing some DSM programs, and indeed argues that its willingness to promote efficiency depends on decoupling such as it proposes under the switch to the SFV rate design. How do you view the Company's argument?

A. In this docket, the Company offers only token energy efficiency programs. Its DSM proposals will not produce any significant gas savings. The program designs utterly fail to address the persistent market barriers that prevent customers, especially low-income and elder customers, from purchasing efficiency measures in the market today. Few customers will be able to participate in them, and fewer still will be able to reduce usage with the help of the programs.

Q. What DSM programs is Columbia proposing in this docket?

A. Columbia Gas proposes three programs targeted to residential customers: (i) an Energy Audit Program; (ii) a High-Efficiency Appliance Rebate Program; and, (iii) a Low-Income High Efficiency Furnace Replacement Program.

Q. Why do you say these three programs will not succeed in producing significant efficiency improvements?

A. First, it is well understood in the DSM field that mere audit programs cannot be shown to produce any savings. Customers get the audit results, and then cannot follow through with efficiency investments due to any one of the numerous market barriers that remain. Second, appliance efficiency rebate programs require significant customer investment, despite the availability of the rebate. Many customers cannot make the investments, or cannot take on more debt and more risk to pay the remainder of the cost, especially in light of current economic conditions. Third, some of the so-called High-Efficiency appliances for which the Company will offer rebates appear to be load-building devices, not conservation devices. For example, if a customer installs a gas log or fireplace, the fact that it is 99% efficient does not save the customer or the system any gas, but adds to usage. Fourth, the Company proposes to reach at most one half of one percent of customers with these programs, and will not target high usage, lower income customers. Fifth, the Company itself will not commit to or even predict any specific level of resource savings from the programs. Sixth, the Low-Income High Efficiency Furnace Replacement Program will reach only a tiny number of low-income customers, even if it is fully implemented as proposed.

Q. What level of resources is the Company proposing to put behind its DSM offerings?

A. The Company itself admits that the proposed budget of only $900,000 for its entire DSM effort is "somewhat modest." This amount represents merely one tenth of one percent of the Company's residential revenues, and even less of its

total revenues. The amount targeted to low-income customers is even smaller, of course.

Q. Have other gas utilities offered superior programs targeted to low-income customers?

A. Yes. Across the country, gas utilities have fielded substantial DSM programs for well over a decade, including programs targeted to low-income customers. There is much actual experience from which the Company can borrow. Indeed, other NiSource distribution affiliates field some excellent programs for low-income customers. For example, Columbia Gas of Pennsylvania has fielded a targeted Low Income Usage Reduction Program (LIURP) for almost a decade. According to Michael Blasnik and Associate, the independent evaluator of the LIURP program offered by Columbia's Pennsylvania affiliate, its usage savings levels "rival the best residential retrofits in the nation." (See citation in http://www.puc.state.pa.us/general/pdf/Columbia_Gas_USP.pdf)

Q. What does the Company's admittedly "modest" DSM initiative say about the claim that a SFV rate design will encourage the utility to promote conservation.

A. The lack of serious DSM initiatives by the Company indicate that it is not proposing activities that it calls "DSM Programs" in order to help customers reduce natural gas usage. The type and scope of the programs proposed leads me to conclude that the Company may feel it is under pressure to offer DSM and/or it is offering these minimal DSM programs in an attempt to justify its proposal for a move to fixed charge cost recovery.

Q. The Company argues that it is going slow on DSM so the Company can "gain some experience with DSM programs before making a larger commitment in this area." Seelye testimony at 14. Does this factor justify spending such a token amount on DSM?

A. No. If the Company were serious about promoting energy efficiency, it would plan for a much larger program. It might roll it out over a couple of years, but it would be working towards a serious level of investment. As I stated previously, there is considerable experience across the country and among the Company's

affiliates with gas utility DSM programs. The Company is not reinventing the wheel with DSM in Kentucky and it could be far more aggressive in offering DSM to all customers, including targeting high usage low- and fixed-income customers.

Q. Mr. Miller avers that the SFV rate design and the DSM program proposal are "consistent" with each other. (Direct at 21). Do you agree? Does such consistency justify the switch to a Straight Fixed Variable rate design?

A. No. The SFV rate design will actually discourage conservation, not promote it. The reduction and elimination of volumetric base rates will significantly reduce the customer's incentive to use less natural gas. The SFV rate design fights *against* the customers' interest in pursuing conservation.

Q. Turning to other suggested justifications for a SFV rate design, the Company argues that access fees are charged by many businesses, and natural gas distribution should be no different. How do you respond?

A. First it is important to note that natural gas is not like many of the services listed by the Company (see, e.g. Balmert Direct Testimony, at 39). Natural gas is a necessity in homes where the heating system or water heater uses natural gas, unlike many of the examples given by Mr. Balmert. Also, many of the services listed by the Company are offered, and taken, on a usage basis as well as a flat-rate basis. For example, long-distance telephone service ,cellular telephone service, and internet services be generally be purchased on a usage basis, or a flat-fee plus usage basis. Third, both of the cost-of-service studies offered in this docket allocate significant levels of cost based on demand (a usage-sensitive determinant), and one allocates 50% of the base distribution cost on throughput. These studies support the observation that less than 100% of the Company's costs are in fact fixed, or a function of the number of customers. Fourth, the classical economic idea that fixed costs are better recovered with fixed rates is not followed in practice, despite the examples given by the Company of flat rate charges. The Company's list ignores other examples of retail purchasing, under which the customers typically pay no access fees at all, and pay only for services

rendered. This model holds true for hairdressing, purchase of propane gas, legal services, accounting services, and many others. Certainly, a customer walking into a store does not pay an access fee, even though arguably the storeowner must incur many fixed costs merely in order to be able to serve its customers.

Q. Why do you say that the Company's proposed two-step switch to a SFV rate design violates principles of sound rate design?

A. The precipitous movement in just over one year to a completely SFV rate design will cause smaller users to experience huge percentage increases in base rates. Schedule N shows that customers with usage less than 6 Mcf per month will face base rate increases as high as 39% if the Company's proposal is accepted. By the second year this percent increase will have essentially doubled. Such rapid and severe rate increases violate the principles of public acceptability, stability of rates (gradualism), and efficiency in discouraging wasteful service. These are among the principles of a sound rate design enunciated by James C. Bonbright in his classic treatise Principles of Public Utility Rates. See Exhibit NB-2.

Q. Why do you suggest that the movement to recover all base costs in a fixed monthly charge could drive some customers off the system?

A. As noted above, for small usage customers, the percent increases will be enormous. The Company itself recognized that non-heating customers "will be particularly at risk" because the percent increase in their rates is greater and more sudden than the percent increase it proposes for higher use (heating) customers. (response to Staff Set 2, DR No. 005). In fact the Company even alludes to the possibility that it might prefer to lose its non-heating customers altogether, rather than face the risk it says it faces from volumetric cost recovery (*Id.*, p. 2).

Q. Why do you say that the Company's argument that it will lose sales in the future, and thus needs protection against loss margins, is unfounded?

A. All the information the Company has put forward on the trend in usage, in its testimony, and in the detailed econometric study presented by the American Gas Association, is backward-looking, not forward-looking. The complicated mathematical formulas essentially reduce to identifying a historic trend line, and

continuing it out into the future. But there are reasons to believe that the slope of the reduction in sales the Company has experienced in the last ten years is not predictive of the several years. The past is only prologue if the future conditions duplicate the past conditions. In the case of the drivers of gas usage, they do not.

Q. Why do you suggest that gas usage will not go down going forward, as the Company claims?

A. The most recent Columbia experience with usage level changes has been mixed, with some increases year over year along with some reductions. If you take only the most recent period to estimate a trend line, the downward slope of the lines in Ms. Efland's testimony flatten out. (See Exhibit NB-4, Ms. Efland's response to AARP Data Request Set 1-005). In addition, the Company provides no reason to expect that gas appliance efficiencies will improve at the same rapid rate as they did in the last ten years, suggesting that this driver of usage reductions has bottomed out. In any event, the recent economic difficulties will inhibit customers from switching out old less efficient appliances, despite the long-term cost savings customers could enjoy from further usage reduction. (Note that to the extent usage is suppressed on account of an extraordinary economic crisis, the standard of just and reasonable rates can be met even if the utility remains at risk for usage reductions.) Also, coal prices have been going up, and this in turn is driving up electricity prices. Customers will be less likely in the near future to switch to electricity for water heating and other uses.

Q. What are the implications of a flatter usage trend line than forecast by the Company in this case?

A. Recognition that the trend has flattened in recent years undermines the proffered support for the switch to a SFV rate design. The Company uses its estimate of a continuation of the ten-year trend in usage reduction to argue that it is at risk of losing margins unless the Commission permits it to switch customers to a flat monthly charge for recovery of its base revenue requirements. If in fact the trend is relatively flat, as shown on Exhibit NB-4, the Company will not face the risk it suggests justify such a drastic and precipitous change in rate design.

Q. You have argued that adoption of the SFV rate design at the retail level may cause some customers to lose service altogether. Why do you say that?

A. The lower one's usage, the stiffer the impact of the proposed move to a SFV rate design. At lower usage levels, the average cost per Mcf is much higher than at the higher usage levels. This is by design, but it could price natural gas usage out of the budgets of small users with low- and fixed- incomes. For example, a typical Columbia Gas customer who does *not* use gas for space heating uses on average about 1.6 Mcf per month, compared to the 6 Mcf of the average customer overall. [Compare the Company's responses to Staff Set No. 2 DR No. 004 to its response to Staff Set No. 2, DR No. 060, at p. 21]. If SFV is imposed, the annual bill of such a customer will more than double, as will the customer's average rate per Mcf. Going from a bill averaging $148 per year to one of $318 per year will make it impossible for some of these low-use customers to retain service. The Company appears to be relatively indifferent to this possibility. See Staff Set 2, DR No. 005, p. 2.

Q. Finally, on the question of SFV, why do you state that eliminating volumetric rates would significantly reduce the utility's risk, and if allowed should be matched by a significant reduction in the allowed return on equity?

A. If the Company does not risk losing margins if its sales drop between rate cases, it is virtually guaranteed the full recovery of its revenue requirement. Rates set to enable the Company a reasonable *opportunity* to earn its allowed return become rate set to give the Company a virtual *certainty* that it will earn the allowed rate of return under an SFV. Only if the number of customers goes down (or if it allowed its costs to escalate sharply) would the Company face any real pressure on its equity return. The risk that the Company will overearn is shifted to the customers (and particularly to the lower-usage customers). Under SFV, customers provide the full revenue requirement, regardless of the Company's performance. Since the Company's risk is lowered significantly, its required return should be significantly lower if it switched to the SFV rate design as

requested. This reduction in risk should be reflected in the allowed return on capital.

FEE FOR RECONNECTION AFTER INVOLUNTARY DISCONNECTION

Q. Please describe the Company's proposed increase in reconnection fees.

A. The Company imposes a fee charged to customers who have been disconnected if they seek to be reconnected. The Company charges a different fee depending on whether the disconnection was at the customer's request, or was involuntary (i.e. at the Company's instance upon non-payment, or violation of the Company's rules). The Company proposes to increase the reconnect fee in the case of involuntary disconnection from $25 to $60.

Q. Why should the Company not raise the reconnect fee for involuntary disconnection?

A. The higher the reconnect fee, the more difficult it will be for low-income, payment-troubled customers to restore service. By definition, low-income customers do not have enough income to cover the basic necessities of life. If they do not have enough funds to pay the underlying bill in full, adding on a higher reconnect fee will not improve their capacity to pay the bill.

Q. But doesn't the threat of a reconnect fee focus the customer's attention on the unpaid bill, and produce a greater level of payments?

A. Actually, the imposition of a higher reconnect fee will only be useful to change customer behavior in a very small percentage of nonpayment situations. By far most non-paying customers are unable to pay the bill for a variety of reasons, and are not simply ignoring the responsibility to pay the gas bill. As can be seen on Exhibit NB-5, in most months there are more disconnections for nonpayment than reconnections. In addition, the number of customers who are not reconnected in the non-heating months is considerably larger than the number of customers who are not reconnected in the winter months. From this data one can infer that some

customers forego natural gas during the summer, and only attempt to get reconnected as they require space heat in the winter.

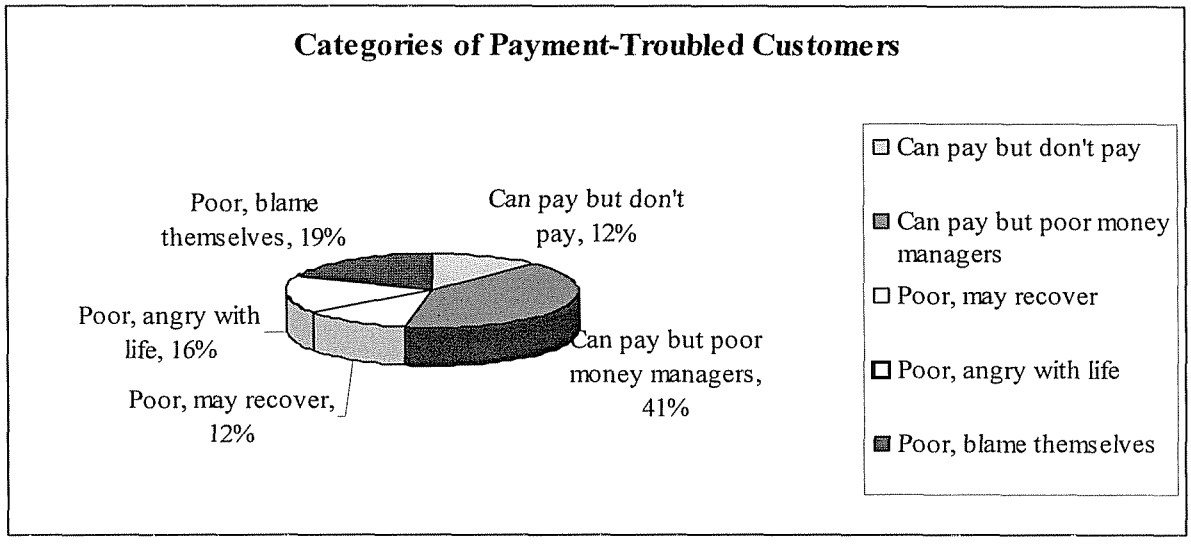
Q. Why do you say that most non-paying customers are unable to pay the bill, rather than ignoring their responsibilities?

A. Utilities have done surveys of their payment-troubled customers, and discovered that few non-payers actually had the money to pay the bill and were ignoring the utility's request for payment. In such cases, the awareness that a stiff reconnect fee would be incurred if the customer persisted in neglecting the bill could motivate more prompt payment. However, surveys of non-paying customers also reveal that almost half the non-payers simply do not have the money, and the balance do not have the money-management skills to budget for their bills and make sure they have enough left for the utility bill.

Q. Please describe the results of one such analysis of reasons for non-payment.

A. Wisconsin Public Service Company undertook such a survey in the mid-1990s, when the Commission restricted the ability of utilities to disconnect for non-payment. The Company was worried that its uncollectible rates would go up, and wanted to figure out how to best manage this risk. It found that in fact only 12% of its non-paying customers had the money and were ignoring the bill. See, Ron Grosse, *Win-Win Alternatives for Credit and Collections,* at p. 4. Mr. Grosse's paper on his utility's experience is attached as Exhibit NB-6. As the chart reproduced below shows, just over 41% were behind because they were poor money managers, and the rest had too little income, at least at the time of the non-payment, to cover their bills:

Wisconsin Public Service LIFESTYLE SURVEY RESULTS



Q. What did Wisconsin Public Service find are the implication of these findings about the reasons for non-payment?

A. The utility realized that it was using a "one-size-fits-all" approach to collections, and that its methods (e.g. threats of disconnection, late fees, high charges for reconnection, etc.) would only produce the desired results in about 12% of the cases. For the vast majority of non-payment cases, using traditional collections methods was analogous to looking for your keys under the lamppost because there is more light there.

Q. How did the utility adjust its collections efforts in light of this information?

A. The utility developed what it called an Early Intervention Program. It stopped reflexively using threats and fees with the low-income payment troubled customers, and instead used a variety of techniques to identify those customers who were at risk of falling into payment difficulties, and reach out to them with budget counseling, assistance referrals, and other engagement to maximize the amounts they pay to the utility. The staff providing these interventions were integrated with the collections representatives, and recognized as part of the utility's revenue assurance team.

Q. What were the results of this paradigm change in the utility's approach to revenue collection?

A. The utility was able to maintain its low level of uncollectibles, even though it lost the ability to take certain steps to threaten or cut service in case of non-payment. It was able to stop straining relationships with its customers, as a side benefit. See Exhibit NB-6, *Win-Win Alternatives to Credit and Collection at pp. 8 and 13.*

Q. Are there any other reasons not to use added fees in an effort to motivate residential non-payers, or at least to waive them in the case of low-income customers?

A. Yes. Imposing higher fees on payment-troubled low-income customers can have the perverse effect of inducing a lower level of payment. This occurs because such customers have very limited funds to cover all their obligations, and by definition not enough to cover basic necessities. If payment of what funds they do have will not prevent disconnection or enable reconnection, the customer may actually have a disincentive to pay those scarce funds toward the now more unaffordable utility bill. For example, let's assume a customer has $125 in funds on hand, and his overdue bill is $150. If the customer is disconnected for non-payment, he will not only have to pay the $150, but under the Company's proposal he will have to find another $60, for a total of $210. He will be short by the difference of $210 less $125, or $85. In a low-income family's budget, this is a huge sum. If spending his remaining $125 will not keep the gas on, he will devote the funds to a bill that he can cover completely.

Q. The Company argues that its costs of reconnection are even higher than its proposed $60 reconnection fee, and that accordingly its proposal is reasonable. Do you agree?

A. No. Again, what makes sense in an abstract or theoretical way may not be applicable to the real world situation of the utility. As I discussed above, imposing the higher fee will not produce a better payment result and could cost the Company more in the long run. Many costs are rolled into rates rather than being recovered via direct allocation. That should be the approach here. This is a

situation in which the real-world work of developing a better customer relations and collections approach is in conflict with abstract economic theories of cost causation.

RESIDENTIAL LATE FEE

Q. Please describe the Company's proposal to begin imposing a late fee on residential accounts.

A. The Company proposes to begin assessing a 5% per month late fee on residential past due accounts. The Company argues that it will improve payment patterns of delinquent customers.

Q. Do you agree that imposing a late fee will produce greater levels of payment from payment-troubled customers?

A. No. As in the case of higher reconnection fees, late fees are not helpful in most of late payment cases. They do work to get the attention of the small minority of late payers who have the money and are simply ignoring the bill. But they don't endow customers with money-management skills, and they don't put more money in the pockets of the impoverished customer. If anything, they load on increasing costs that make the bill that much harder to pay. Further, the Company offers no evidence that late-payment fees have the results it claims, beyond its experience with commercial and industrial customers. The reasons customers do or do not pay in full and on time vary considerably from rate class to rate class, and you cannot assume that results for business customers will be enjoyed in the case of residential customers. Collection efforts must be tailored to customer circumstances to be cost-effective and successful.

Q. But should not late-paying customers pay for the working capital costs incurred as a result of the late payment?

A. No. Again, the Commission need not directly assign every cost we can identify for assignment related to such activities. Further, a 5% per month fee is well in excess of the amount that would be needed to cover the working capital

associated with late payments. The Company's proposal is not designed to cover working capital costs, but rather would be a penalty imposed in a (largely futile) effort to improve payment patterns.

RECOVERY OF COMMODITY-RELATED UNCOLLECTIBLES

Q. Please describe the Company's proposal for recovery of commodity-related uncollectibles.

A. The Company proposes to remove the portion of uncollectible expense that is associated with the commodity cost of gas from base rates, and instead to recover that expense through a non-reconciling adjustable rider.

Q. Why do you recommend that commodity-related uncollectible expenses should not be recovered through an adjustable rider?

A. The more that cost recovery tracks actual cost incurrence, the weaker is the utility's incentive to manage that cost effectively. In the case of commodity-related uncollectible expenses, weakening the incentive to manage such costs could lead to a less effective collections and associated customer relations effort.

Q. Does this conclude your direct testimony?

A. Yes.

AFFIDAVIT

I hereby affirm that the foregoing document titled direct testimony of Nancy Brockway in the Matter of: Adjustment of Rates of Columbia Gas of Kentucky, Inc., Case No. 2009-00141 is true and accurate to the best of my information and belief.

Nancy Brockway

Subscribed and sworn to before me, a notary public in the Commonwealth of Massachusetts, by Nancy Brockway, this 28th day of July, 2009.

Notary Public

GLENYS V. MEJIA
Notary Public
Commonwealth of Massachusetts
My Commission Expires
June 11, 2015

My commission expires June 11, 2015

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Exhibit NB-1 Resume of Nancy Brockway

Nancy Brockway

10 Allen Street, Boston, MA 02131
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Experience

Principal, NBrockway & Associates, energy and utility consulting, 2003 to present
Director of Multi-Utility Research and Policy, NRRI, 2/08 – 10/08
Commissioner, New Hampshire Public Utilities Commission (1998-2003)
Member, New Hampshire Site Evaluation Committee (1998-2003)
Utilities consultant and attorney, National Consumer Law Center (1991-1998)
General Counsel, Massachusetts Public Utilities Commission (1989-1991)
Staff Attorney, Assistant General Counsel, Massachusetts Commission (1986-1989)
Hearings Officer, Senior Staff Attorney, Maine Public Utilities Commission (1983-1986)
Executive Director, Maine Legal Services for the Elderly, Inc. (1981-1983)
Staff Attorney, Directing Attorney, Pine Tree Legal Assistance, Inc. (1979-1981)
Staff Attorney, UMass Student Legal Services (1977-1979)
Staff Attorney, Western Massachusetts Legal Assistance, Inc. (1976-1977)
Staff Attorney, Legal Aid Society of New York (1974-1976)

NARUC and related Committee Memberships and Public Service (1998-2003)

NARUC Consumer Affairs Committee (Vice-Chair)
Consumer Affairs Committee, New England Conference of Public Utility Commissioners (Chair)
Steering Committee, National Council on Competition in the Electric Industry
ISO-NE Advisory Committee
NEPOOL Review Board Advisory Committee
NARUC Ad Hoc Committee on Competition in the Electric Industry
NARUC Ad Hoc Committee on Committee Structure, NARUC
NARUC Committee on Communications
FCC Joint Conference on Accounting
North American Numbering Council
NBANC Board of Directors

Other Activities:

Former Chair, Board of Directors, PAYS America, Inc., 2003-2008

Other Appointments and Professional Activities (1991-1998)

Independent Conservation & Load Management Expert,
Commonwealth Electric Co.
President's Council on Sustainable Development,
Energy & Transportation Task Force staff
California Low Income Governing Board
(Advisory Bd. to CPUC on low-income energy issues)
Massachusetts Energy Facilities Siting Board
Massachusetts Board of Registration of Allied Mental Health Professionals

Bar Memberships

Massachusetts
New York State and Maine (inactive)

Education

B.A. with honors, 1970, Smith College, Northampton, MA
J.D., 1973, Yale Law School, New Haven, CT
Coursework in statistics, Northeastern University, Boston, MA

NANCY BROCKWAY: TESTIMONIES

Case name	Client Name	Topic	Juris. & Docket No.	Date(s) Filed
Appalachian Power Company, etc. ENEC proceeding	Covenant House and West Virginia CAG	Impact of proposed rate increase on low-income customers and means to improve collection procedures.	West Virginia PSC Case No. 09-0177-E-GI	5/26/09
In Re Combined Application of South Carolina Electric and Gas	Friends of the Earth	Need for and cost of proposed Summer nuclear power plant.	South Carolina Public Service Commission, Docket No. 2008-196-E.	Direct: 10/17/08 Surrebuttal: 11/17/08
Nova Scotia Power, Inc.	NS UARB Consumer Advocate	Proposed general rate increase, rate design.	Nova Scotia Utility and Review Board, P-886	12/07
Pike County Commissioners v. PCL&P	Pennsylvania Office of the Consumer Advocate	Options to address rate shock in transition to uncapped competitive POLR rates	Pennsylvania Public Utilities Commission, Docket No. C-20065942	11/06 (hearing in January 07)
Nova Scotia Power, Inc.	NS UARB Consumer Advocate	Extra Large Industrial Interruptible Rates	Nova Scotia Utility and Review Board, P-883	8/06
UGI/Southern Union, Proposed Merger	Pennsylvania Office of the Consumer Advocate	Impacts of the Proposed Merger on Ratepayers and Rates, Risks and Benefits of Proposed Merger, Synergies, Reliability	Pennsylvania Public Utilities Commission, Docket Nos. A-120011F2000, etc.	5/06
SEMCO Energy Services Gas Cost Recovery Plan	PAYS America, Inc.	Relationship Between DSM and Gas Costs	Michigan Public Service Commission, Docket No. U-14718	5/06 (not admitted)
Re: Electric Service Reliability and Quality Standards	Delaware Public Service Commission	Application of Proposed Rules to Competitive Suppliers and Cooperatives	Delaware Public Service Board, Docket No. 50	1/06
Exelon/Public Service Electric & Gas, Joint Petitioners	New Jersey Division of the Ratepayer Advocate	Impacts of Proposed Merger on Service Quality, Reliability, and Gas Safety, and Options to Maintain Historic Standards.	New Jersey Board of Public Utilities, BPU Docket No. EM05020106 OAL Docket No. PUC-1874-05	11/05-12/05
Exelon/Public Service Electric & Gas, Joint Petitioners	New Jersey Division of the Ratepayer Advocate	Risks and Benefits of Proposed Merger of Exelon and PSE&G, Options for Assuring Benefits and Mitigating Risk	New Jersey Board of Public Utilities, BPU Docket No. EM05020106 OAL Docket No. PUC-1874-05	11/05-12/05
Nova Scotia Power, Inc.	NS UARB Consumer Advocate	Economic Development Rates	Nova Scotia Utility and Review Board, P-882	10/05
Nova Scotia Power, Inc.	NS UARB Consumer Advocate	Revenue Requirements, Cost Allocation, Rate Design, Demand Side Management, Economic Development Rates	Nova Scotia Utility and Review Board, P-882	10/05 – 11/05
Bay State Gas Company	Local 273	Customer Service, Reliability, Low-Income Protections, Revenue Requirements	Massachusetts DTE, Docket No. 05-27	7/05

NANCY BROCKWAY: TESTIMONIES

Nova Scotia Power, Inc.	Nova Scotia Utility and Review Board	Domestic Consumer Perspective on Proposed Rate Case Settlement Agreement	Nova Scotia Utility and Review Board, P-881	1/05
Cincinnati Bell Alt Reg	Communities United for Action	Universal Service and alternative regulation of telephone service	PUCO, Case No. 96-899-TP-ALT	12/97
UGI-Electric Utilities, Inc.	Pennsylvania OCC	Universal Service issues in electric industry restructuring plans	PA PUC, No. R-00973975	1997
West Penn Power Co.	"	"	PA PUC, No. R-00973981	1997
Duquesne Light Co.	"	"	PA PUC, No. R-00974101	1997
PECO, Inc.,	"		PA PUC, No. R-00973953	1997
PP&L	"	"	PA PUC, No. R-00973954	1997
Met Ed.	"	"	PA PUC, No. R-00974008	9/97
Penelec	"	"	PA PUC, No. R-00974009	9/97
In the Matter of the Electric Industry Restructuring Plan	New Hampshire Legal Services	Low-income rates and DSM, impacts of restructuring on low-income consumers	New Hampshire Public Utilities Commission, D.R. 96-150	Nov., Dec. 1996
Notice of Inquiry/ Rulemaking. establishing the procedures to be followed in electric industry restructuring.	Mass. CAP Directors Association, Mass. Energy Directors Association, named Low-Income Intervenors	Electric industry restructuring	Massachusetts Department of Public Utilities, D.P.U. 96-100.	to 10/98
Universal Service Docket	Pennsylvania Office of Consumer Advocate	Rate rebalancing, universal service, telephone penetration.	Pennsylvania Public Utilities Commission Docket No. I-00940035	1996
In Re: Complaint of Kenneth D. Williams v. Houston Lighting and Power Co.	Named Low-Income Consumers	Customer service, rate design, demand-side management, revenue requirements	Texas Public Utilities Docket No. 12065	1994-5
Open Access Non-Discriminatory Transmission Services ... and Recovery of Stranded Costs	Direct Action for Rates and Equality, Providence, Rhode Island	Open transmission access in interstate commerce, and stranded costs recovery.	FERC, Nos. RM95-8-000, RM94-7-000.	1994-5
Bath Water District, Proposed Increase in Rates	Maine Office of Public Advocate	Water district cost allocation, rate design, low-income water affordability	Maine Public Utilities Commission, Docket. No. 94-034	12/94, 3/95

NANCY BROCKWAY: TESTIMONIES				
Application of Ohio Bell Telephone Co. for Approval of Alternative Form of Regulation	Legal Aid Society of Cleveland and Dayton	Definition of universal telecommunications service, proposal for Universal Service Access program (USA).	Public Utilities Commission of Ohio, Case No. 93-487-TP-ALT	5/4/94
Pennsylvania PUC vs. Bell Telephone of Pennsylvania	Pennsylvania Public Utility Law Project	Definition of "universal telecommunications service"	Pennsylvania PUC No. P-930715	filed 12/93
Joint Application for Approval of Demand-Side Management Programs, etc.	LG&E; Legal Aid Society of Louisville, other Joint Applicants	Cost-effective DSM programs for low-income customers; collaborative process to design DSM programs; cost allocation and cost recovery.	Kentucky PSC No. 93-150	11/8/93
Texas Utilities Electric Company	Texas Legal Services Center	Costs and benefits of DSM targeted to low-income customers	Texas PUC No. 11735	1993
Texas Utilities Electric Company	Texas Legal Services Center	Proposed Maintenance of Effort Rate for low-income customers	Texas PUC No. 11735	1993
Philadelphia Water Department	Philadelphia Public Advocate	Costs of Unrepaired System Leaks	Philadelphia Water Comm'r.	1992
New England Telephone	Rhode Island Legal Services	DNP for non-basic service	Rhode Island PUC, No. 1997	1991
Kentucky Power Co.	Kentucky Legal Services	Low Income Rate	Kentucky PSC No. 91-066	1991
Investigation into Modernization	Invited by Commission	Impact of modernization costs on low income telephone users	New York PSC	1991

Exhibit NB-2

Bonbright's Eight Criteria of a Sound Rate Design[1]

1. The related, "practical" attributes of simplicity, understandability, public acceptability, and feasibility of application.

2. Freedom from controversies as to proper interpretation.

3. Effectiveness in yielding total revenue requirements under the fair-return standard.

4. Revenue stability from year to year.

g. Stability of the rates themselves, with a minimum of unexpected changes seriously adverse to existing customers. (Compare "The best tax is an old tax.")

6. Fairness of the specific rates in the apportionment of total costs of service among the different consumers.

7. Avoidance of "undue discrimination" in rate relationships.

8. Efficiency of the rate classes and rate blocks in discouraging wasteful use of service while promoting all justified types and amounts of use:

(a) in the control of the total amounts of service supplied by the company:

(b) in the control of the relative uses of alternative types of service (on-peak versus off-peak electricity, Pullman travel versus coach travel, single-party telephone service versus service from a multi-party line, etc.)

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[1] James C. Bonbright, Principles of Public Utility Rates, New York: Columbia University Press, 1961, at 291.

Exhibit NB-3

Sensitivities on MPB-13 at Different Usage Levels

	Per MPB-13 Average Residential Non-LIHEAP recipient	*Sensitivity @ lower LI Usage*	*Sensitivity At average Mcf/customer*	*Sensitivity: Breakeven Mcf*
I. At Current Rates				
Customer Charge	9.30	9.30	9.30	9.30
12 months	12	12	12	12
Annualized Customer Charge Bill	$ 111.60	$ 111.60	$ 111.60	$ 111.60
Average Annual Normalized Consumption – Mcf	**71.2**	**65**	**72**	**110.5**
Base Rate ($/Mcf)	1.8715	1.8715	1.8715	1.8715
Annualized base Rate bill	$ 133.25	$ 121.65	$ 134.75	$ 206.80
Total Annualized Normalized Bill	$ 244.85	$ 233.25	$ 246.35	$ 318.40
II. At 2nd Year Proposed Rates (SFV)				
Customer Delivery Charge	26.53	26.53	26.53	26.53
12 months	12	12	12	12
Annualized Customer Charge Bill	$ 318.36	$ 318.36	$ 318.36	$ 318.36
Average Annual Normalized Consumption – Mcf	**71.2**	**65**	**72**	**110.50**
Base Rate ($/Mcf)	0	0	0	0
Annualized base Rate bill/volumetric	0	0	0	0
Total Ann. Normalized Bill With SFV Rate Design	$ 318.36	$ 318.36	$ 318.36	$ 318.36
III. Impact of Shift to SFV Rate Design				
Proposed Bill Less Current Bill at same usage	**$ 73.51**	**$ 85.11**	**$ 72.01**	**$ (0.04)**

1

Exhibit NB-4
Recent Trends in Usage

AARP DR Set 1-005

PSC Case No. 2009-00141
AARP DR Set 1-005
Respondent(s): Amy Efland

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO FIRST DATA REQUEST OF AARP

Data Request 005:

(a) Please provide the chart on p. 6 of Ms. Efland's testimony, using only the data points 2006, 2007, 2008 and 2009.

(b) Please provide the chart on p. 6 of Ms. Efland's testimony, using the historical data for 2006, 2007, 2008 and 2009, and the company's forecast residential annual volume per customer, Columbia Gas Kentucky, normalized for weather, for each of the next 5 years. Please provide copies of all forecasts of such volumes per customer for the next 5 years.

Response:

(a)

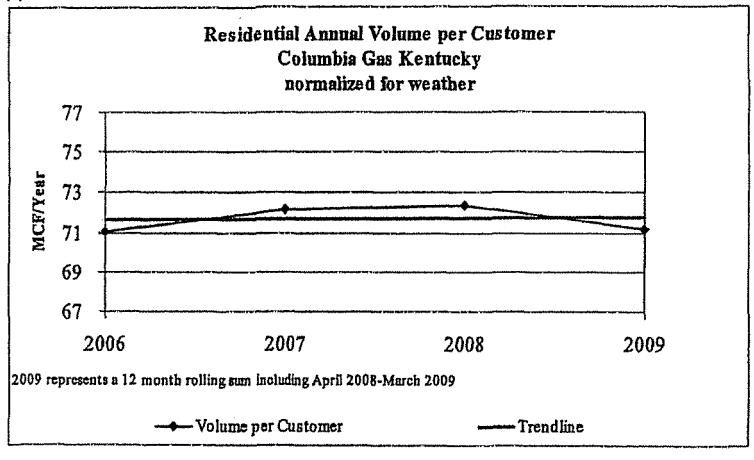

Exhibit NB-5

Disconnections for Non Payment vs. Reconnections Related to Non Payment

DNP	Reconnection RE: DNP	Monthly DNPs less Reconnections	Month/Year
507	449	58	Jan-07
468	379	89	Feb-07
1351	689	662	Mar-07
1412	666	746	Apr-07
1448	634	814	May-07
1026	435	591	Jun-07
469	272	197	Jul-07
529	314	215	Aug-07
304	228	76	Sep-07
330	547	-217	Oct-07
205	679	-474	Nov-07
167	270	-103	Dec-07
512	343	169	Jan-08
391	331	60	Feb-08
1321	555	766	Mar-08
1385	531	854	Apr-08
1222	432	790	May-08
1070	311	759	Jun-08
719	283	436	Jul-08
672	307	365	Aug-08
600	315	285	Sep-08
756	958	-202	Oct-08
221	829	-608	Nov-08
274	361	-87	Dec-08
176	236	-60	Jan-09
528	298	230	Feb-09
1225	519	706	Mar-09
1538	503	1035	Apr-09

Exhibit NB-6

Ron Grosse, Win-Win Alternatives for Credit and Collections

Exhibit NB-2

Win-Win Alternatives for Credit & Collections

by

Ron Grosse
Manager - Customer Accounts (ret.)
Wisconsin Public Service Corporation

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Revised 2008

With the Collaboration of

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Overview

This paper explains the innovative approach to customer service and credit and collections introduced in the 1990s at Wisconsin Public Service Corporation (WPSC).[2]

WPSC is a gas and electric utility serving Northeastern Wisconsin. In 1995, the Company served approximately 200,000 gas customers and over 354,000 electric customers.[3] During the last quarter of the 20th century, the Company experienced a great deal of social and economic pressure on credit and collection practices as energy costs rose and societal changes occurred. This paper summarizes the Company's experience with its unique effort to reduce the number of disconnections and at the same time produce good business results by limiting losses and arrears.

The statistics and views presented here represent the lessons learned through mid-1995. Since that time, economic and social conditions, as well as restructuring of the utility industry, have deepened the crisis of high arrearages and non-payment of utility bills for many utilities and their customers. In states that moved to retail competition, as price caps come off, customers are facing huge percentage increases in their electric bills. The WPSC experience in the mid-1990s continues to provide valuable lessons that may be applied to the consumer/utility problems we face today.

WPSC Collection History

As in many states, credit and collections remained substantially unchanged in the state of Wisconsin through the early 1970s. The Wisconsin Administrative Code rules enacted in 1935 remained virtually unchanged and unchallenged until 1972. That year, consumer groups petitioned the Public Service Commission of Wisconsin to revise the Administrative Code, alleging that the Code was not adequate to offer protection to people who could not afford to pay their utility bills.

During the winter of 1974, while the initial hearings were still being carried out, an incident occurred that would change the nature of the debate. A customer of WPSC whose service had been disconnected for nonpayment was found dead in his home a week after the disconnection. Although subsequent investigations cleared the Company of any violation of then-current rules, the Public Service Commission of Wisconsin responded to public pressure and enacted the first winter "moratorium"--prohibiting disconnection if it

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[2] WPSC is a subsidiary of Integrys Energy Group, Inc.

[3] Today, WPSC serves 433,000 electric customers and 314,000 natural gas customers in northeastern Wisconsin and an adjacent portion of Michigan's Upper Peninsula. http://www.integrysgroup.com/investor/financialfactsheet.pdf

endangered health or life. In the 1970s and 1980s, many state Commissions adopted similar bans on disconnection of particularly vulnerable customers.[4]

On January 1, 1975, the Commission promulgated, on an emergency basis, new deposit, guarantee, and disconnect rules, in response to public pressure from consumer groups to offer protection for low-income customers. In subsequent years, the Commission also promulgated an annual winter moratorium on disconnections, to satisfy the demands of consumer groups for additional protection for low-income customers.

Wisconsin utilities were concerned that the new rules would result in a spike in arrearages and uncollectible bills. Before the new Commission rules went into effect, WPSC's arrears had been at or below the industry average. Write-offs as a percent of revenue had averaged from 0.10 to 0.25 percent of billed revenue annually. The number of disconnections for nonpayment (DNP) before the new consumer protections was approximately 10,000 accounts per year, and impact of DNP and collection efforts on customer relations was unmeasured.

Since the new rules and the annual winter moratoriums represented a sharp departure from past practice, utilities in the state of Wisconsin were in a state of confusion about how to cope with what they assumed would be rising arrearages and mounting losses. If we could not disconnect customers for nonpayment at certain times, we did not know how we could control losses and incent payment. Similarly, consumer groups were unsatisfied with the action taken by the Public Service Commission and continued to push for more reforms. As a result, there were multiple revisions to the Administrative Code between 1975 and 1983.

The Public Service Lifestyle Survey -1983 -A Watershed Event

.Research Premise and Description

In the first decade after the new rules discouraging certain disconnections, it occurred to some people at WPSC that we really didn't know why customers didn't pay their bills. It had been widely assumed that people didn't pay because they were playing games with the bill collector. It did not seem reasonable to us that substantial numbers of customers might not be adequately prepared to respond to the collection demands put on them.

To explore this premise, the Company engaged the firm of Matousek & Associates to do a "lifestyle survey" in the city of Green Bay. A customer base of 1,100 customers who were subject to disconnection was drawn from Company files. From this base of 1,100, a random sample of 200 were selected and interviewed by independent researchers. Each interview was done on the customer's premises and lasted between one-half and one hour. The research was completed in July of 1983.

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[4] Additional states are adopting or strengthening consumer protections in the first decade of the 21st century.

Research Conclusions

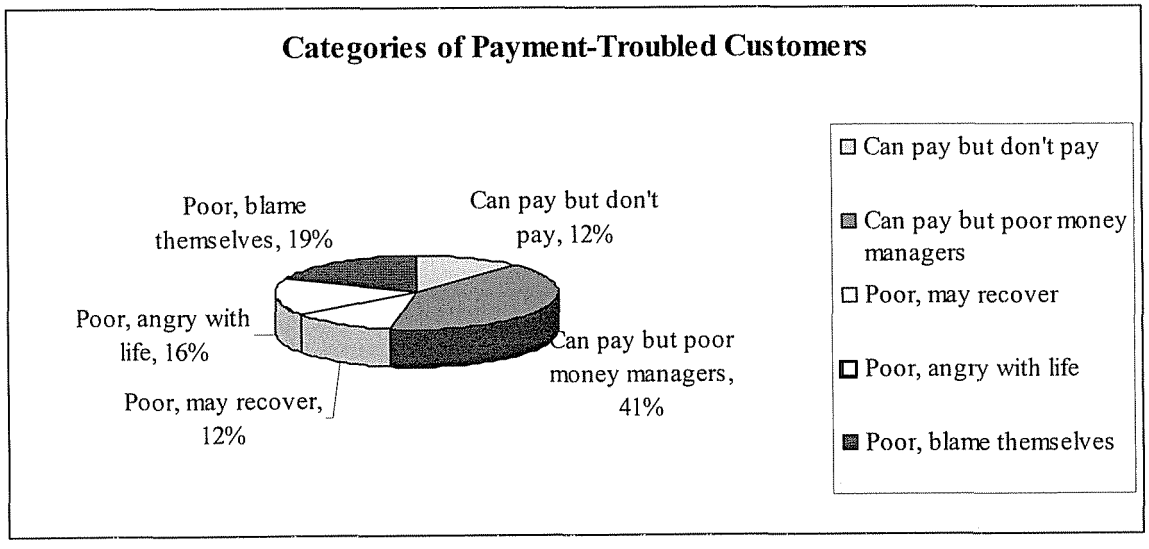
The research concluded that the subject population naturally gravitated into five major clusters or categories with similar characteristics, as follows:

- 12 percent have money, know exactly what they are doing, and will pay if faced with disconnection.
- 41 percent may have enough money but tend to lack money management skills to make it go as far as it needs to.
- 12 percent are in transition--either going into or coming out of poverty.
- 16 percent are poor, lack enough resources to pay their bills, and are angry.
- 19 percent are poor and blame themselves for their situation.

While these were not the typical categories used by utility credit managers to subdivide their client base, these categories proved very useful in developing successful and cost-effective responses to payment troubles.

Results revealed that poor credit code customers[5] fall into five categories, as shown in Figure 1, below:

Figure 1: LIFESTYLE SURVEY RESULTS



[5] Sometimes called "payment-troubled" customers.

Operational Implications

Recall the assumptions prior to the research that most customers: (a) had money, (b) knew exactly what they were doing, and (d) could pay. In fact, only 12 percent of our non-paying customers fell into that category. These customers paid almost immediately when presented with a disconnect notice. A disconnect notice was effective for this 12% of our late and non-paying customers.

The remaining 88 percent did not fit our preconceived picture. They had very limited or no resources to respond to disconnection demands. Further, 19 percent saw themselves as helpless to cope with the situation; they blamed themselves. The operational implications of these findings were extremely important.

First, all of the Company's credit policies were geared to the 12 percent who could easily respond to disconnect notices. These policies were very inadequate to help Company employees cope with the other 88 percent who could not respond in the same way.

In addition, to the extent that Company management indicated to frontline collection personnel that the Company's response to rising arrears or losses would be to "get tough" by disconnecting more accounts, certain results were inevitable. Frontline credit personnel, without further instructions, would naturally choose to disconnect those among the 19 percent who saw themselves as helpless, and who would not complain about such actions. Such choices would produce the illusion of action (more disconnects) but with no concomitant improvement of results (collection of money, reduced arrears).

Subsequent research into specific accounts confirmed this to be the case. In other words, the connection between the ability to disconnect and collecting revenue was either much weaker than previously assumed or simply did not exist.

Five other major conclusions were also drawn from the data, as follows:

1) **Desire to Pay** - The majority of customers really want to pay their bills, but may lack either resources or skills-or both--to successfully achieve this.

2) **Early Intervention** – It is in the company's best interest to get involved with the customer before the problem and arrearage get too large. Also, don't assume customers will get in touch with the company if they're experiencing some difficulty. They generally will not take the initiative to solve the problem.

3) **Personal Contact** - Individualized attention is very important, particularly if the behavior represents a long-standing pattern with the customer.

4) **Flexibility and Involvement from the Utility Company** - Because these families are experiencing so many problems and have such limited income, the utility company needs to recommend resources to handle these other problems before handling the delinquent bill. In other words, we must also be in touch with other resources in the community.

5) **Unique Role of the Utility** - Contrary to our assumption, most customers in collection action were not connected in an ongoing relationship with social services. Many of the same customers were unaccustomed to receiving credit from suppliers, so it was predictable that they would probably experience difficulty managing the utility bill. Therefore, it was logical and most efficient for the utility to play a role in early identification of the customer and to establish a more productive working relationship. Previously, we had assumed this to be primarily a social service agency role.

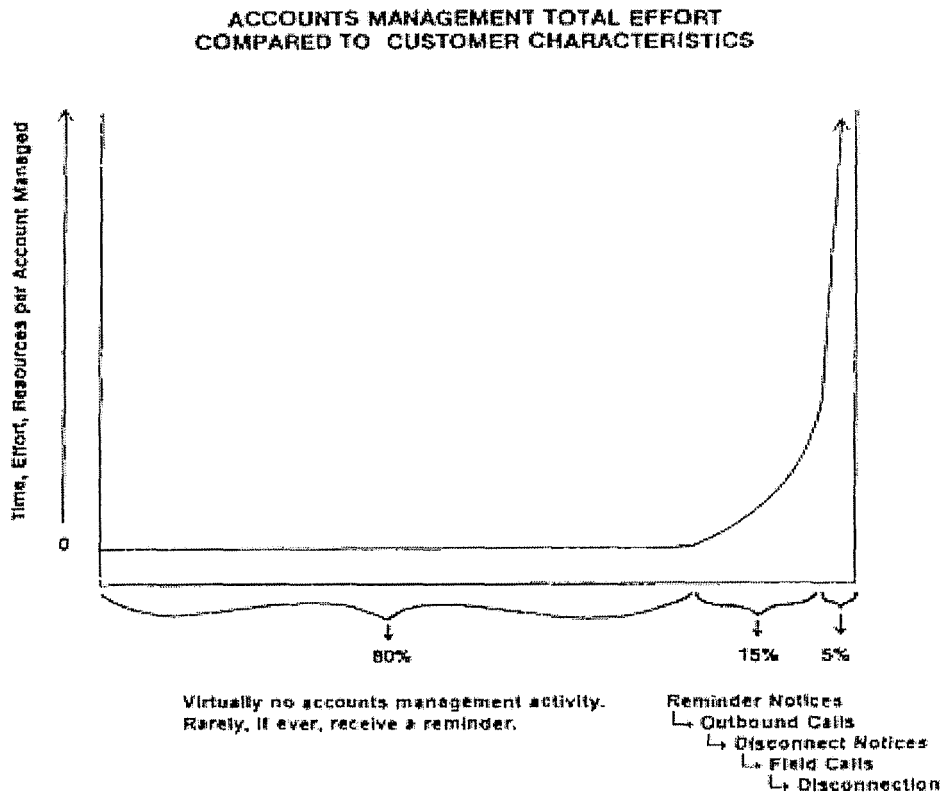
1983 Credit & Collection Redesign -A New Perspective and Changed Paradigm

The Customer Assistance Advisor

For several years, WPSC had contemplated adding resources to assist the credit department on some of the more difficult credit cases. The 1983 lifestyle survey confirmed the need for such a resource. Figure 2 illustrates the theory behind the targeting of the Customer Assistance Advisor efforts.

It shows the relative time, effort, and resources devoted to collections, based on customer payment characteristics, as an exponential cost curve. It is precisely at the far right-hand side of that cost curve-where costs per account managed are the highest--that customer resources are also probably most limited, as shown by the lifestyle survey. These are the accounts that were targeted by the Customer Assistance Advisor position.

FIGURE 2
ACCOUNTS MANAGEMENT:
TOTAL EFFORT COMPARED TO CUSTOMER CHARACTERISTICS



In retrospect, two elements contributed significantly to the success of the Customer Assistance Advisors. The first was the idea that the Customer Assistance Advisor would be *the logical extension of customer service/credit and collection efforts through normal channels.* In other words, it was not a separate "program" but part and parcel of the total customer service package offered by the Company. As such, it would be an integral part of the Company's overall service effort and not seen as a separate "add-on" that was optional to continue doing on a year-to-year basis.

Secondly, the Customer Assistance Advisors reported to *the same leader as the credit and collections manager.* This was different from most other companies, who had the two functions report to separate areas within the company.[6] WPSC felt very strongly

[6] Some customer advocates have suggested that the two functions be separated, so that the presumed aggressive attitude of the collection effort not infect and overwhelm the presumably more open attitude of customer assistance staff. As WPSC learned, this outlook ignores the possibility of the reverse effect.

that the success of our Customer Assistance Advisors was due in large part to this overall systems view of the Advisors being part *of the total service package and not part of a different service offered by the Company.* When credit and assistance report to two separate organizations and assistance is seen as an add-on program, it will set up conditions for an internal struggle which wastes resources and does not serve the customer.

The Customer Assistance Advisors who were hired by the Company were required to have a background in social work with experience in the social service system outside the Company. They represented a totally new skill set compared to the typical utility worker. Their responsibilities included the following:

- Coordinate assistance programs.
- Link with community resources and advocates.
- Budget counseling and education.
- Crisis intervention.
- Working with customers on problem-solving and decision-making skills.

Two Customer Assistance Advisors were added at WPSC on a trial basis in the fall of 1983. In 1984, the Public Service Commission of Wisconsin (PSCW) - in response to a disconnection death in another company's service territory - mandated WPSC's plan to the entire state under the heading of Early Identification Program. All of the essential aims of the program were kept intact by the PSCW mandate. WPSC subsequently added five more Customer Assistance Advisors in 1984.

Credit and Collections Theory and Practice

In our experience at Public Service, it was obvious that the utility industry had often followed a credit and collections theory which had been developed for a different set of circumstances in other businesses. There are differences in the customer/supplier relationship between multiple supplier businesses and sole supplier businesses. Utilities have traditionally fallen into the latter category.

With multiple supplier businesses, the customer has many viable alternatives to supply a specific need. Often, although not always, the need is also discretionary. To the extent that a multiple supplier business wants to extend credit to a specific customer, it will always be based on the criteria of "creditworthiness." This is the estimated likelihood of repayment, based on financial information that the customer supplies.

The suppliers in a multiple-supplier business are free to apply whatever guidelines of creditworthiness they choose, so long as they comply with consumer credit laws and apply their standards without discrimination. If the supplier suspects that an applicant poses too high a risk of nonpayment, the customer will be rejected. When rejected, the

customer basically has three choices: do business with this supplier on a cash basis; seek out alternative suppliers with more lenient credit policies; or do without the service. The latter situation would occur, for instance, when a customer wants to buy a home, can't qualify for a loan, and therefore keeps on renting.

Utilities, as has been noted, typically fall into the single supplier category. We recognize that, as a legal matter, customers in some states can choose their electricity or gas suppliers, although not their distribution utilities. However, in practice residential customers take service from the designated default supplier, and have no effective choice of supply. Thus, we are still operating in a model where, as a general rule, no viable economic alternative exists for most customers. In addition, gas and electricity services are usually not considered discretionary - rather, they are a necessity of life.

The degree of captivity that the customer feels to the supplier is also inversely proportional to the level of income. The lower the income, the higher the feeling of captivity, since the lowest income customers will have the least ability to substitute for the gas or electric service.

Historically, with some types of utility service -- like telecommunications -- there had been an ideal set forth for universal service, or at least universal access to the system. If it is assumed that telecommunications is a necessity of modern life, then providing a telephone in a customer's home at a low base rate meets universal service goals, since the device will fulfill its purpose simply by being there. There can be discretionary use, such as long distance, but the essential purpose of telecommunications is fulfilled simply by having the customer connected. This is not true with such services as gas and electricity because not only must the customer be connected to the system, but a certain base volume of the energy must be used. This base volume will vary by location, due to energy consumption characteristics.

Therefore, in the state of Wisconsin since 1935 (and in most states) there evolved a general principle of universal access to the gas and electric systems on credit. Customers are generally hooked up by gas and electric utilities without a burden of proving "creditworthiness." The only exception is for customers who have left the same utility with a bad debt previously, in which case arrangements may be requested prior to receiving the service, or a service deposit may be required. However, as a general rule, service deposits have not been required, and customers do business with Wisconsin utilities on an open account credit basis (service is received, the customer is billed after approximately 30 days of use, and payment is due about three weeks later). Collection actions are undertaken from this point and are usually attempted at 30-, 60-, 90-, and 120-day intervals after the original billing of the service.

This is a relatively subtle difference between sole supplier and multiple supplier businesses. However, it is enormously significant in how the companies treat their customers. In a multiple supplier business, when a customer asks for credit, the essential question being answered is whether or not the organization wants to do business with that specific customer. In a sole supplier business, this issue is not even a consideration, since it is assumed that the supplier will do business with that customer. The only question is "under what conditions?" In a multiple supplier business, the supplier is free to permanently and unilaterally sever a relationship with the customer. This is not so in a

sole supplier business unless the utility has the concurrence of the regulatory body. This happens on extremely rare occasions. Service might be refused only if a customer is totally uncooperative and the parties are unable to come to any mutually acceptable terms.

Following is a short list of comparisons of service characteristics between multiple supplier markets and a sole supplier market:

COMPARISON OF MARKETS' SERVICE CHARACTERISTICS		
	Multiple Supplier Market	**Single-Supplier Market**
Service Access	Selective depending on supplier	Universal within a "territory"
Credit Availability	Granted to "creditworthy" customers only.	Granted to all customers.
Alternative Suppliers	Usually readily available.	If available, usually non-economic
Credit Risk Philosophy	• Avoid or minimize risk by rejecting or terminating relationship.	Manage risk that is already assumed on front end - ongoing relationship.
Customer Alternatives if Denied Service on Credit Basis	• Do business on a cash up-front basis. • Seek out other, more lenient suppliers. • Do without the goods or service	Seek assistance such as LIHEAP, arrearage forgiveness, deferred payment agreement, budget counseling, general assistance, private agencies, etc. Service is continued - ongoing relationship.

If utilities (and their regulators) employ credit policies that are in sync with the multiple-supplier model, they will experience significant and persistent conflict with slow-paying customers. They will constantly engage in actions which are geared to straining or severing relationship with the customer, when in reality that will not happen. If a utility wants to reduce such conflict, they must carefully examine their collection perspective and their paradigms about collections. Our perspective may be too limited. And our assumptions about the "boundaries" and "rules for success," also referred to as paradigms, may be keeping us in a box where no solutions are evident.

Perspectives and Paradigms -Getting Out of Our "Box"

New and Improved Perspectives

Enlarging our perspectives in order to come to the conclusions we did, Public Service needed to take a new perspective on energy service for its customers. Several points are worthy of mention here:

- Energy is an integral part of shelter, but the relationship is abstract both to the suppliers and to the customers. Therefore, when customers face difficulty paying for it, they may need some help to realize that excessive energy usage is one of the prices they may pay for very low rent.
- The customer's perspective is short term due to both background and circumstances. It's unrealistic to expect customers caught up in this kind of situation with a lack of training and skills to behave otherwise.
- Most utilities' perspective is limited to two alternatives: collect the money or cut the service.
- Regulators' and agencies' perspective may also be limited. Their primary objective is to avoid the problem when the danger is greatest.
- Conventional credit and collection philosophies are ill-suited to a utility's situation where some customers are not "creditworthy."

The conclusion from these various perspectives indicates that what's lacking is a total systems perspective, which must be the focus for *all parties*. The relationship between regulator, supplier, customer, and social service agency is not simply a linear relationship but rather a spatial relationship in a total system. When seen as a total spatial relationship, it's much easier to see why changes in the system and/or solutions in one area will affect all of the areas. *Everyone* who is involved in dealing with the customer must recognize this fact!

Challenging our Paradigms

Paradigms are simply those assumptions which define the boundaries and tell us how to be successful within those boundaries. The boundaries which we previously assumed were as follows:

Old Paradigm

- Supplier - Collect or cut within your credit guidelines.
- Customer - Spread out resources based on short-term priorities.
- Agencies - Deal primarily with the "client."
- Regulators - Deal with the regulated entity, primarily on issues of policy and the immediate customer issue.

The old rules for success were as follows:

Old Rules for "Success"

- Supplier - Increase disconnects as arrears grow. (*i.e.*, more *activity* -- the result of which is rarely measured.)
- Customer - Keep the service on one more day, week, or month. (Promise the supplier anything, even if you can't fulfill it.)
- Agencies - Act only after emergencies occur.
- Regulators - Fulfill your public duty to protect health and life.

Ultimately, the Company concluded that there was common ground amongst regulators, agencies, customers, and suppliers on the issue of avoiding risk and helping to pay the bill. Risk is best avoided by *not* disconnecting service; and a commitment to pay the bill can generally be reached with the customer by showing that the Company has a genuine interest in helping the customer do whatever they can to assure continuity of service and at the same time avail themselves of whatever resources may be available.

These are the primary ideas behind the success of the Customer Assistance Advisor. The credit department continues working with a particular customer unless they feel the customer has limited resources and may benefit from the more in-depth services of the Customer Assistance Advisor. At that time a referral is made to the Assistance Advisor, who generally will visit the customer in his or her home and make recommendations on a plan which is tailored to the customer's needs and qualifications.

Each plan is unique and is aimed at enabling the customer to assert some control over his or her ability to pay the bills and assure continuity of service. This has resulted in a reduction in the number of disconnections, while collection results (as evidenced by arrearages and write-offs) have remained virtually steady. This situation has been a win for both the Company and the customer.

Two additional side benefits were realized that were not anticipated when the new approach was introduced. When the Customer Assistance Advisors were added, a new resource was available to the credit department to refer troublesome credit accounts. This resulted in a sharp reduction in "credit burnout" on the part of the credit personnel. Prior to that time, these personnel would quite regularly ask for new assignments because they felt the stress of constant credit involvement was very high and draining on them.

Secondly, over time, there was a significant reduction in the number of fraud cases noticed by the Company. A possible explanation for this is that customers no longer felt the need to falsify new applications after disconnection which precipitated a move, since they had an ongoing relationship with the Company in the same location.

Choosing New Alternatives - A Retrospective View - 1983 to 1995

Changed Perspectives

The Company has realized that new perspectives have profoundly impacted its view of credit and collection. Among other things, it has been renamed "Accounts Management." The nomenclature may seem insignificant, but the underlying message is to give credence to the idea that managing the account in an ongoing manner is the ultimate objective--not simply to collect the money today.

In addition, the Company has recognized that collection of an account is an integral part of a total customer service picture. As was mentioned before, customers, agencies, regulators, and suppliers all have an interest in managing customer bills and avoiding disconnection. Once this point is successfully established with the customer, it becomes much more natural to concentrate on the matter of working out a long-term solution.

Changed Paradigms

As noted, paradigms constitute those assumptions we make about our world, its boundaries, and what constitutes success. The changed paradigm at Public Service has revealed the following:

- When it comes to credit policy, one size definitely does not fit all customers. Utilities have traditionally concentrated on equal treatment, particularly in areas like credit. This has resulted in unequal outcomes for the customer. In order to concentrate on equal outcomes, you must vary the treatment. This is an application of what author Ken Johnston refers to as Johnston's Law: "If you treat everyone equally, what varies is satisfaction. If you want equal satisfaction, you must vary the treatment."

- Customers who can't or won't pay their bills--for whatever reason--are still customers. In many respects, the Company came to realize that once customers didn't pay their bills, we ceased to treat them as customers --in some subtle and not so subtle ways-- even though they remained in that unique position.

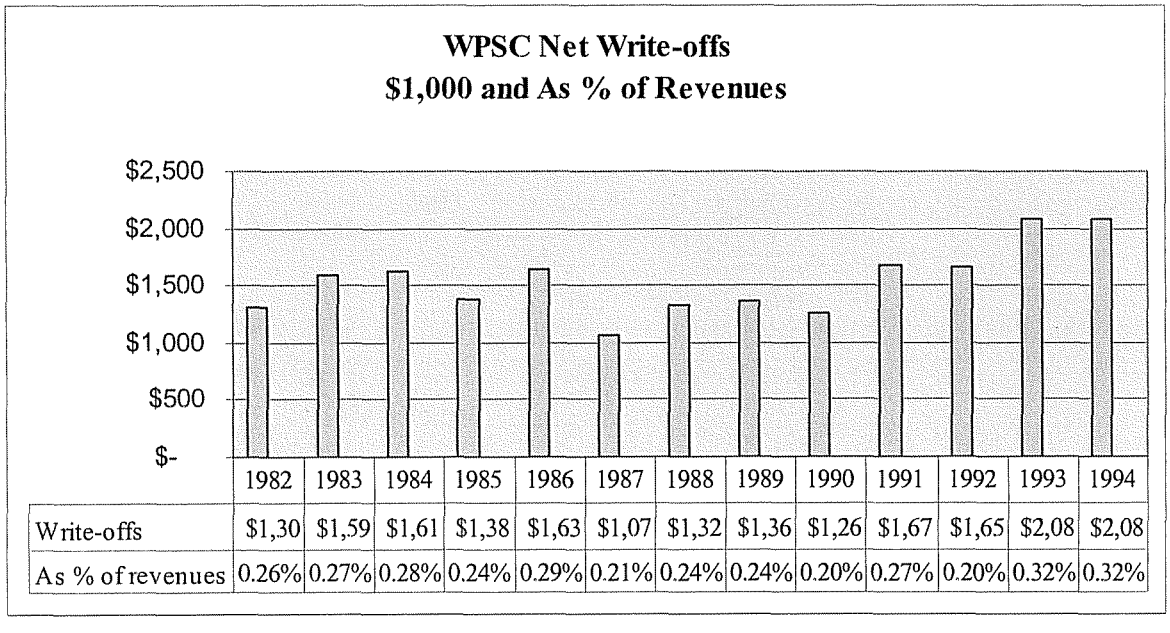
- Perhaps the most important paradigm challenged was the widely held view that disconnection produces payment. Public Service has found that this is just simply not so. Disconnection produces a statistic concerning disconnection, but it will not produce payment if the customer is incapable of paying. Based on our research, many of the disconnections previously accomplished were with those customers who considered themselves poor and helpless and blamed themselves for their lot in life. Under these circumstances, the customers would be disconnected repeatedly and <u>never</u> complain - but also <u>never</u> produce sufficient payment.

Results

Shown below are some of the representative results taken from a 1992 industry comparison of 174 companies.

SELECTED DATA FOR COLLECTIONS 1990 – 1992 Source: *The Collection Picture*, Published by A.G.A./EEI	
Average Write-offs as percent of revenues:	
Combination utilities	.51%
WPSC	.25%
Disconnects per 10,000 Customers:[7]	
High	1,896
Average	422
Low	33
WPSC, 1990 - 1993	24

Figure 3 shows a summary of net write-offs in graphic form for 1982-94. Also shown are the dollars in thousands and the percent of billed revenue that they represent for 1982-94:



	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Write-offs	$1,30	$1,59	$1,61	$1,38	$1,63	$1,07	$1,32	$1,36	$1,26	$1,67	$1,65	$2,08	$2,08
As % of revenues	0.26%	0.27%	0.28%	0.24%	0.29%	0.21%	0.24%	0.24%	0.20%	0.27%	0.20%	0.32%	0.32%

[7] (5 year average for 174 utilities)..

FIGURE 3

The same report showed cost of collection per account for 1992. This includes all direct labor charges and write-offs. Although there may be variations between companies in cost allocations, individual companies are usually consistent in their practices year to year. In 1992, the industry-wide average cost per account was $19.00. Public Service's cost was $15.35, or over 19 percent below the average. This cost is consistent with previous years for Public Service.

We believe this is further evidence that reducing the number of disconnections does not reduce credit effectiveness or increase overall operating costs, provided it is done as part of a total customer service system of accounts management.

As can be seen from this 13-year summation, net write-offs as a percent of billed revenue varied from 0.20 percent to 0.32 percent. Year-to-year variations appear to be within normal expectation of the system capability. Figure 4 shows actual disconnections of all classes of service during the same period. There was a steady downward trend, particularly beginning in 1985.

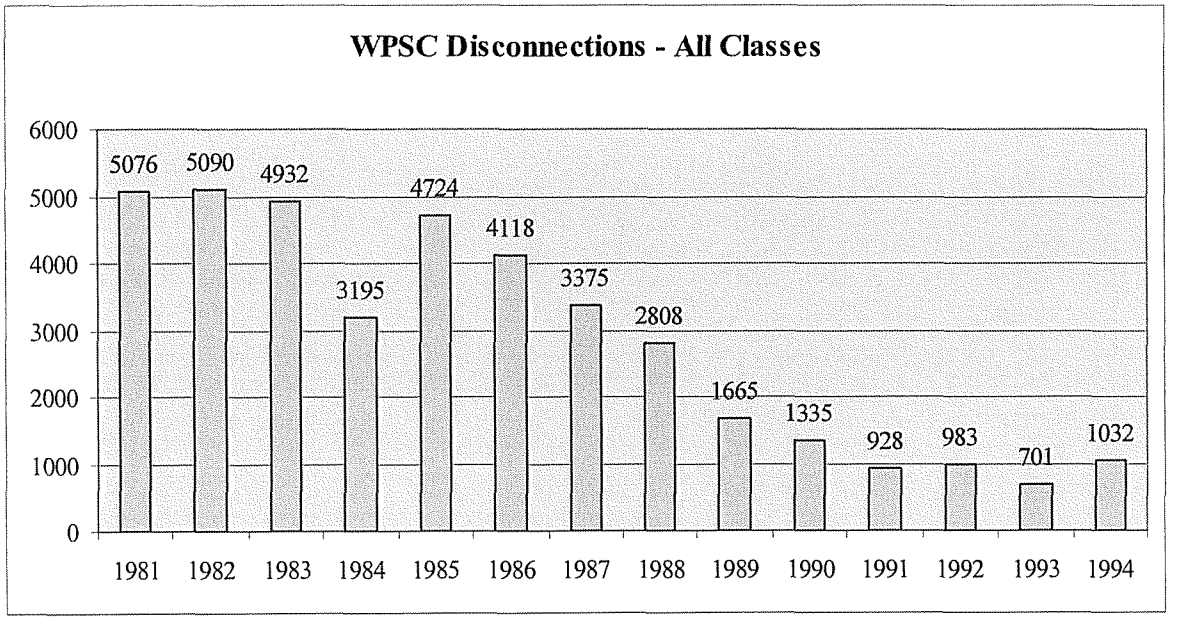


FIGURE 4

Figure 5 shows the residential arrears for 1988-94. Again, there is relatively normal variation in these categories during the same period.

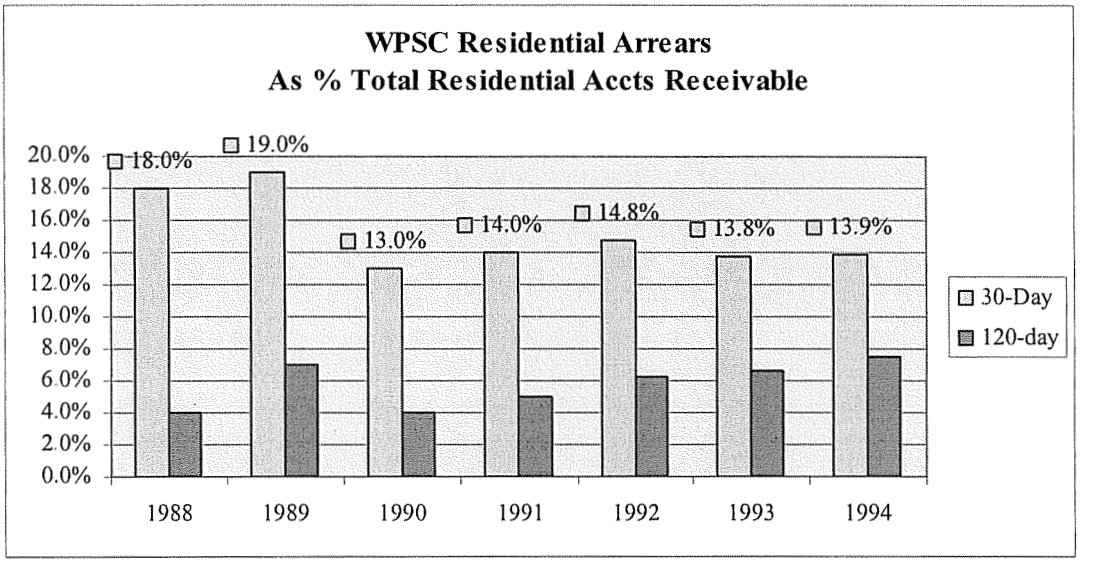


FIGURE 5

The net conclusion is that WPSC was successful in reducing the number of disconnections while at the same time producing substantially the same credit results. Such results were considered to be intuitively unattainable prior to the lifestyle survey in 1983, since the operative paradigm held that disconnection would produce payment. Conversely, not disconnecting was assumed to automatically increase arrears and losses. When the Company started operating with different assumptions that were based upon its research, results were achieved which were consistent with what the research showed.

Figure 6, on the next page. is a quadrant classification technique used to help understand the characteristics of appropriate alternatives which may be available for each customer situation based on his or her desire to cooperate and the ability to pay. This classification technique does not necessarily imply that customers fall easily or neatly into a given category. However, it is representative of the wider range of approaches, alternatives, and solutions that can be used with customers depending on their unique characteristics.

	Low Ability to Pay/Cooperative		**High Ability to Pay/Cooperative**	
	Income: Working poor, TANF, SSI/SSA, Unemployment Compensation, Child Support	**Characteristics:** High debt, poor employment history, high medical expenses, wages garnished. *Good credit contact, tries to pay.*	**Income:** Wages, Social Security, Pensions; Adequate income.	**Characteristics:** Usually not a credit problem; arrearages caught up quickly; short-term payment problems
↑	**Attitude:** Responsive, positive		**Attitude:** Responsive, positive	
C O O P E R A T I O N	**Alternative Approaches:** Ideal Early Identification referral, Energy Assistance/Fuel Funds, Weatherization, budget counseling, job training placement, medical assistance, food stamps, EITC, Fresh Start – Disconnection is NOT a good choice – customer is unable to pay more than is already paying.		**Alternative Approaches:** Budget counseling Conventional deferred payment agreement Minimal need for credit staff involvement Fresh Start workable	
	Low Ability to Pay/Uncooperative		**High Ability to Pay/Uncooperative**	
	Income: Working poor, TANF, SSI/SSA, Unemployment Compensation, Child Support	**Characteristics:** High debt, poor employment history, high medical expenses, wages garnished. *Evasive, poor payment history, broken promises and deferred payment agreements, abusers*	**Income:** Wages, Social Security, Pensions; Adequate income.	**Characteristics:** Has ability to pay but chooses not to; Moratorium abuser; Evasive; Poor payment history; Broken promises.
	Attitude: Unresponsive, negative		**Attitude:** Unresponsive, negative	
↓	**Alternative Approaches:** Early Identification referral, usually unsuccessful. LIHEAP, but poor payment history makes them ineligible for emergency funds? Weatherization Budget Counseling Small Claims/Garnishment (low wages make this difficult) Disconnection unlikely to produce payment, due to low income		**Alternative Approaches:** Small Claims/Garnishment Wage assignments Property lien Treble expenses Disconnection – likely to result in quick payment, but above alternatives should produce payments.	

←---------- ABILITY TO PAY ----------→

Lessons We Are Still Learning

Perhaps the most important realization for us at WPSC was how limited our ability to deal with the customer really was. This is summed up in Figure 7 by the observation that if all you have is a hammer, everything looks like a nail.

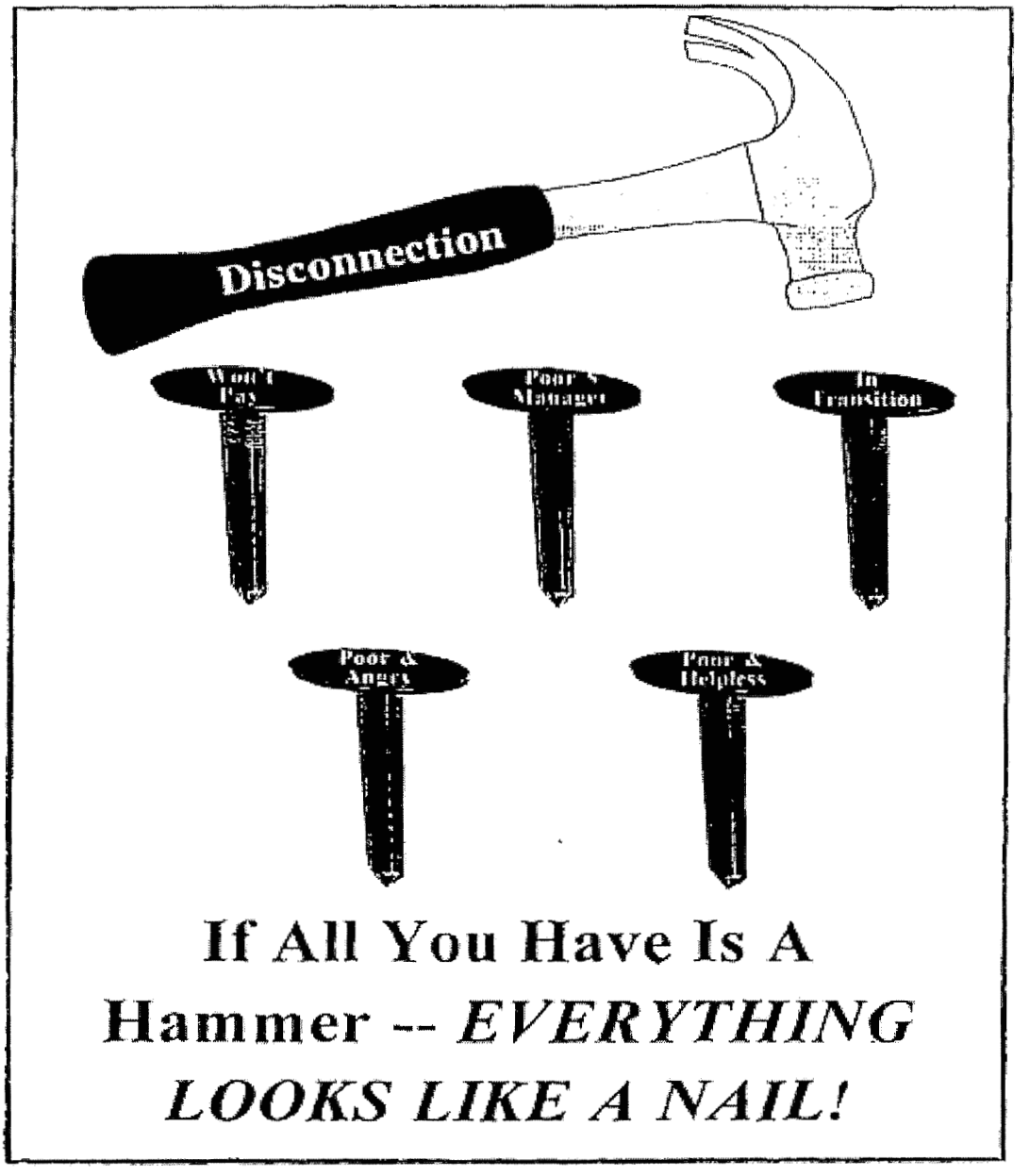


FIGURE 7

When the Company dealt with all people who did not pay their bill for whatever reason with the same tool, namely disconnection, several undesirable results occurred:

• Disconnection of the Poor and Helpless - Credit and collection personnel tended to disconnect the service of customers who didn't complain but who also had virtually no resources and therefore did not pay. The result was the production of a disconnection statistic but no payment. In addition to increased operating costs, the Company also increases its risk of an incident at the customer's premises and the customer is subjected to pain and suffering which he or she is ill-equipped to cope with.

• Increased Frustration and Burnout - Company personnel increasingly characterized all customers who were in arrears as "deadbeats" and therefore ceased to see them as "customers," thereby justifying rude and insensitive treatment of them. Paradoxically, this also led to "burnout" on the part of credit workers.

• Increased Fraud - Since many customers who are disconnected for nonpayment moved to a new premises, they often falsified applications for service in order to gain service. Fewer moves resulted in a major reduction in fraud cases.

• Failure to Change Long-standing Customer Payment Patterns - If the Company is inflexible in offering payment arrangements that genuinely do not fit the customer's circumstances, the customer learns that the "reward" for paying what he or she can versus nothing is exactly the same; namely, disconnection. In this way, disconnection practices actually encourage a long-standing payment habit of withholding payment. The WPSC approach was to establish a regular payment habit which - even though it may be inadequate - represents a change in payment pattern. The ultimate objective is to make this a lasting habit. Subsequent research in 1993 confirmed that customers recognize such treatment and, as a result, respond by moving the energy bill higher in their bill paying priority.

• Increased Risk - As we know, the energy suppliers[8] will be held liable by public opinion for how they treat their customers, particularly those who are deemed less capable of managing on their own. There is an assumed societal responsibility for the energy supplier. Any company that fails to live up to that responsibility will be judged harshly by the public and by the media.

Perspectives

We have also learned that our perspectives must take into account the total system. Narrow perspectives produce provincial solutions. By taking a broader systems

[8] And to an extent, the regulator.

perspective, WPSC successfully produced a more comprehensive solution. This is not to say that all problems were solved. Indeed, there is no doubt that a new paradigm will have to be developed to solve the next level of persistent issues which the current paradigm does not solve.

Paradigms

The WPSC experience also points out that we need new paradigms when we want them the least. Familiar solutions look as though they should be successful, such as the disconnection (bigger hammer theory) solution for rising bad debts. At WPSC we found that we tended to avoid new approaches because we thought the old methods of tough talk and more disconnections were the only way to deal with the situation. In a sense we had given up hope of finding a better solution. There's also a tendency on our part to blame others-whether that be regulators, society, etc.- for not approaching the problem.

Final Thoughts

In the end, we also realized that -- as one humorist put it-the best definition of insanity is doing the same thing we've always done and expecting to get different results. If increased disconnections failed to produce payment in the past, why would we assume they would produce payment in the future? The lifestyle survey helped us understand these principles and hopefully set the stage for development of further tools to deal with collections in the future. The electric energy industry has gone through the most significant restructuring since its founding. Similarly, the gas industry is continuing to experience the effects of new developments in marketing, brokering, and delivery of the product. These developments have permanently changed both industries in many states. One of the most significant questions that must be addressed is what service elements we as a society want to carry forward into the future.

As we consider account management (a/k/a credit and collections), the issues will be included under the broad categories of affordability and continuity of energy services. Various services and programs are in place in 2008. While we would all probably stipulate that our current solutions are far from perfect, we must ask how the needs of customers who experience bill paying problems will be met in the future.

To successfully address the issues, the utility industry - as well as all other stakeholders will need to understand how customer needs are met now. Assuming that the stakeholders can agree on basic needs that must continue to be met, a method of safe passage to the future for the service and programs must be provided.

Certificate of Service

I hereby certify that an original and ten photocopies of the foregoing Prepared Direct Testimony of Nancy Brockway on Behalf of AARP, were filed with the Docket Clerk, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; and that a true and accurate copies of the foregoing was sent via electronic mail, and mailed via First Class U.S. Mail, postage pre-paid, the 29th day of July, 2009 to:

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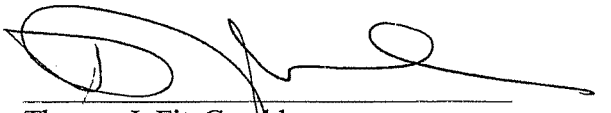

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