Executive Summary

This report reviews EnergyNorth's collection and termination performance on both residential and non-residential accounts. About three years of the company's charge-off history is analyzed in depth. The purpose of the review and analysis is to determine the company's ability to reduce its risk of customer non-payment through the management of is collection processes.

There are a number of key findings in the report related to the company's charge-off experience. Residential charge-offs for 2006 are highlighted and analyzed. Most of the charge-off volume originates on residential accounts. Of the 7,600 residential accounts charged-off in 2006, only 12% were disconnected for non-payment. The remainder were closed at the request of the customer (i.e., close voluntarily). Of the $4.3 million charged-off on residential accounts, $3.0 million was on accounts that closed voluntarily. R-3 (Residential Heat) accounts represent 94% of the total accounts charged-off and 97% of the total dollar value charged-off.

Non-residential charge-offs for 2006 are also highlighted and analyzed. Non-residential accounts make up 5% of the total number of accounts charged-off and 8% of the total dollar value charged-off in 2006. Of the 413 non-residential accounts charged-off in 2006, 78% closed voluntarily. G-41 accounts (Low Load-Small) equal 81% of the total accounts and 67% of the total dollars charged-off.

In addition to the charge-off analysis, there is a review and assessment of EnergyNorth's collection and termination acivities including the process for handling applications for new service. Process gaps and opportunities for improvement are detailed. In 2006, the company did not appear to adequately investigate and verify the identity of new applicants. In addition, the company did not mitigate risk by obtaining security deposits on new applicants or delinquent active accounts.

The company is missing an opportunity to reduce its risk and better manage customer payment behavior by not increasing disconnection activity. Of the 2,915 residential accounts charged-off in 2006 with balances over $500, 72% closed voluntarily with an average balance due of $1,217. Given that the majority of these accounts are R-3 customers with average monthly bills of $100, many of these accounts could have been targeted for disconnection earlier before additional usage occurred. Of the accounts disconnected for non-payment, the average balance was $1,349, again indicating the company could have targeted many of these accounts earlier before additional usage occurred. The company also missed an opportunity to increase its collection performance and recovery of debt, as well as better management of customer payment behavior, by not utilizing several additional late-stage recovery strategies, including debt sales and legal recovery programs.

Based on the findings of the report, a rebuttal of previous testimony and comments by the staff of EnergyNorth is detailed, including how the company's charge-off issues are not a result of low income customers or difficult to access meters.

The report concludes with a final analysis and recommended debt level. Based on the key findings of this report, the company had an opportunity to improve its charge-off performance by targeting specific groups of accounts for increased disconnection activity and optimized collection treatment strategies. The conclusion is that the company's collection and disconnection efforts did not keep pace with the number of accounts and/or the past due balances on accounts receivable greater than 90 days. Specifically, on R-3 accounts, which represent the greatest risk of charge-off to EnergyNorth, the average balance of delinquency and charge-off increased year over year. The company missed an opportunity to reduce its charge-offs by reducing the average balance on the accounts that actually charged-off, either as a result of disconnection or closing voluntarily.

An example is provided of how the company could have dramatically lowered its charge-offs over a two-year period. The main point is that the EnergyNorth had ample time in the years before the review period (i.e., July 1, 2006 to June 30, 2007) to target these types of accounts and slowly reduce the accounts receivable, especially on accounts greater 90 days past due and balances over $500.

The collection treatment strategies and disconnection activities deployed by EnergyNorth in 2006 and 2007 were deficient and mismatched for the magnitude of the aged receivables. In addition the collection and disconnect strategies were not focused on the types of accounts that represented the greatest risk for the company. Nonetheless, EnergyNorth can expect that once the number of past due accounts and past due balances are under control, its routine collection efforts such as past due notices, outbound calling campaigns and payment arrangements and disconnection notices will become more effective. The company, as well as its customers, will be better able to manage lower past due balances.

Finally, a charge-off amount and percentage ratio is detailed. In early 2006, if the company had achieved a targeted level of an average balance of $500 on its high-risk, R-3 portfolio, the net reduction to charge-offs would be $2,429,615. A similar analysis can be done for non-residential accounts, with an increase in disconnection activity designed to reduce the average balance of the high-risk portfolio to a target of about $1,200, the net reduction to charge-offs would be $189,172. As a result, the recommended charge-off amount is $2,161,598, and the corresponding charge-off to revenue ratio is 1.31%.

Objectives for the Review and Assessment

1. Determine the effectiveness and performance of EnergyNorth's collection and termination activities and strategies relative to levels of bad debt
2. Recommend an appropriate level of bad debt (and corresponding ratio to revenue) for the period between July 1, 2006 and June 30, 2007

Project Deliverables

The project deliverables are as follows:

- Identify process gaps and opportunities for improvement in the collection and termination activities at EnergyNorth
- Determine the appropriate level of dollars charged-off to bad debt by EnergyNorth for the period between July 1, 2006 and June 30, 2007
- Determine the appropriate percentage of bad debt to revenues at EnergyNorth for the period between July 1, 2006 and June 30, 2007
- Present final recommendations and reports

Project Methodology

The Project methodology steps are as follows:

1. Obtain preliminary information and data via phone conversations, conference calls and questionnaire
2. Conduct on-site assessment and interviews with key personnel
3. Create process maps of current processes and workflows
4. Perform detailed review of the existing account workflows and collections and terminations programs

5. Obtain detailed information and data as required
6. Identify gaps, problems and opportunities
7. Provide a report, including a set of recommendations

This report is organized in the following sections:

1. Introduction
2. Account Charge-Off Analysis and Key Findings
3. New Service Turn-On Activities
4. Collections and Termination Activities
5. Final Bill and Debt Recovery Activities
6. Response to Previous Testimony Regarding Charge-off and Collections Performance
7. Final Analysis and Recommended Debt Level (and Ratio)

1. Introduction

This report reviews EnergyNorth's collection and termination performance on both residential and non-residential accounts. In addition, about three years of the company's charge-off history is analyzed in depth. The highlights of the 2006 charge-off history are included on Attachment A on page 25. The purpose of the review and analysis is to determine the company's ability to reduce its risk of customer non-payment through the management of is collection processes.

2. Account Charge-Off Analysis and Key Findings

The following is summary of EnergyNorth's 2006 charge-off data:

2006 Charge-Off Summary

	Accounts	%	Dollars	%	Avg. Balance
Total Residential Charge-off:	7,600	95%	$4,338,556	92%	$571
Total Non-Residential Charge-off:	413	5%	$388,742	8%	$941
Total Charge-off:	8,013	100%	$4,727,298	100%	$590

2006 Residential Charge-Off Key Findings (for details see Attachment A):

- Residential accounts made up 95% of the total number of the accounts charged-off and 92% of the total dollar value charged-off
- The 7,600 accounts charged-off represent over 10% of the total number of residential accounts in EnergyNorth's customer base in 2006

- There were 77 accounts that charged-off due to bankruptcy with a total balance of $91,382 (i.e., an average balance of $1,187)

- Of the 7,600 accounts charged-off, only 12% were disconnected for non-payment. The remainder were closed at the request of the customer (i.e., close voluntarily)

- Of the $4.3 million charged-off, only $1.3 million was on accounts disconnected for non-payment

- Of the $4.3 million charged-off, $3.0 million was on accounts that closed voluntarily

- The average balance on accounts closed voluntarily was $460

- The average balance on disconnected for non-payment accounts was $1,349

- Of the 7,600 accounts charged-off, 62% of the accounts had balances less than $500. The average balance was $169

- Of the 7,600 accounts charged-off, 38% had balances greater than $500. The average balance was $1,217

- Of the 7,600 accounts charged-off, 19% of the accounts had balances greater than $1,000 with the average balance equaling $1,746

- Of the $4.3 million charged-off, $3.5 million originated on accounts with balances greater than $500

- R-3 (Residential Heat) accounts represent 94% of the total accounts charged-off and 97% of the total dollar value charged-off

- R-4 (Residential low income discount) accounts represent only 0.2% of the total accounts charged-off and only 0.3% of the total dollar value charged-off

- R-3 accounts with balances greater than $500, account for 38% of the total accounts charged-off and 81% of the total dollar value charged-off

- The combined charge-offs for Concord, Nashua and Manchester (EnergyNorth's urban centers) represent 85% of the total accounts charged-off and 81% of the total dollar value charged-off

- Accounts coded as "1 family house heat" represent 94% of the total accounts charged-off and 97% of the total dollar value charged-off

- Of the 7,600 residential accounts charged-off, 53% of the meters were located outside

- Of the R-3 accounts charged-off, 54% of the meters were located outside

- Of the R-3 accounts disconnected for non-payment, 59% of the meters were located outside

2006 Non-Residential Charge-Off Key Findings (for details see Attachment A):

- Non-residential accounts make up 5% of the total number of accounts charged-off and 8% of the total dollar value charged-off
- Non-residential charge-offs of 413 represent about 3% of the total number of non-residential accounts in EnergyNorth customer base in 2006
- There were 12 accounts that charged-off due to bankruptcy with a total balance of $17,754 (an average balance of $1,480)
- Of the 413 accounts charged-off, 23% accounts were disconnected for non-payment
- Of the 413 accounts charged-off, 78% accounts closed voluntarily
- Of the $389K charged-off, 40% is on accounts disconnected for non-payment
- Of the $389K charged-off, 60% is on accounts that closed voluntarily
- The average balance on accounts that close voluntarily is $723
- The average balance on disconnected for non-payment accounts is $1,691
- Of the 413 accounts charged-off, 59% of the accounts had balances less than $500 (an average balance of $131)
- Of the 413 accounts charged-off, 41% of the accounts had balances greater than $500 (an average balance of $2,088)
- Of the 413 accounts charged-off, 24% of the accounts had balances greater than $1,000 (an average balance of $3,065)
- Of the $389K charged-off, 92% of the dollars originated on accounts with balances greater than $500
- G-41 accounts (Low Load-Small) equal 81% of the total accounts and 67% of the total dollars charged-off
- G-42 accounts (Low Load-Med.) equal 6% of the total accounts and 24% of the total dollars charged-off
- G-51 accounts (High Load-Small) equal 11% of the total accounts and 5% of the total dollars charged-off

- The combined charge-offs from Concord, Nashua and Manchester equal 59% of the total accounts and 69% of the total dollars charged-off

- Accounts coded as "Misc Store Heating" represent 70% of the accounts and 66% of the total dollars charged-off

- Of the 413 accounts charged-off, 81% of the meters were located outside

Interpretation and Analysis of 2006 Charge-Off Activity

Residential

Most of the charge-off volume originates on residential accounts. In 2006, over 10% of EnergyNorth's residential accounts were charged-off. Bankruptcy does not appear to be a problem for the company and, as is discussed later in this report, the various special circumstances claimed by the company are not supported by the data.

Of the 7,600 accounts charged-off, 88% closed voluntarily. This represents 71% of the charge-off dollars. Ninety-seven percent of these accounts had balances under $500. The company, however, disconnected only 3% of these accounts. Clearly, small balance accounts are not a target of the company's disconnection activity.

Thirty one percent of the charged-off accounts which closed voluntarily had balances greater than $500 (average balance of $1,095), and 13% were greater than $1,000 (average balance of $1,673). Since 94% of residential accounts charged-off were R-3 (Residential Heat) customers, with average monthly bills of about $100, it would have taken 10 months of non-payment for the average customer to reach a balance due of $1,095 and nearly 17 months to reach a balance of $1,673. Clearly, the company missed an important opportunity to reduce the amount charged-off by terminating these accounts before they closed voluntarily.

Of the accounts charged-off with balances greater than $500, the company disconnected 28% with 72% closing at the request of the customer. Of the accounts charged-off with balances greater than $1,000 the company disconnected 40% with 60% closing at the request of the customer. Clearly, higher balance accounts are a target of the company's disconnection activity.

Of the accounts charged-off with balances greater than $500, EnergyNorth disconnected 819 accounts with a total due of $1,250,472 (i.e., an average balance of $1,527). The average balance for disconnected accounts with balances greater than $1,000 was $1,855. In short, these accountholders were seriously delinquent at the time of disconnection and typically had past due balances as old as 15 to 18 months. This suggests that the company missed an important opportunity to reduce the amount charged-off by terminating these accounts earlier.

From a geographical perspective, 85% of the charge-offs originate in Concord, Nashua and Manchester, the Company's main urban centers. This volume of charge-off activity is not significantly higher than the residential customer percentage (i.e., 75%) for the same locations.

Ninety-four percent of the accounts charged-off and 97% of the dollar value charged-off originate on accounts coded as "1 family house heat." As a result, it appears that nearly all the charge-off activity originates from single family residences, not from multi-unit buildings such as apartments.

Overall, 53% of the meters were located outside. Of the 885 accounts disconnected for non-payment, 59% were located outside. As a result, it appears that access to meters is potentially difficult on about 41% of the accounts.

Non-Residential

Only eight percent of the total charge-off volume originates on non-residential accounts. In 2006, EnergyNorth charged-off 413 non-residential accounts, which represents about 3% of its overall non-residential accounts. Bankruptcy does not appear to be a problem for the company.

Seventy-eight percent of the accounts charged-off and 60% of the dollar value charged-off originates on accounts that close voluntarily. The average balance on these accounts was $723.

Of the accounts charged-off with balances under $500, 14% were disconnected. The remaining accounts closed voluntarily. For accounts with balances greater than $500, the percentage disconnected increased to 47%. For accounts with balances greater than $1,000, the percentage disconnected was 54%. Clearly, higher balance accounts are a target of the company's disconnection activity.

Of the accounts charged-off with balances greater than $500, EnergyNorth disconnected 80 accounts with a total due of $153,010 and an average balance of $1,913. The average balance for disconnected accounts with balances greater than $1,000 was $3,346. Clearly, these accountholders were seriously delinquent at the time of disconnection. It appears that many of these accounts could have been disconnected earlier to reduce the average balance charged-off.

Of the accounts charged-off with balances greater than $500, 91 were closed voluntarily with a total balance due of $203,954 and an average balance of $2,241. Likewise, 53 accounts with balances greater than $1,000 were closed voluntarily with a total balance due of $177,357 and an average balance of $3,346. Clearly, the company missed an important opportunity to reduce the amount charged-off by terminating these accounts before they closed voluntarily.

Overall, 81% of the meters were located outside. As a result, it appears that access to meters on non-residential accounts is not a problem for the company.

3. New Service "Move-In" Activities at EnergyNorth

In 2006, the company's Call Centers (Waltham, MA & NYC) handled all applications for service transfers, moves, and applications for new service. When a person calls for new service, a customer service representative asks for the applicant's history with the company and then searches the customer information system to match the applicant to company history and any open balances.

If it is determined that the applicant is an existing or previous customer, then the customer accounts are reviewed for outstanding debt. If debt is found, it is then determined if the customer accepts responsibility for the balance due. The company attempts to collect 100% of the balance due. Typically, the company accepts 50% of the balance due and transfers the remaining balances onto the new account regardless of whether the debt was previously charged-off.

If it is determined that the applicant is not an existing or previous customer, then the service address is reviewed for outstanding debt. If the previous accountholder left an outstanding balance, the company will request the applicant to fax a state-issued ID for identification purposes. If the applicant refuses to fax the ID, the move-in order will not be stopped. If the applicant faxes the information and it is subsequently determined that the identification is adequate, then the move-in order is initiated.

The process is similar for commercial account applications.

Process Gaps and Opportunities for Improvement:

The following is a list of process gaps and opportunities identified relative to the new service/move-in procedure at EnergyNorth:

- *Verification of Customer Identification*—In 2006, the company did not appear to adequately investigate and verify the identity of new applicants. Aside from requesting a state ID to be faxed, the company did not screen and verify new applicants. Many third-party tools and solutions are available to utilities to positively identify applicants, as well as establish relationships between new applicants and previous accountholders and premises showing outstanding balances. As a result, the potential exists for former accountholders with outstanding balances to slip back into the system undetected. There appears to be high likelihood of potential fraudulent activity around name switching to avoid paying past due balances.

- *Lack of a Deposit Process on Residential Accounts*—The Company does not obtain deposits on any new applicants or delinquent accounts. According to New Hampshire PUC 1203.03 (a), a utility "as a condition of new residential service, a utility may require a deposit...when the customer has an undisputed overdue balance, incurred within the last 3 years, on a prior account with the utility..." In addition, "as a condition of existing residential service, a utility may require a deposit...when the customer's service has been disconnected for non-payment of a delinquent account." Clearly, the company has the opportunity to reduce its risk of accountholder default as well as recover monies on delinquent accounts through the use of security deposits.

- *Lack of a Deposit Process on Non-Residential Accounts* —The Company does not obtain deposits on non-residential accounts. According to New Hampshire PUC 1203.03 (f) a utility "as a condition of any service other than residential service, a utility may require a deposit." Again, the company has the opportunity to reduce its risk of accountholder default as well as recover monies on delinquent accounts through the use of security deposits.

- *Partial Payments of Debt and Balance Transfers*—In 2006, it was the company's policy to attempt to collect at least 50% of any outstanding balances from former customers applying for new service. Customers were then allowed to transfer remaining delinquent balances to the new account. Based on the data reviewed for this report, the average balance of a charged-off (and disconnected for non-payment) customer in 2005 is $1,076. As a result, a customer disconnected for non-payment in 2005 who later applies for service in 2006, would be afforded the opportunity to pay a down payment $538 and transfer the remaining $538 to the new account. Since the average monthly bill for this type of customer is about $100 per month, the transferred balance represents about 5.5 months worth of billing. It is difficult to understand how customers with histories of delinquency and bad debt could be expected to pay the new account plus the old debt. It is very likely that many of these transferred dollars became delinquent and charged-off again.

4. Collections & Termination Activities at EnergyNorth

The following details the typical billing and collection timeline of delinquent customers at EnergyNorth in 2006:

Both residential and non-residential customers are billed monthly for service. Bills are due approximately 30 days after the bill date. Two days after the respective due date, all past due accounts are processed through an automated "Credit Matrix," which is an internal scoring system that calculates a "risk" score based on a variety of rules-based criteria, including the type of account, past due balance, age of arrears and time of year (i.e., summer/winter). Accounts which receive a pre-determined minimum score are assigned an automated outbound collection call and coded to receive a notice on the bill. Then a late fee is assessed and a new bill is issued (approx. day 32), which includes a special reminder (internal notice code: 0002) regarding the past due balance.

Thirty days later, the next bill is due (approx. day 62). Two days after the due date, all past due accounts are again processed through the credit matrix. Accounts which receive a pre-determined minimum score are assigned an automated outbound collection call and coded to receive a notice on the bill. Then a late fee is assessed and a new bill is issued (approx. day 64), which includes a summer disconnection notice (internal notice code: 1003) regarding the past due balance. Immediately following the due date, past due accounts are processed through an automated "Demand Table," which selects accounts for disconnection activity based on available field resources, location and other criteria. During the period from October 26th to March 8th, no disconnection notices are printed or sent by the company

If an account remains past due for another seven days (approx. day 71), a separate disconnection notice (internal notice code: 2004) is mailed to the customer. If an account remains past due for another 14 days (approx. day 85), a field order (internal notice code: 1009 coupon) is issued for disconnection for non-payment.

On a daily basis, certain accounts are selected for field visits for disconnection or collection activity. Customers are selected for disconnection based on balance amount, age of arrears and location criteria. Since 2006, field representatives utilize mobile handheld technology to receive and transmit data regarding field orders, payments and outcomes of field visits. Field staff accepts customer payments in the field, requiring at least 50% of the past due balance from the customer to stop the disconnection. The company has 8 days to visit the premise and obtain payment or perform a disconnection. After 8 days (approx. day 93), the disconnect notice (i.e., 1009 coupon) expires.

Approximately two days later, accounts that remain past due recycle to the subsequent billing cycle (approx. day 95) and notice processes. Specifically, accounts that remain past due progress through duplicate timing, calling and notice processes, including notice on bill, potential selection in the demand table, disconnection notice and field visit. During the period from October 26th to March 8th, no disconnection notices are printed or sent by the company to residential customers.

Once an account is disconnected for non-payment and the customer wants to restore service, the company first attempts to collect 100% of the balance due, but will accept a down payment and repayment terms on the remaining balance. Although PUC 1203.03 permits the company to request a deposit as a condition of restoring service following disconnection for non-payment, the company does not assess security deposits to any accounts.

The following table summarizes EnergyNorth's collection and termination activity in 2006:

Total Customers	≈85,000
Termination Notices (on bill):	14,802
Outbound Calls:	243,139
Field Orders (1009 Summer Coupon):	N/A
Field Visits	6,099
Actual Non-Pay Disconnections:	1,669
Service Restorations:	775
Non-Restorations:	894

N/A= Data Not Available

Payment Arrangements:

According to interviews with EnergyNorth company personnel, the company follows the state PUC rules on payment arrangements, including winter rules. There are no statistics for 2006. However, the following data highlights the 2007 activity:

EnergyNorth Payment Plans 2007

	Number	Dollars	Avg. Bal.
New Plans	6,163	$6,486,188	$1,052
Plans Paid in Full	951	$730,128	$767
Plans Broken	4,168	$4,385,591	$1052
Average Monthly Default Rate	22%		
Active Plans on Hand in February (lowest month)	657	$366,899	$588
Active Plans on Hand in September (highest month)	2,184	$1,255,566	$574

Process Gaps and Opportunities for Improvement

The following is a list of process gaps and opportunities identified relative to the collection and termination activity at EnergyNorth:

1. The company is missing an opportunity to reduce its risk and better manage customer payment behavior by not applying security deposits on certain delinquent accounts. Specifically,

   - *Deposits on Certain Active Delinquent Residential Accounts*—Securing deposits on certain high-risk residential accounts with poor payment history will help modify customer behavior, as well as reduce risk in the event the account closes and defaults. According to PUC 1203.03 (e) 1& 2, a utility "as a condition of existing residential service, a utility may require a deposit," when the customer has received a certain amount of disconnect notices or the service has been disconnected for non-payment of a delinquent account.

   - *Deposits on Certain Active Delinquent Non-Residential Accounts*— Securing deposits on certain high-risk non-residential accounts with poor payment history will help modify customer behavior, as well as reduce risk in the event the account closes and defaults. According to PUC 1203.03 (f), a utility "as a condition of any service other than residential service, a utility may require a deposit."

2. The company is missing an opportunity to reduce its risk and better manage customer payment behavior by delaying collection efforts on accounts eligible for disconnection (i.e., those that meet the minimum balance and past due requirements). Although the company places reminders on bills and makes outbound collection calls on accounts over 30 days past due, it delays more assertive action (i.e., shut-off notices on bills, separate mailings and disconnection activity) for at least another 30 days. In addition, it limits the number of disconnection notices through its demand table because of field resource constraints. The company appears to focus most of its initial collection effort on accounts greater than 60 days past due. Specifically,

   - In 2006, EnergyNorth mailed a total of 14,882 separate disconnection notices. Based on data provided by the company, many of these notices were sent to the same delinquent customers month after month. In April 2006 alone, the total number of R-3 (Residential heat) accounts eligible for disconnection (past due with balances greater than $50) equaled 15,863 with a total past due balance of $16,256,464 (an average past due balance of $1,025). This entire population of accounts was eligible for disconnection based PUC 1203.11 Disconnection of Service. Specifically, accounts greater than 30 days past due can be included in the disconnection eligible population because a bill is considered proper notice and the minimum balance criteria was exceeded.

3. The company is missing an opportunity to reduce its risk and better manage customer payment behavior by not increasing disconnection activity on lower balance accounts. Clearly, EnergyNorth focuses its field disconnection activity on the oldest arrearage, higher balance accounts. For example:

   - Of the 950 residential accounts disconnected and charged-off in 2006, only 14% had balances under $500.

4. The company is missing an opportunity to reduce its risk and better manage customer payment behavior by targeting problem accounts for termination. For example,

   - Of the 2,915 residential accounts charged-off in 2006 with balances over $500, 2,096 closed voluntarily with an average balance due of $1,217. Many of these accounts could have been targeted for disconnection earlier before additional usage occurred.

5. The company is missing an opportunity to reduce its risk and better manage customer payment behavior by not disconnecting certain delinquent accounts that default on payment arrangements. According to PUC 1203.07 (k) a utility "may disconnect without additional notice any customer for failure to comply with a properly confirmed payment arrangement, except as provided in PUC 1230.11 (f) which deals with medical emergencies." Although 2006 data is not available, the 2007 data shows 4,168 accounts with broken agreements with an average balance of $1,052.

5. Final Bill and Debt Recovery Processes

In 2006, EnergyNorth processed final bill accounts according to the following timeline: Once an account is closed, the final bill is immediately sent to the customer. The due date is approximately 25 days after the bill date. If the final bill remains unpaid, then a new bill is issued (approx. day 28 from disconnection), which includes a final bill reminder regarding the past due balance. At the same time, the company selects and places all unpaid "high-risk" accounts (balances greater than $10) with third-party collection agencies on a contingency-fee basis. These collection agencies work the accounts for approximately 71 days until recalled by the company (approx. day 99 from disconnection).

Accounts not selected as high-risk accounts are held by the company for an additional 20 days. The company then selects and places all unpaid "low-risk" accounts (balances greater than $10) with third-party collection agencies on a contingency-fee basis. These collection agencies work the accounts for approximately 51 days until recalled by the company (approx. day 99 from disconnection). While the accounts are at the collection agencies, the company writes off the accounts as uncollectible (accounting process occurs about once per month). All unpaid, recalled accounts are held by the company for about 20 days, and then placed with another set of third-party collection agencies on a contingency-fee basis (approx. day 120 from disconnection). All unpaid, charged-off accounts remain at the agencies for an indefinite period of time. The accounts are not credit reported to the credit bureaus.

Process Gaps and Opportunities for Improvement

EnergyNorth did not provide detailed liquidation reports of its agency collection programs. As a result, a definitive analysis is not available. However, the following is a list of process gaps and opportunities identified relative to the collection of final bills and debt recovery activities at EnergyNorth:

1. The company is missing an opportunity to increase its collection performance and recovery of debt, as well as better management of customer payment behavior, by not utilizing several additional late-stage recovery strategies. For example,

    - Six months after placement to the set of agencies agency collection performance typically declines to near zero. In EnergyNorth's case, six months after the second agency placement (approx. day 300 from disconnection) very little future liquidation can be expected. As a result, one strategy is to sell certain charged-off accounts. In 2006, the market pricing for charged-off utility accounts between 300-720 days old (from disconnection) was 2.5% to

4.5% of the total balance due. This pricing represents a significant increase over business as usual ("BAU").

- Legal collection programs for certain high-balance accounts may be appropriate leading to an improvement in collections performance.

6. Response to Previous Testimony Regarding Charge-off and Collections Performance

Based on contents of this report, the following list of responses is offered as rebuttal to previous testimony and comments by the staff of EnergyNorth:

1. EnergyNorth's collections and charge-off problems are related to the high percentage of the low income population in the service territory.

   Response: Protected class residential customers, including low income customers, do not appear to have any impact on the company's charge-off volume. In 2006, almost no charge-off volume originates with accounts coded as R-4, the Low Income Residential Heating Rate.

2. EnergyNorth's collections and charge-off problems are related to the large number of inaccessible meters on residential accounts.

   Response: Although the company appears to have a large percentage of inside meters on residential accounts, 53% of all the charged-off accounts in 2006 had meters located outside.

3. Inability to obtain warrants or legal remedy to access meters for disconnection for non-payment

   Response: See above comment.

4. EnergyNorth's collections and charge-off problems are related to the high percentage of special protection customers.

   Response: Protected class residential customers, including low income customers, do not appear to have any impact on the company's charge-off volume. In 2006, almost no charged-off volume originates with accounts code as R-4, the Low Income Residential Heating Rate.

5. EnergyNorth's collections and charge-off problems are related to the numerous delinquent customers that are in multi-family units which are difficult to access and perform disconnection.

   Response: Multi-family units do not appear to have any significant impact on the company's charge-off volume. In 2006, almost no charge-off volume originated with accounts coded other than R-1 and R-3.

7. Final Analysis and Recommended Charge-off Level (and Ratio)

The following is a summary of the key findings of this report:

Residential Charge-Offs

1. Residential accounts make up 92% of the total annual charge-offs
2. Residential heat (R-3) accounts make up 94% of the total annual charge-offs
3. Residential heat (R-3) accounts with balances over $500 make up 81% of the total annual charge-offs
4. Residential heat (R-3), accounts closed voluntarily with balances over $500 make up 52% of the total annual charge-offs
5. Residential heat (R-3), accounts disconnected-for-non-payment with balances over $500 make up 28% of the total annual charge-offs

Non-Residential Charge-Offs

1. Non-residential accounts with balances over $500 make up 92% of the total annual charge-offs on non-residential accounts
2. Non-residential, accounts closed voluntarily with balances over $500 make up 53% of the total annual charge-offs
3. Non-residential, accounts disconnected-for-non-payment with balances over $500 make up 47% of the total annual charge-offs

Opportunities for Improvement in Collection and Termination Activities

1. Verification of Customer Identification
2. Deposit Process on Residential Accounts
3. Deposit Process on Non-Residential Accounts
4. Partial Payments of Debt and Balance Transfers
5. Deposits on Delinquent Residential Accounts
6. Deposits on Delinquent Non-Residential Accounts
7. Speed up collection efforts on accounts eligible for disconnection
8. Increase disconnection activity on lower balance accounts
9. Disconnect delinquent accounts that default on payment arrangements
10. Debt Sale
11. Legal collection programs

Potential Impact of Targeted Disconnection Program & Optimized Collection Treatment Stategy

Based on the key findings of this report, the company has an opportunity to improve its charge-off performance by targeting specific groups of accounts for increased disconnection activity and optimized collection treatment strategies. The following sections identify and target specific types of accounts to target in order to reduce charge-offs.

Review and Analysis of 2006

In April of 2006, at the start of the disconnection season, the company had 15,863 R-3 customers with past due balances of $16,256,464. The average past due balance on these accounts was $1,025. The company subsequently disconnected a total of 1,526 of these R-3 delinquent customers. During the year, 885 of these disconnected customers did not restore service and did not pay. As a result, these 885 accounts charged-off in 2006 for a total write off of $1,246,255.

In addition to the disconnected customers, there were 6,225 R-3 customers with past due balances that, over the course of the year, closed their accounts voluntarily and did not pay. As a result, these 6,225 accounts charged-off in 2006 for a total write off of $2,978,345. The combined write off from the two groups of R-3 customers totals $4,224,599.

By splitting the combined portfolio of charged-off R-3 accounts into two groups based on a dollar balance range the following groups are created:

- R-3 accounts with balances *less than* $500: 4,249 accounts & $733,202 balance
- R-3 accounts with balances greater than $500: 2,861 accounts & $3,491,397 balance

Then, the following sub-category is created:

- R-3 accounts with balances *less than* $500 & disconnected for non-payment: 87 accounts & $20,234 balance (average balance: $233)
- R-3 accounts with balances *greater than* $500 & disconnected for non-payment: 798 accounts & $1,226,021 balance (average balance: $1,536)
- R-3 accounts with balances *less than* $500 which closed voluntarily : 4,162 accounts & $712,968 balance (average balance: $171)
- R-3 accounts with balances *greater than* $500 which closed voluntarily : 2,063 accounts & $2,265,377 balance (average balance: $1,098)

By reviewing this last sub-category the following conclusions are made:

- EnergyNorth deployed its field resources on and was targeting for disconnect, on average, very high-balance accounts (i.e., average balance: $1,536)
- The R-3 accounts with balances *less than* $500 which closed voluntarily have a relatively low average balance and do not represent a significant charge-off issue for the company
- The R-3 accounts with balances *greater than* $500 which closed voluntarily represent a significant charge-off issue for the company

Review and Analysis of 2007

In April of 2007, at the start of the disconnection season, the company had 15,824 R-3 customers with past due balances of $16,734,346. The average past due balance on these accounts was $1,058. The company subsequently disconnected a total of 1,611 of these R-3 delinquent customers. During the year, 759 of these disconnected customers did not restore service and did not pay. As a result, these

759 accounts charged-off in 2007 for a total write off of $1,226,419.

In addition to the disconnected customers, there were 6,599 R-3 customers with past due balances that, over the course of the year, closed their accounts voluntarily and did not pay. As a result, these 6,599 accounts charged-off in 2007 for a total write off of $3,462,926. The combined write off from the two groups of R-3 customers totals $4,689,246.

By splitting the combined portfolio of charged-off R-3 accounts into two groups based on dollar balance range the following groups are created:

- R-3 accounts with balances *less than* $500: 4,230 accounts & $739,610 balance
- R-3 accounts with balances greater than $500: 3,128 accounts & $3,949,736 balance

Then, the following sub-category is created:

- R-3 accounts with balances *less than* $500 & disconnected for non-payment: 30 accounts & $6,796 balance (average balance: $227)
- R-3 accounts with balances *greater than* $500 & disconnected for non-payment: 729 accounts & $1,219,623 balance (average balance: $1,673)
- R-3 accounts with balances *less than* $500 which closed voluntarily: 4,200 accounts & $732,814 balance (average balance: $174)
- R-3 accounts with balances *greater than* $500 which closed voluntarily : 2,399 accounts & $2,730,113 balance (average balance: $1,138)

By reviewing this last sub-category the following conclusions are made:

- EnergyNorth deployed its field resources on and was targeting for disconnect, on average, very high-balance accounts (i.e., average balance: $1,673)
- The R-3 accounts with balances *less than* $500 which closed voluntarily have a relatively low average balance and do not represent a significant charge-off issue for the company
- The R-3 accounts with balances *greater than* $500 which closed voluntarily represent a significant charge-off issue for the company

A comparison 2006 and 2007 is presented in the table below:

Comparison of 2006 & 2007	2006	2007	Variance	%Change
R-3 Accounts Past Due Balances >90 Days (April 2006):	15,863	15,824		
R-3 Dollars Past Due Balances >90 Days (April 2007):	$ 16,256,464	$ 16,734,346		
Average Balance:	$ 1,025	$ 1,058	**$33**	**3%**
Total Disconnections for Non-Payment (DNP):	1,526	1,611		
R-3 Accounts Disconnected Charged Off:	885	759		
R-3 Dollars Disconnected Charged Off:	$ 1,246,255	$ 1,226,419		
Average Balance:	$ 1,408	$ 1,616	**$208**	**15%**

Total R-3 Accounts Charged Off:	7,110	7,358		
Charge-offs:				
R-3 Accounts with Balances *Less Than* $500:	4,249	4,230		
R-3 Accounts with Balances Greater Than $500:	2,861	3,128		
R-3 Balances *Less Than* $500:	$ 733,202	$ 739,610		
R-3 Balances Greater Than $500:	$ 3,491,397	$ 3,949,736		
R-3 Accounts with Balances *Less Than* $500 & DNP:	87	30		
R-3 Accounts with Balances *Greater Than* $500 & DNP:	798	729		
R-3 Balances *Less Than* $500 & DNP:	$ 20,234	$ 6,796		
R-3 Balances *Greater Than* $500 & DNP:	$ 1,226,021	$ 1,219,623		
Average Balance (<$500):	$ 233	$ 227		
Average Balance (>$500):	$ 1,536	$ 1,673	**$137**	**9%**
R-3 Accounts with Balances *Less Than* $500 & CV*:	4,162	4,200		
R-3 Accounts with Balances *Greater Than* $500 & CV:	2,063	2,399		
R-3 Balances *Less Than* $500 & CV:	$ 712,968	$ 732,814		
R-3 Balances *Greater Than* $500 & CV:	$ 2,265,377	$ 2,730,113		
Average Balance (<$500):	$ 171	$ 174		
Average Balance (>$500):	$ 1,098	$ 1,138	**$40**	**4%**

* Closed Voluntarily

Comparison and Conclusions of 2006 & 2007

1. The average balance of the overall portfolio of past due active accounts increased in 2007 from 2006 by $33, or 3%.

2. The average balance charged-off on R-3 accounts disconnected for non-payment increased in 2007 from 2006 by $208, or 15%.

3. The average balance on charged-off on R-3 accounts with balances greater than $500 & disconnected increased in 2007 from 2006 by $137, or 9%.

4. The average balance on charged-off R-3 accounts with balances greater than $500 which closed voluntarily increased in 2007 from 2006 by $40, or 4%.

Based on these conclusions, it is clear that the company's collection and disconnection efforts did not keep pace with the number of accounts and/or the past due balances on accounts receivable greater than 90 days. Specifically, on R-3 accounts, which represent the greatest risk of charge-off to EnergyNorth, the average balance of delinquency and charge-off increased year over year.

Missed Opportunity to Reduce Charge-offs

In the comparison above, EnergyNorth missed an opportunity to reduce its charge-offs by reducing the average balance on the accounts that actually charged-off, either due to disconnection or closing voluntarily. Specifically, assuming the exact same accounts charge-off in 2006 and 2007 (business as usual), the overall dollars of charge-offs can be decreased by reducing the average balance on each account before disconnection. One strategy to achieve a lower average balance is to collect or remove the past due balances earlier, before high balances make it difficult or impossible for the average customer to pay the bill.

Since the average balance on high-balance, R-3 accounts disconnected in 2007 is $1,673, most of these accounts would have been eligible for disconnect in the 2006 disconnection season. If the company had disconnected all of the 729 accounts (2007 BAU) in 2006, and on average 10 months earlier, the reduction in charges offs would equal $729,000 (729 accounts X $1,000 reduction ($100 monthly avg. bill x 12) = $729,000)

In addition, since the average balance on high-balance, R-3 accounts closed voluntarily in 2007 is $1,138, many of these accounts would have been eligible for disconnect in the 2006 disconnection season. If the company had disconnected all of the 2,399 accounts (2007 BAU) in 2006, and on average 8 months earlier, the reduction in charge-offs would equal about $1,919,200 (2,399 accounts X $800 reduction ($100 monthly avg. bill x 12) = $1,919,200). The problem for the company is how to predict which accounts will close, not pay and then write off. Without sophisticated predictive analytic tools, the company has no way of making a prediction of future events. However, in April of 2007, like any other month, the accounts at risk (high past due balances and aged) were known. For instance, in April of 2007, at the start of the disconnection season, the company had 15,824 R-3 customers with past due balances of $16,734,346. During 2007, many of these customers simply closed their accounts and subsequently charged-off. Had the company accelerated and expanded its disconnection activity on the entire portfolio of high-balance, past due accounts (i.e., greater than $500 balance), the overall average balance on the entire portfolio would decrease. Consequently, as the high-balance R-3 accounts subsequently close and charge-off, the balances also would be lower. The question is how much earlier and how many disconnections need to be made to impact subsequent charge-offs?

Impact of Increased Disconnections

The following example demonstrates the impact of increased disconnection activity on a targeted group of accounts: In April of 2006, there were 7,034 R-3 accounts with past due balance greater than 90 days past due (the target group). The total due on these accounts totaled $9,636,794, with an average balance of $1,370. EnergyNorth subsequently disconnected and charged-off 798 of these target accounts, totaling a write off of $1,226,021. Assuming the group of accounts the company actually disconnected remains exactly the same, the remaining 6,236 accounts (7,034-798 = 6,236) would be eligible for disconnection during the remainder of the year. Then, assuming EnergyNorth immediately disconnected all the remaining 6,236 eligible customers at the beginning of the disconnection season, the disconnected customers could be expected to follow historical patterns of behavior by paying to restore service or not restoring service and ultimately charging off. In this hypothetical example, the 12 month estimated reduction to charge-offs is $196,436. The table below compares the disconnection activity and summarizes the financial impact. A detailed calculation is included on Attachment B on page 26.

2006 Example of Increased Disconnections		
	2006 BAU*	2006 w/Increased Disconnections

R-3 Disconnections CO Bal. >$500 #:	798	798	
Increase in R-3 Disconnections CO Bal. >$500 #:	N/A	**6,236**	
R-3 Disconnections CO Bal. >$500 $:	$ 1,226,021	$ 1,226,021	(no change)
Increase in R-3 Disconnections CO Bal. >$500:	N/A	$ 1,682,155	(est.)
Total CO:	$ 1,226,021	$ 2,908,176	
Variance from BAU:	$ -	$ 1,682,155	
R-3 Closed Voluntary CO Bal. >$500 $:	$ 2,265,377	N/A	
New Total Closed Voluntary CO Bal. >$500:	N/A	$ 386,786	(est.)
Total CO:	$ 2,265,377	$ 386,786	
Variance from BAU:	$ -	$ (1,878,591)	
Total Charge-offs R-3 Accounts:	$ 3,491,398	$ 3,294,962	(est.)
Net Reduction in Charge-offs:		**$ (196,436)**	(est.)

* BAU-Business As Usual
N/A= Not Applicable

Although the net reduction of $196,436 in charge-offs is not dramatic, the real financial impact occurs in the subsequent year. That is, as a result of increased disconnection activity on the target group in 2006, the balance of the target portfolio declines significantly in the following year. Specifically, the past due balance of the target group drops to $438 in 2007 from $1,349 in 2006, an average decline of $911 per account. Assuming the same number of accounts charge-off from both categories of accounts (disconnections and closed voluntarily, then the net reduction to charge-offs is $2,923,105. A summary of the impact is shown below:

2007 Impact of Increased Disconnections in 2006

	2006 BAU	2007 BAU	2007 w/Increased Disconnections in 2006
R-3 Accounts >90 Days PD Eligible for Disconnection #:	6,236	5,545	6,086
R-3 Accounts >90 Days PD Eligible for Disconnection $:	$ 8,410,773	$ 7,562,008	$ 2,666,629
Average Balance:	$ 1,349	$ 1,364	$ 438
Reduction in Average Balance:			$ 926
R-3 Disconnections CO Bal. >$500 #:	798	759	759
R-3 Disconnections CO Bal. >$500 $:	$ 1,226,021	1,226,419	**$ 523,874**
Average Balance:	$ 1,536	$ 1,616	**$ 690**
R-3 Closed Voluntary CO Bal. >$500 #:	2,063	2,399	2,399
R-3 Closed Voluntary CO Bal. >$500 $:	$ 2,265,377	$ 2,730,113	**$ 509,553**
Average Balance:	$ 1,098	$ 1,138	**$ 212**

Total Charge-off R-3 Accounts:	$ 3,491,398	$ 3,956,532	**$ 1,033,427**
Net Reduction in Charge-offs 2007:			**$ (2,923,105)**

The example demonstrates how the company could dramatically lower charge-offs over a two year period. The key assumption with the calculation is the percentage of accounts that restore service after disconnection. The percentage used in the model is 80% (Attachment B, line 25), which assumes 80% of the accounts that are disconnected will restore service (and 20% will not pay and eventually charge-off). The typical electric utility company in the United States experiences a service restoration percentage of at least 80%. For gas utilities, the short-term restoration percentage rate (less than one year) is less than 80% and varies, primarily due to the lack of motivation some residential heat-type customers have to a restore a disconnected service in the non-heating season. Since many of these customers do not need the gas supply in the spring and summer, they simply wait until the heating season arrives to restore service with the utility. Nonetheless, the long-term restoration rate (about 12 months) for gas utilities is typically at or above 80%. For example, in 2006 the Rhode Island Division of Public Utilities and Carriers commissioned a review of the collections and terminations activities at New England Gas Company (now part of National Grid). The following quote from the report discusses New England Gas Company's disconnect-restoration experience:

> Of the 14,805 residential accounts that were SONP [shut-off for non-payment], 7,209 (48.7%) restored service by making a payment and/or establishing payment arrangements. Hence, 7,596 (51.3%) of the SONP accounts did not immediately restore service. It is assumed that many of these customers delayed restoration of service to just before the start of the next [disconnection] moratorium period (presumably, customers delay restoration to take advantage of the moratorium and avoid making payments). In fact, the company data indicates that as of January 31, 2006, all but 1,178 of these same accounts restored service. As a result, the long-term restoration rate is over 92% (i.e., 13,627 accounts ultimately restored service).

For a utility company to have long-term service restoration rate less than 75% to 80% suggests a problem with customer identification fraud. As noted in the section on New Service "Move-In" Activities, EnergyNorth did not appear to adequately investigate and verify the identity of new applicants, which increased the likelihood of potential fraudulent activity around name switching to avoid paying past due balances.

Conclusions

The hypothetical example above demonstrates how EnergyNorth could dramatically reduce its charge-offs in a two-year period. Although it is impractical to assume the company could disconnect the 6,236 accounts all at once because of resource constraints and the negative impact on the organization (as well as customer service), the example demonstrates how the company over time could have reduced its charge-offs. The main point is that the EnergyNorth had ample time in the years before the review period (i.e., July 1, 2006 to June 30, 2007) to target these types of accounts and slowly reduce the accounts receivable, especially on accounts greater 90 days past due and balances over $500.

Clearly, the company did not keep pace with the aging and past due balances growing on key types of accounts. The collection treatment strategies and disconnection activities deployed by EnergyNorth in 2006 and 2007 were deficient and mismatched for the magnitude of the aged receivables. In addition the collection and disconnect strategies were not focused on the types of accounts that represented the greatest risk for the company. Nonetheless, EnergyNorth can expect that once the number of past due accounts and past due balances are under control, its routine collection efforts such as past due notices, outbound calling campaigns and payment arrangements and disconnection notices will become more effective. The company, as well as its customers, will be better able to manage lower past due balances.

Recommended Charge-Off Amount and Ratio

The following tables summarize EnergyNorth's charge-off experience, revenues and percentages for 2005 to 2007. In addition, the same information is presented for the review period of July 1, 2006 to June 30, 2007.

2005 Charge-off Summary	Charge-off Dollars	Revenue	CO %
Residential	$ 4,638,410	$ 85,894,704	5.40%
Non-Residential	$ 379,690	$ 75,498,710	0.50%
Total	$ 5,018,100	$ 161,393,414	3.11%

2006 Charge-off Summary	Charge-off Dollars	Revenue	CO %
Residential	$ 4,392,917	$ 85,765,087	5.12%
Non-Residential	$ 387,468	$ 79,589,545	0.49%
Total	$ 4,780,385	$ 165,354,632	2.89%

2007 Charge-off Summary	Charge-off Dollars	Revenue	CO %
Residential	$ 4,776,993	$ 93,218,293	5.12%
Non-Residential	$ 715,934	$ 84,413,117	0.85%
Total	$ 5,492,927	$ 177,631,410	3.09%

July1, 2006 to June 30, 2007 Charge-off Summary	Charge-off Dollars	Revenue	CO %
Residential	$ 4,448,405	$ 90,371,960	4.92%
Non-Residential	$ 354,702	$ 83,205,754	0.43%
Total	$ 4,803,107	$ 173,577,714	2.77%

Charge-Off Residential Accounts

Based on the report analysis and conclusions, EnergyNorth had an opportunity to reduce its charge-offs on residential accounts by increasing its disconnection activities and optimizing its collection treatment strategies in the years before the review period of 2006-2007. In the previous example, an increase of 6,236 disconnections in 2006 resulted in lowering the average balance of the high-risk portfolio by $926. By increasing disconnections by about 5,826, the average balance of the high-risk portfolio is reduced to $500 (see Attachment C on page 27). In early 2006, if the company had achieved this level of average balance on its high-risk, R-3 portfolio, the net reduction to charge-offs would be $2,429,615. A summary of the impact is shown below:

2006 to 2007 Results Impact of Increased Disconnections in Previous Years	07/2006 to 06/2007 BAU *	07/2006 to 06/2007 w/Optimized Processes in Previous Years
R-3 Accounts >90 Days PD Eligible for Disconnection #:	6,236	6,096
R-3 Accounts >90 Days PD Eligible for Disconnection $:	$ 8,410,773	$ 3,045,212
Average Balance:	$ 1,349	$ 500**
Reduction in Average Balance:		$ 849
R-3 Disconnections CO Bal. >$500 #:	798	798
R-3 Disconnections CO Bal. >$500 $:	$ 1,226,021	$ **548,344**
Average Balance:	$ 1,536	$ **687**
R-3 Closed Voluntary CO Bal. >$500 #:	2,063	2,063
R-3 Closed Voluntary CO Bal. >$500 $:	$ 2,265,377	$ **513,439**
Average Balance:	$ 1,098	$ **249**
Total Charge-off R-3 Accounts:	$ 3,491,398	$ **1,061,783**
Net Reduction in Residential Charge-offs:		$ **(2,429,615)**

* 2006 data used since 2006-2007 actual data is almost identical
** Assumes a target of $500 based on optimizing processes in previous years

Charge-Off Reduction on Non-Residential Accounts

Based on the report analysis and conclusions, EnergyNorth had an opportunity to also reduce its charge-offs on non-residential accounts by increasing its disconnection activities and optimizing its collection treatment strategies in the years before the review period of 2006-2007. In the previous example for residential accounts, an increase in disconnection activity reduced the average balance of the high-risk portfolio to a target of $500. A similar analysis can be done for non-residential accounts, with an increase in disconnection activity designed to reduce the average balance of the high-risk portfolio to a target of about $1,200, the net reduction to charge-offs would be $189,172. A summary of the impact is shown below

2006 to 2007 Results Impact of Increased Disconnections in Previous Years	07/2006 to 06/2007 BAU *	07/2006 to 06/2007 w/Optimized Processes in Previous Years
Non-Res. Accounts >90 Days PD Eligible for Disconnection #**:	476	
Non-Res. Accounts >90 Days PD Eligible for Disconnection $**:	$ 1,071,476	
Average Balance:	$ 2,251	$ 1,200***
Reduction in Average Balance:		$ 1,051
Non-Residential Disconnections CO Bal. >$1,000 #:	46	46
Non-Residential Disconnections CO Bal. >$1,000 $:	$ 26,068	$ **77,722**

Average Balance:	$	2,741	$	**1,690**
Non-Residential Closed Voluntarily CO Bal. >$1,000 #:		53		53
Non-Residential Closed Voluntarily CO Bal. >$1,000 $:	$	77,357	$	**121,654**
Average Balance:	$	3,346	$	**2,295**
Total Charge-Off Non-Residential Accounts:	$	388,548	$	**199,376**
Net Reduction in Non-Residential Charge-offs:			**$**	**(189,172)**

* 2006 data used since 2006-2007 actual data is almost identical
** As of June 30, 2006
*** Average balance target of $1,200

As a result, the recommended level of charge-offs and corresponding percentage ratio is as follows:

Recommended Reduction to 2006 Charge-Offs			
	Charge-off Dollars	Revenue	CO %
Residential (Actual)	$ 4,392,917	$ 85,765,087	
Non-Residential (Actual)	$ 387,468	$ 79,589,545	
Total:	$ 4,780,385	$ 165,354,632	2.89%
Recommended Reduction (Residential):	**$ (2,429,615)**		
Recommended Reduction (Non-Res):	**$ (189,172)**		
Recommended Total:	**$ 2,161,598**	**$ 165,354,632**	**1.31%**

Attachment·A

2006 CHARGE OFF (CO) DETAIL & Key Findings

	Accounts	% of Total	Dollars	% of Total	Avg. Balance	Accts. DNP	Dollars DNP	DNP Avg. Bal.	Closed Vol. Accounts	Closed Vol. Dollars	Closed Vol. Avg. Bal.
Total Residential CO:	7,600	94.8%	$ 4,338,556	91.8%	$ 571						
Total Non-Residential CO:	413	5.2%	$ 388,742	8.2%	$ 941						
Total:	8,013	100.0%	$ 4,727,298	100.0%	$ 590						
Residential CO											
Total Residential CO:	7,600		$ 4,338,556								
Bankrupt:	77	1.0%	$ 91,382	2.1%	$ 1,187						
Closed Voluntarily:	6,650	87.5%	$ 3,057,295	70.5%	$ 460						
Disconnected for Non-Pay (DNP):	950	12.5%	$ 1,281,261	29.5%	$ 1,349						
R-1 Accounts (Res. Non-Heat):	474	6.2%	$ 100,611	2.3%	$ 212	63	$ 29,467	$ 468	411	$ 71,145	$ 173
R-3 Accounts (Res. Heat):	7,110	93.6%	$ 4,224,599	97.4%	$ 594	885	$ 1,246,255	$ 1,408	6,225	$ 2,978,345	$ 478
R-4 Accounts (Res. SSI):	16	0.2%	$ 13,345	0.3%	$ 834	2	$ 5,540	$ 2,770	14	$ 7,805	$ 558
Concord (CCD-564)	593	7.8%	$ 330,940	7.6%	$ 558	81					
Nashua (NAS-573)	2,010	26.4%	$ 1,219,854	28.1%	$ 607	194					
Manchester (MNC-586)	3,829	50.4%	$ 2,228,819	51.4%	$ 582	539					
Total (CCD, NAS & MNC):	6,432	84.6%	$ 3,779,614	87.1%	$ 588						
CO Balance Less Than $500.	4,685	61.6%	$ 792,367	18.3%	$ 169	131			4,554		
CO Balance Greater Than $500:	2,915	38.4%	$ 3,546,188	81.7%	$ 1,217	819			2,096		
CO Balance Greater Than $1000:	1,412	18.6%	$ 2,465,501	56.8%	$ 1,746	569			843		
R-3 CO Balance Greater Than $500:	2,861	37.6%	$ 3,491,397	80.5%	$ 1,220						
1 Fam Dwell Non Heat (SA Code 0010):	460	6.1%	$ 96,695	2.2%	$ 210	62	$ 29,350	$ 473	398	67,345	$ 169
1 Fam House Heat (SA Code 0151):	7,114	93.6%	$ 4,221,475	97.3%	$ 593	886	$ 1,251,534	$ 1,413	6,228	2,969,941	$ 477
All Other:	26	0.3%	20,386	0.5%	$ 784	2	$ 377	$ 188	24	20,010	$ 834
Number of Meters Outside:	4,014	52.8%									
R-1 Accounts Meters Outside:	149	31.4%									
R-3 Accounts Meters Outside:	3,857	54.2%				525			3,332		
R-4 Accounts Meters Outside:	8	50.0%									
R-3 Accounts Meters Not Outside:	3,234	45.5%				360			2,874		

2006 CHARGE OFF (CO) DETAIL & Key Findings

	Accounts	% of Total	Dollars	% of Total	Avg. Balance	Accts. DNP	Dollars DNP	DNP Avg. Bal.	Closed Vol. Accounts	Closed Vol. Dollars	Closed Vol. Avg. Bal.
Non-Residential CO											
Total Non-Residential CO:	413		$ 388,742								
Bankrupt:	12	2.9%	$ 17,754	4.6%	$ 1,480						
Closed Voluntarily:	320	77.5%	$ 231,519	59.6%	$ 723						
Disconnected for Non-Pay (DNP):	93	22.5%	$ 157,223	40.4%	$ 1,691						
G-41 Accounts (Low Load-Small):	333	80.6%	$ 259,424	66.7%	$ 779	88	$ 134,349	$ 1,527	245	$ 125,076	$ 511
G-42 Accounts (Low Load-Med.):	25	6.1%	$ 92,045	23.7%	$ 3,682	3	$ 20,573	$ 6,858	22	$ 71,471	$ 3,249
G-51 Accounts (High Load-Small):	45	10.9%	$ 19,552	5.0%	$ 434	2	$ 2,301	$ 1,150	43	$ 17,251	$ 401
All Other:	10	2.4%	17,721	4.6%	$ 1,772	0	$ -		10	$ 17,721	$ 1,772
Concord (CCD-564)	48	11.6%	$ 47,943	12.3%	$ 999						
Nashua (NAS-573)	91	22.0%	$ 62,248	16.0%	$ 684						
Manchester (MNC-586)	137	33.2%	$ 159,172	40.9%	$ 1,162						
Total (CCD, NAS & MNC):	276	66.8%	$ 269,363	69.3%	$ 976						
CO Balance Less Than $500:	242	58.6%	$ 31,585	8.1%	$ 131	13			229		
CO Balance Greater Than $500:	171	41.4%	$ 356,964	91.8%	$ 2,088	80			91		
CO Balance Greater Than $1000:	99	24.0%	$ 303,425	78.1%	$ 3,065	46			53		
G-41 CO Balance Greater Than $1000:	80	19.4%	$ 187,033	48.1%	$ 2,338						
Misc Store Heating (SA Code 0591):	290	70.2%	$ 255,068	65.6%	$ 880	77	$ 117,117	$ 1,521	213	137,951	$ 648
All Other:	123	29.8%	$ 133,674	34.4%	$ 1,087	16	$ 40,106	$ 2,507	107	93,568	$ 874
Number of Meters Outside:	336	81.4%									

Attachment B

Impact of Increased Disconnections			
			2006 EnergyNorth BAU (Business as Usual):
			Accounts Receivable April 2006:
4		7,034	R-3 Accounts >90 Days PD (Actual 2006 #)
5	$	9,636,794	R-3 Accounts >90 Days PD (Actual 2006 $)
6	$	1,370	Average Balance
			R-3 Disconnections Charge Off (CO)
9		798	R-3 Disconnections CO Bal. >$500 (2006 Actual #)
10	$	1,226,021	R-3 Disconnections CO Bal. >$500 (2006 Actual $)
11	$	1,536	Average Balance
			R-3 Closed Voluntarily Charge Off (CO)
14		2,063	R-3 Closed Voluntarily CO Bal. >$500 (2006 Actual #)
15	$	2,265,377	R-3 Closed Voluntarily CO Bal. >$500 (2006 Actual $)
16	$	1,098	Average Balance
18 (=4-9)	$	6,236	Remaining Number R-3 Accounts >90 Days PD Eligible for Disconnection
19 (=5-10)	$	8,410,773	Remaining Dollars R-3 Accounts >90 Days PD Eligible for Disconnection
20	$	1,349	Average Balance
			2006 Increased Disconnections Combined with Process Improvements:
22 (input)		6,236	Targeted Incremental Increase in Disconnections (Proposed 2006 #)
23 (22x20)	$	8,410,773	Targeted Incremental Increase in Disconnections (Proposed 2006 $)
25 (input)		80%	Service Restoration % (Industry Average)
26 (1.0-25)		20%	Non-Restoration % (1-restoration %)
27 (input)		62%	Collections from Restored Accounts % (EnergyNorth est.)
29 (22x25)		4,989	R-3 Accounts Restored after Disconnection (est.)
30 (23x25x27)	$	4,171,743	Dollars Collected from Restoration of R-3 Accounts (est.)
31 (22x26)		1,247	Additional R-3 Accounts to Charge Off (est.)
32 (20x30)	$	1,682,155	Additional R-3 Dollars to Charge Off (est.)
34 (18-31)		4,989	Remaining R-3 Accounts Active (est.)
35 (19-30-32)	$	2,556,875	New Balance Due on Restored Accounts (est.)
36	$	513	New Average Balance
38 (input)		88%	Long-Term Premise (customer) Restoration % (EnergyNorth est.)
39 (31x38)		1,098	New Customers (Replacements) on R-3 Disconnected Premises (est.)
40 (input)	$	100	Average Balance (Assumes 2006 Average Monthly Bill & account stay current)
41 (39x40)	$	109,754	Total Due on New Customers (Replacements)
43 (34+39)		6,086	Long-Term Remaining R-3 Accounts Active (est.)
44 (35+41)	$	2,666,629	Long-Term New Balance Due on Restored Accounts (est.)
45	$	438	New Average Balance
47 (20-45)	$	911	Reduction in Avg. Bal. per Active Account (est.)
48 (16-47)	$	187	New Average Balance R-3 Closed Voluntarily CO Bal >$500 (est.)
49 (14x48)	$	386,786	New Total Balance R-3 Closed Voluntarily CO Bal >$500 (est.)
			2006 Anticipated Results
51 (10)	$	1,226,021	R-3 Disconnections CO Bal. >$500 (2006 Actual $)
52 (32)	$	1,682,155	Increase in R-3 Disconnections CO Bal. >$500 (est.)
53 (51+52)	$	2,908,176	New Total R-3 Disconnection CO 2006 (est.)
54 (53-51)	$	1,682,155	Variance from Actual
56 (15)	$	2,265,377	R-3 Closed Voluntarily CO Bal. >$500 (2006 Actual $)
57 (14x48)	$	386,786	New Total Closed Voluntarily CO Bal. >$500 (est.)
58 (56-57)	$	(1,878,591)	Variance from Actual
60 (54+58)	**$**	**(196,436)**	**Total Impact to 2006 Charge Off**

Attachment C

Impact of Increased Disconnections			
			2006-2007 EnergyNorth BAU (Business as Usual):
			Accounts Receivable April 2006:
4		7,034	R-3 Accounts >90 Days PD (Actual 2006 #)
5	$	9,636,794	R-3 Accounts >90 Days PD (Actual 2006 $)
6	$	1,370	Average Balance
			R-3 Disconnections Charge Off (CO)
9		798	R-3 Disconnections CO Bal. >$500 (2006 Actual #)
10	$	1,226,021	R-3 Disconnections CO Bal. >$500 (2006 Actual $)
11	$	1,536	Average Balance
			R-3 Closed Voluntary Charge Off (CO)
14		2,063	R-3 Closed Voluntary CO Bal. >$500 (2006 Actual #)
15	$	2,265,377	R-3 Closed Voluntary CO Bal. >$500 (2006 Actual $)
16	$	1,098	Average Balance
18 (=4-9)	$	6,236	Remaining Number R-3 Accounts >90 Days PD Eligible for Disconnection
19 (=5-10)	$	8,410,773	Remaining Dollars R-3 Accounts >90 Days PD Eligible for Disconnection
20	$	1,349	Average Balance
			2006-2007 Increased Disconnections Combined with Process Improvements:
22 (input)		5,825	Targeted Incremental Increase in Disconnections (Proposed 2006 #)
23 (22x20)	$	7,856,439	Targeted Incremental Increase in Disconnections (Proposed 2006 $)
25 (Input)		80%	Service Restoration % (Industry Average)
26 (1.0-25)		20%	Non-Restoration % (1-restoration %)
27 (Input)		62%	Collections from Restored Accounts % (EnergyNorth est.)
29 (22x25)		4,660	R-3 Accounts Restored after Disconnection (est.)
30 (23x25x27)	$	3,896,794	Dollars Collected from Restoration of R-3 Accounts (est.)
31 (22x26)		1,165	Additional R-3 Accounts to Charge Off (est.)
32 (20x30)	$	1,571,288	Additional R-3 Dollars to Charge Off (est.)
34 (18-31)		5,071	Remaining R-3 Accounts Active (est.)
35 (19-30-32)	$	2,942,692	New Balance Due on Restored Accounts (est.)
36	$	580	New Average Balance
38 (Input)		88%	Long-Term Premise (customer) Restoration % (EnergyNorth est.)
39 (31x38)		1,025	New Customers (Replacements) on R-3 Disconnected Premises (est.)
40 (Input)	$	100	Average Balance (Assumes 2006 Average Monthly Bill & account stay current)
41 (39x40)	$	102,520	Total Due on New Customers (Replacements)
43 (34+39)		6,096	Long-Term Remaining R-3 Accounts Active (est.)
44 (35+41)	$	3,045,212	Long-Term New Balance Due on Restored Accounts (est.)
45	$	500	New Average Balance
47 (20-45)	$	849	Reduction in Avg. Bal. per Active Account (est.)
48 (16-47)	$	249	New Average Balance R-3 Closed Voluntary CO Bal >$500 (est.)
49 (14x48)	$	513,439	New Total Balance R-3 Closed Voluntary CO Bal >$500 (est.)
			2006-2007 Anticipated Results
51 (10)	$	1,226,021	R-3 Disconnections CO Bal. >$500 (2006 Actual $)
52 (32)	$	1,571,288	Increase in R-3 Disconnections CO Bal. >$500 (est.)
53 (51+52)	$	2,797,309	New Total R-3 Disconnection CO 2006 (est.)
54 (53-51)	$	1,571,288	Variance from Actual
56 (15)	$	2,265,377	R-3 Closed Voluntary CO Bal. >$500 (2006 Actual $)
57 (14x48)	$	513,439	New Total Closed Voluntary CO Bal. >$500 (est.)
58 (56-57)	$	(1,751,938)	Variance from Actual
60 (54+58)	$	(180,650)	**Total Impact to 2006 Charge Off**

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