

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

**Re: EnergyNorth Natural Gas, Inc.
d/b/a KeySpan Energy Delivery New England**

Indirect Gas Costs

DG 07-050

PREFILED TESTIMONY OF KIMBERLY AHERN

August 31, 2007

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1 **Q. Please state your name and business address.**

2 A. My name is Kimberly Ahern. My business address is 52 Second Street, Waltham,
3 Massachusetts 02451.

4

5 **Q. What is your position with KeySpan, and what are your responsibilities in**
6 **that role?**

7 A. I am Collections and Payment Processing Manager for New England.

8

9 **Q. Please provide your educational and professional background.**

10 A. I hold a Bachelor of Science in Business Administration from North Adams State
11 College and have twenty-one years of experience in the collections industry,
12 fifteen of which are in collections management. I have been employed with
13 KeySpan since August, 2005. I was employed at the GFA Credit Union as the
14 Collections Manager from 2003-2005, responsible for the collections of a \$100
15 million credit portfolio of consumer and commercial loans. Prior to that I was
16 employed at the Digital Federal Credit Union as the Assistant Collections
17 Manager from 2001-2003, responsible for the collections of a \$2.3 billion credit
18 portfolio of consumer and commercial loans.

19

20 **Q. Have you testified in a regulatory proceeding before?**

21 A. No, I have not.

22

1 **Q. What is the purpose of your testimony?**

2 A. My testimony responds to the prefiled testimony of Amanda Noonan of the
3 Commission staff ("Staff").
4

5 **I. Bad Debt Ratio**

6 **Q. Ms. Noonan's testimony indicated that she believed that the Company's bad**
7 **debt ratio is higher than she believes it should be. What was the basis for her**
8 **concern?**

9 A. Ms. Noonan said that she believed that the Company had experienced an increase
10 in its bad debt ratio (essentially its uncollectible account expense) because of
11 problems with its collection process. In reaching that conclusion, she relied on
12 what she concedes is anecdotal evidence as well as a comparison to Northern
13 Utilities' performance.
14

15 **Q. Do you agree with Ms. Noonan's stated concerns with the Company's bad**
16 **debt allowance that the Commission approved on a temporary basis in DG**
17 **06-121?**

18 A. No I do not.
19

20 **Q. Ms. Noonan compares KeySpan's bad debt ratio to Northern's and points**
21 **out that KeySpan's uncollectible account expense is far greater than**
22 **Northern's when there should be no difference. Do you agree with her**
23 **conclusion?**

1 A. No I do not. Ms. Noonan assumes that KeySpan and Northern should have the
2 same or similar bad debt ratios, but there is no evidence that this has ever been the
3 case. In fact, the two companies have had very different bad debt ratios since that
4 data was first used in determining indirect gas costs for collection through the two
5 companies' cost of gas rates. KeySpan's bad debt ratio was approximately three
6 times that of Northern when the companies' indirect gas costs were first
7 established in DG 00-063 and DG 00-046. According to Staff's response to Data
8 Request KeySpan 1-7, the uncollectible expense approved for Northern in its
9 revenue neutral rate redesign case, DG 00-046, was 0.33%. KeySpan's
10 uncollectible expense approved at the same time in DG 00-063 was 0.97%. These
11 ratios were both based on 1999 test year data. As is shown on Schedule KA-1, in
12 2005 (the test year for KeySpan's updated indirect gas cost filing in DG 06-121),
13 the uncollectible percentage for Northern was 0.85%, approximately 2.6 times the
14 1999 approved percentage. For the same period, KeySpan's uncollectible expense
15 percentage was 2.98%, approximately three times the percentage set in DG 00-
16 063. In other words, the two companies' uncollectible expense grew at a similar
17 pace since the test year for which the rates were originally set. In Exhibit AON-1,
18 Ms. Noonan compared the three year average of uncollectible expense for
19 Northern and KeySpan for the period 2003-2005 and noted that KeySpan's
20 average was twice that of Northern's. Ironically that represents an *improvement*
21 from the relationship at the time of the companies' revenue neutral rate cases. Far
22 from showing that KeySpan's performance has lagged Northern's, the data
23 actually shows that, when viewed on a normalized basis, KeySpan has narrowed
24 the previous historical gap between the companies.

1 **Q. What conclusions does the Company draw from this analysis?**

2 A. The relationship between KeySpan and Northern's bad debt ratio is similar for
3 1999 and 2005. Therefore, a fair conclusion would be that the economic factors
4 at work in the gas industry and the two companies' service territories have
5 affected their uncollectible expense equally.

6

7 **Q. The Company has consistently told the Staff that its uncollectible account**
8 **expense has risen substantially in recent years because of the significant**
9 **increase in gas prices that has been experienced. What did Ms. Noonan say**
10 **about this factor and what is the Company's response?**

11 A. On page 7 of her testimony, Ms. Noonan says that she does not believe that
12 KeySpan's higher level of bad debts is attributable to higher gas prices. In fact,
13 she argues that Northern "also experienced higher gas prices and continued to
14 experience lower bad debt percentages than KeySpan." However, as discussed
15 above, Northern's bad debt expense has historically been approximately 1/3 of
16 KeySpan's, even during the era of low gas prices. Therefore, it is no surprise that
17 it would continue to be approximately 1/3 of KeySpan's during the current period.
18 The significant point is that two companies have both experienced increasing
19 levels of uncollectible accounts, and the relationship between them has remained
20 remarkably similar. Moreover, it is inappropriate to compare KeySpan to
21 Northern alone, without any consideration of other gas utilities in the country.
22 The increase in write-offs experienced by KeySpan is a nationwide problem and
23 has been experienced by many utilities. According to an August 2007 report from
24 the Energy Information Association (EIA) of the United States Department of

1 Energy, many utilities have experienced rising arrears and write-offs over the
2 past 5 years. The report states:

3
4 The number of LDC natural gas customers in arrears and the dollar value
5 of the overdue accounts have been rising. Past-due accounts (arrearages)
6 and terminations are becoming more prevalent even during periods of mild
7 weather, as energy price increases have outpaced growth in household
8 incomes. The average percentage of accounts in arrears and number of
9 terminations as a percentage of total residential accounts based on an
10 industry sample, increased by 4.5 and 2.0 percentage points, respectively,
11 between 2001 and 2006. Related to these problems more households are
12 seeking assistance in paying their utility bills.

13
14 Ms. Noonan, on the other hand, offers no support for her conclusion that rising
15 gas prices are not a significant factor leading to KeySpan's increased bad debt
16 ratio.

17
18 **Q. But Ms. Noonan did provide a comparison to utilities other than Northern,**
19 **including electric utilities in New Hampshire and a number of gas utilities in**
20 **New England. What is your response to that data?**

21 A. First, although she provides that data, she does not rely on it. In her responses to
22 the Company's data requests, she makes clear that her point of comparison is only
23 Northern Utilities, because she believes it is similar to KeySpan. In her response
24 to KeySpan 1-1, Ms. Noonan stated:

25 The standard which Staff used in determining the justness and
26 reasonableness of the bad debt allowance it recommended for KeySpan
27 was the performance of other similar utilities. In Ms. Noonan's testimony,
28 KeySpan's collection performance was compared to that of Northern
29 Utilities. This comparison is appropriate because Northern and KeySpan
30 provide the same commodity service to their customers; Northern and
31 KeySpan are susceptible to the same changes in gas costs; and the income
32 characteristics of Northern's and KeySpan's service areas are very similar."

33
34 Similarly, in response to KeySpan 1-6, Ms. Noonan stated:
35

1 Page 5, lines 3-7 [of Ms. Noonan's testimony] is an acknowledgement that
2 electric and natural gas utilities provide a different product to customers.
3 Since Northern Utilities provides the same product to its customers as
4 KeySpan, KeySpan's collection performance and bad debt percentage was
5 compared to that of Northern Utilities rather than that of New Hampshire's
6 electric distribution utilities.
7

8 These responses are attached to my testimony as Schedules KA-2 and KA-3.

9 Given that Ms. Noonan is relying on Northern as her point of comparison and
10 recognizes that the data she provides for other utilities is not comparable, it is
11 clear that the electric utility data is not relevant to the issues in this case.
12

13 **Q. What other concerns do you have about the data for other utilities that Ms.**
14 **Noonan included with her testimony?**

15 **A.** As I just noted, Ms. Noonan is relying on a comparison to Northern Utilities only.
16 Yet, in Exhibit AON-1, she provides data on uncollectible account expense for
17 eleven other gas companies in New England as well. The data has no value for
18 several reasons. First, as Ms. Noonan indicated in discovery, she is not relying on
19 the data, but only on a comparison to Northern. Second, the average figure for the
20 eleven utilities in the rest of New England is 2.52%, almost exactly the figure set
21 by the Commission on a temporary basis in this case (which was 2.54%), and not
22 far below KeySpan's actual experience. (It is worth noting that in some
23 jurisdictions, such as Massachusetts, gas utilities can obtain warrants to gain
24 access to customer premises to shut off service. This is an example of why one
25 cannot simply compare the performance of utilities across state borders. One
26 would expect to see relatively lower uncollectible account percentages for utilities
27 in states where such mechanisms are available.) Third, in order to make any

1 meaningful use of the data in the exhibit, one would need to know a lot more
2 about how the figures are computed, and how uncollectible account expense is
3 booked by each utility.

4

5 **Q. If the relationship between Northern's and KeySpan's experienced bad debt**
6 **ratios has remained practically unchanged since they were first approved by**
7 **the Commission, what conclusion do you reach about the two companies'**
8 **service territories?**

9 A. The Company believes there are demographic or other differences in the service
10 territories served by these two companies that have caused this historical
11 disparity. For example, the Company compared the current enrollment for the
12 low income discount rates that both KeySpan and Northern began offering in
13 November 2005. In 2006, 7.5 % of KeySpan's residential heating customers
14 enrolled for the discount rates, while only 3.5% of Northern's customers enrolled.

15

16 **Q. But Ms. Noonan observes that the percentage of families living in poverty is**
17 **similar in the KeySpan's and Northern's service territories. Doesn't that**
18 **demonstrate that there is no significant demographic difference between the**
19 **two?**

20 A. No, it does not. Ms. Noonan compared the number of families living below the
21 poverty line, as set forth in her Exhibit AON-2. However, that data is not fuel
22 specific, and therefore may not be reflective of the actual experience of the gas
23 companies being compared. As noted above, the Company has experienced a far
24 higher participation level in its low income program than Northern has in its

1 program. Those figures are obviously fuel specific and relate directly to the
2 customer base of the two gas companies being compared. That difference
3 provides strong support for the conclusion that KeySpan's service territory has a
4 substantially higher level of families whose limited incomes make it difficult to
5 pay their gas bills.

6
7 **II. Collections Procedures/Process**

8 **Q. Ms. Noonan's testimony argues that problems with KeySpan's collections**
9 **practices are the reason for an unacceptably high bad debt ratio.. What is**
10 **your response?**

11 A. Ms. Noonan begins by stating that the Commission's Consumer Affairs Staff
12 "receives a few hundred calls from KeySpan customers each year." The
13 implication is that the Commission receives a disproportionate number of calls
14 relating to KeySpan. In fact, data obtained from Staff during discovery reveals
15 that, as a percentage of total customers, the Commission actually receives *fewer*
16 calls from KeySpan customers relating to billing and collection issues than for
17 Northern Utilities. As is shown on Schedule KA-4, the percentage of customers
18 calling the Commission with billing and collection problems is consistently lower
19 for KeySpan than it is for Northern. If Ms. Noonan's comment that the
20 Commission "receives a few hundred calls from KeySpan's customers each year"
21 was intended to imply that the Company accounts for a disproportionate number
22 of billing and collection issues for the Commission, the facts show just the
23 opposite. With a customer base three times that of Northern, it is no surprise that
24 Ms. Noonan would observe that her office receives more calls for KeySpan on an

1 absolute basis than for Northern, but drawing a negative inference from that fact
2 is unfounded. The information about customer calls provides no support for her
3 claim that KeySpan's higher bad debt experience is a result of poor collections
4 performance, and actually supports the conclusion that KeySpan is doing a good
5 job in handling collections.

6 After citing the total number of calls her office receives, Ms. Noonan then focuses
7 on three accounts that she claims are illustrative of what she calls "the apparent
8 lack of collection activity" by the Company. Specifically, on page 4 of her
9 testimony, Ms. Noonan states that "[t]hese three examples clearly illustrate the
10 poor collections performance of KeySpan," yet the accounts she has included in
11 her testimony are not examples of typical overdue accounts. Rather, the selected
12 accounts represent three of the Company's largest overdue residential customer
13 accounts. Far from being illustrative, the accounts are, in fact, atypical. The
14 implication of Ms. Noonan's testimony is that KeySpan ignored these accounts
15 and allowed them to grow out of control.. In fact, the Company made extensive
16 efforts to collect the past due amounts from these customers. The account history
17 for each of these accounts is attached as Schedule KA-5. These histories show
18 repeated efforts to contact the customers and collect payment. Ms. Noonan
19 asserts that two of the three accounts had outside meters and should have been
20 shut off when the accounts weren't paid. In fact, all three accounts had *inside*
21 meters located in the basement of the buildings. (Ms. Noonan's testimony
22 indicates that the Staff was told that the meters for two of the customers were
23 outside. Unfortunately, I have no way to explain the disparity between the notes
24 that Ms. Noonan's office maintains and the fact that the Company's records clearly

1 show that the meters are located inside.) In each case, despite repeated visits to
2 the premises, KeySpan was unable to gain entry. Finally, to shut off one of the
3 three customers the Company went so far as to install a curb valve, which is a
4 significant expense that is hard to justify in all but the most extreme cases. In
5 sum, the three customers that Ms. Noonan included in her testimony are not
6 typical of KeySpan customers with overdue accounts. They do, however,
7 illustrate the Company's significant collections efforts and the obstacles it faces
8 in many cases.

9
10 **Q. Ms. Noonan also cites to KeySpan's use of disconnect notices and customer**
11 **terminations to support her argument. What is your response to that?**

12 A. Ms. Noonan states in her testimony that "In May 2006, Northern sent out twice as
13 many notices as KeySpan. While Northern sent out fewer notices than KeySpan
14 between August 2006 and November 2006, the difference was not particularly
15 significant." However, Ms. Noonan does not provide the dollar amount
16 associated with the termination notices. It is the dollar amount of overdue
17 accounts that is related to bad debt expense, not the number of notices sent.
18 Moreover, on an annualized basis, KeySpan sent out only slightly fewer notices
19 than Northern; 1.8% as a percentage of total bills versus 2.4% for Northern. This
20 difference is not surprising given KeySpan's practice of focusing more attention in
21 its collections process on larger overdue accounts.

22 With regard to the number of service disconnections by each company, Ms.
23 Noonan notes that Northern terminates .3% of customers as a percent of bills
24 while KeySpan terminates .15%. However, service terminations alone are not an

1 indication of collection effectiveness or ineffectiveness related to bad debt. When
2 field jobs are assigned, there are many outcomes that occur, one of them being
3 terminations, others are “payment received” (the desired outcome), “can’t get in”,
4 and “refusal of access”. All of these, plus the dollars owed on accounts
5 terminated must be weighed as part of a meaningful analysis. The Company does
6 not have access to Northern’s data to complete such an analysis.

7
8 **Q. Ms. Noonan raised questions about whether KeySpan's process for following**
9 **up on customers who fall behind in payments is sufficient. Please describe**
10 **that process, so the Commission is more directly familiar with it.**

11 A. KeySpan’s collection system is a risk-based program that incorporates different
12 actions based on the likelihood of payment versus write-off of an account. The
13 idea is to make the collections process as cost effective as possible. KeySpan’s
14 customer information system creates “risk scores” for customers with overdue
15 accounts by quantifying customer attributes and behaviors such as age of the
16 unpaid bill, the amount of arrears, prior credit and payment history, etc. The risk
17 score is continually re-evaluated and can move higher or lower based on new
18 customer behavior.

19 Generally, collections activity on overdue accounts is progressive—beginning
20 with dunning notices, moving to outbound collection calls, proceeding to
21 disconnect notification and door to door field collection including locking for
22 non-payment or leaving door hangers if the customer was not at home, notifying
23 the customer that a field representative was there and requesting that they contact
24 KeySpan immediately. The Company will also initiate litigation to recover

1 unpaid bills where it believes the customer has assets. Telephone representatives
2 are trained to educate customers about what assistance may be available from
3 federal, state and local agencies as well as KeySpan sponsored programs such as
4 the low income discount rate.

5
6 **Q. Please explain how KeySpan manages its accounts receivable.**

7 A. KeySpan manages and performs reviews on its accounts receivable portfolio on a
8 daily, monthly and “as needed” basis. For New England, this is done by the
9 Collections Department in Waltham. On a monthly basis, KeySpan's Collection
10 Management Team reviews certain key collection performance indicators for the
11 New England region. This includes accounts receivable (number and dollars of
12 overdue accounts in aging and indebtedness categories), accounts on agreements
13 (number, value and default rates), terminations (number and value),
14 reconnections, outbound collection call results (number contacted and dollars
15 collected) and write offs (number and value). For New Hampshire specifically, a
16 KeySpan Collection Management Analyst prepares the monthly report to the
17 Public Utilities Commission, and the report is reviewed by the Collection
18 Manager. This report is specific to residential customers and includes number of
19 terminations, number of reconnections, numbers and dollars of write offs.
20 Detailed action plans are then prepared by the Collection Management Team to
21 address negative trends that may be noted. On a monthly basis the Company
22 reviews the results of outbound collection calling efforts. On a daily, weekly and
23 monthly basis, the Company actively manages, reviews and works its accounts
24 receivable through the following processes:

1 1) Field Activity – The CRIS Customer System is programmed to produce
2 final demand notices for each regional area assigned to field collection
3 staff based on the highest dollar and oldest aged accounts. This schedule
4 and programming is reviewed by the management team on a regular basis
5 to ensure that there are adequate jobs available for the field with the most
6 critical accounts (high dollar and aged receivables) being chosen first by
7 the system. The termination jobs are dispatched to field collectors daily
8 from the Collections back office to ensure that the appropriate accounts
9 are being worked in the field. Accounts are assigned to the field by
10 highest balance and oldest aged account. Performance as compared to
11 goals is reviewed on a weekly and monthly basis.

12
13 2) High Risk Collections – Collections staff are assigned on a daily basis
14 to work all accounts greater than \$2500. When the collections efforts for
15 higher balance accounts have been exhausted, the Company then focuses
16 increased attention on lower balance accounts.
17
18

19 **III. Response to Staff Recommendation**

20 **Q. Ms. Noonan and Mr. McCluskey recommend that KeySpan's bad debt**
21 **percentage be set at 1.54%. Do you agree with this recommendation?**

22 **A.** No. A fair examination of KeySpan's collections performance reveals that
23 KeySpan's experience is consistent with national trends and the historical
24 performance of EnergyNorth versus Northern Utilities. The Staff's
25 recommendation is arbitrary, capricious and unsupportable with any meaningful
26 analysis.
27

28 **Q. What bad debt percentage does the Company recommend for approval?**

29 **A.** The Commission should approve the Company's bad debt ratio at a level of
30 2.98%, as originally filed, consistent with the actual test year data.

31 **Q. Does that conclude your testimony?**

32
33 **A.** Yes.