STATE OF NEW HAMPSHIRE
before the
PUBLIC UTILITIES COMMISSION

Public Service Company of New Hampshire
Request for Permanent Distribution Rates Change

Docket No. DE 12-110

Supplemental Technical Statement of

Robert A. Baumann and Stephen R Hall

I. Introduction

On April 27, 2012, PSNH filed with the Commission its proposal for changes to its distribution rate level effective July 1, 2012. That proposal included a step increase for changes to PSNH's net plant in service, recovery of the cost of a consultant's review of PSNH's uncollectible expense, and a revision to the funding level of the Major Storm Cost Reserve.

With respect to the consultant's review of PSNH's uncollectible expense, PSNH stated that under the Settlement Agreement approved by the Commission in Docket No. DE 09-035, the Settling Parties agreed that PSNH would hire a consultant to conduct a review of PSNH's uncollectible expense and to make recommendations on steps PSNH could take to reduce that expense. The Settlement Agreement further provided that PSNH could seek recovery of the cost of the consultant through one of the step increases specified thereunder.

PSNH explained that the consultant, Monticello Consulting Group, had completed six of the nine work requirements specified in its agreement with PSNH for consulting services.

II. Status of Consultant's Review

PSNH is pleased to report that Monticello has now completed all of the work requirements. On May 16, 2012, PSNH, Monticello, the Commission's Staff and the Office of Consumer Advocate met for the purpose of Monticello presenting its findings and recommendations. Monticello has also completed its final report, which is attached hereto as Attachment 1.

Monticello has also submitted a final invoice for its services to PSNH. The total cost of Monticello's services was $70,920.86, which is less than the $72,000 PSNH estimated at the time of the April 27, 2012 filing, and which was included in PSNH's work papers that calculated the amount of the distribution rate increase PSNH proposed for effect on July 1, 2012. PSNH has determined that the difference of $1,079.14 will not affect the ultimate distribution rate change for effect July 1 as the difference is too small to be reflected in rates due to rounding.

Attachment 1

MONTICELLO
Consulting Group Limited

Monticello Consulting Group

A Review and Assessment of Credit and Collections at Public Service Company of New Hampshire

May 16, 2012

Presented to:

Northeast Utilities/Public Service Company of New Hampshire

New Hampshire Public Utilities Commission

New Hampshire Office of Consumer Advocate

Presented by:

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Executive Summary

The Public Service Company of New Hampshire ("PSNH") and the New Hampshire Public Utility Commission ("NHPUC") agreed to select an independent consultant to review trends in PSNH's uncollectible expense, review and assess the Company's credit and collections performance and provide recommendations to improve charge-off expense. In August 2011, Monticello Consulting Group ('Monticello") was awarded the bid contract.

Monticello worked with PSNH staff to obtain historical data and other information on company policies, procedures, work practices, reports and volumes of collection activity. Monticello also conducted on-site interviews at PSNH's offices in Manchester, NH. Data and other information were gathered from the Company's outside collection agencies and the NHPUC Staff. Monticello reviewed and analyzed the data and information gathered to determine the trends in charge-offs, PSNH's credit and collections performance and develop recommendations for improvement.

During 2006-2011, PSNH charged-off 94,078 accounts totaling $33.2M. Nearly 92% of the total accounts and 86% of the total dollars charge-off were on residential accounts. During the same period, PSNH charged off 4,638 residential accounts with balances greater than $1,000, totaling $7.6M (average balance of $1,636). A residential account with a charge-off balance of $1,636 represents about 14-15 months of worth of arrearage. During 2006-2011, the Company also charged off 1,125 non-residential accounts with balances greater than $1,000, totaling $3.2M (average balance of $2,861). A non-residential account with a charge-off balance of $2,861 represents about 5-6 months of worth of arrearage.

For the period 2006-2008 compared to period 2009-2011, the average number of residential accounts charged-off increased 88% and the dollars charge-off increased 117%. For the period 2006-2008 compared to period 2009-2011, the average number of non-residential accounts charged-off increased 142% and the dollars charge-off increased 175%. In comparing the charge-off data from the 2006-2008 and 2009-2011 periods, it appears that some type of event occurred in, roughly, mid-year 2008, which significantly increased the number of accounts and dollars charged-off.

In June of 2010, the Company deployed a new Customer Information and Billing System ("CIS") and much of the pre-conversion account-level customer data is not available. During July 2008-2011, of the total residential dollars charged-off ($12.2M) with account balances greater than $500, 60% ($7.3M) closed voluntarily; and 40% ($4.9M) PSNH disconnected for non-payment. During the same period, of the total non-residential dollars charged-off ($2.5M) with account balances greater than $1,000 ($2.5M), 91% ($2.3M) closed voluntarily; and 9% ($0.2M) PSNH disconnected for non-payment. The segmentation by balance range and disconnection type provides insight into the delinquency of accounts at the time of disconnection and the Company's collection performance. By calculating the average charged-off balance on the type of account (i.e., residential vs. non-residential), by balance range (i.e., >$500) and by the type of disconnection (i.e., closed voluntarily or DNP), the average arrearage can be estimated for each segment.

The historical average monthly bill for each type of account is used to estimate the arrearage. In 2010, the average monthly bill on a residential account was $100, and the average monthly bill on a non-residential account was $476. As a result, during July 2008-2011, a residential account with an average charge-off balance of $975 was about eight to nine months past due. During the same period, a non-residential account with an average charge-off balance of $2,872 was about five to nine months past due. In theory, PSNH could lower total charge-offs by reducing the average balance on each of these higher balance accounts by an amount equivalent to one monthly bill. For example, PSNH could reduce its charge-offs by nearly $1.7M by reducing the average balance on just 20% of the total residential accounts and 15% of the total non-residential accounts charged-off.

Residential accounts traditionally removed from PSNH's collection cycle due to special classification did not have a major impact on total charge-offs. For example, during July 2008-2011, of all the residential accounts charged-off with balances greater than $500, less than 5% of the accounts and 5% of the dollars were a result of a bankruptcy. Medical Emergency accounts accounted for less than 4% of the accounts and 6% of the dollars. In addition, Hardship accounts accounted for about 22% of the accounts and about 22% of the total dollars charge-off.

The economic downturn that started in 2008 certainly had an impact on customers and their ability to pay. However, the swift increase in charge-offs between 2008 and 2009 suggests the Company's CIS conversion impacted collection treatment activity. Specifically, as a result of the Company's system conversion in 2008, the Company's collection treatment activity started approximately two (2) weeks later on 60%-75% of the delinquent customer base. Adding to the increase in charge-offs, PSNH reduced collection activity (i.e., notices and DNPs) following the deployment of its CIS system in June 2008.

Since the 2008 system conversion, PSNH's collection activities have normalized to pre-conversion levels. The Company's charge-offs have also leveled off. When compared to other utility companies in the U.S., PSNH ranks good to excellent in its use and execution of external tools and technologies, internal tools, solutions and collection strategies and its adherence to the NHPUC Rules and Regulations. Nonetheless, there are a number of opportunities to improve performance and lower future charge-off expense. For example, PSNH can enhance its account initiation process to improve the identification of applicants and reduce fraud. PSNH also can enhance its collection treatment processes and strategies on active accounts, including accelerating collection action by as much as 30 days on certain delinquent accounts. In addition, the Company can enhance collection processes during the Winter Period. Increasing the number of security deposits on certain customer accounts is also an opportunity. Finally, PSNH should open discussions with the NHPUC regarding changes to several existing Rules and Regulations.

Background

Pursuant to the Settlement Agreement on Permanent Rates approved in the Public Service of New Hampshire Rate Case (DE 09-035) was a requirement that the Settling Parties agreed to select an independent consultant to review trends in PSNH's uncollectible expense. In June 2011, PSNH and Northeast Utilities ("NU") issued a Request for Proposal (RFP) for "Audit and Consulting Services for Credit & Collections." In August 2011, Monticello Consulting Group ("Monticello"), headquartered in Charleston, SC, was selected as the winning bidder in the RFP process.

Audit Objectives

As noted in Section 8 of the Settlement Agreement, the audit project objectives are as follows:

1. Review and analyze trends in charge-offs
2. Determine root-cause(s) on increase in charge-offs
3. Review PUC rules and regulations impacting charge-offs

4. Review collections practices and performance
5. Review deposit and credit policy for large commercial customers
6. Provide recommendations to improve charge-off expense

Project Overview

After the contract award, Monticello worked with NU and PSNH staff to obtain historical data and information on company policies, procedures, work practices, reports and volumes of collection activity. In addition, PSNH provided a historical data file containing account-level detail on all charged-off accounts during 2006-2011. Monticello conducted on-site interviews and weekly conference calls with PSNH staff to obtain information and refine insights. Several working sessions were conducted with NU and PSNH staff to obtain information and further refine insights. Monticello also worked with NU's four outside collection agencies to obtain data related to collection and recovery data, which was not readily available from internal Company sources. Finally, Monticello conducted several phone interviews with the New Hampshire Public Utilities Commission Staff to gain insights related to rules and regulations.

Project Approach

To achieve the project objectives, Monticello reviewed and analyzed the following historical data and information to determine the following:

1. Determine the historical, account-level gross COs by account type, number, dollars & average balance
2. Determine historical, account-level collection activity applied by PSNH
3. Determine historical, account-level outcomes & customer behavior resulting from collection activity previously applied
4. Determine which types accounts, collection activities & customer behavior contribute most to charge-off volumes (number & dollars)
5. Determine which PUC rules, & company policies, procedures, practices and systems contribute most to charge-off volumes

Charge-Off Summary, 2006-2011

During 2006-2011 (November YTD), PSNH charged-off 94,078 accounts totaling $33.2M. Nearly 92% of the total accounts and 86% of the total dollars charged-off were on residential accounts. Conversely, 8% of the total accounts and 14% of the total dollars were on non-residential accounts. Attachment 1 shows the 2006-2011 summary data, residential vs. non-residential. In addition, Attachment 1 provides a further breakdown of charge-offs by balance range. The overall average balance of all charged off accounts for the period is $353. The average charge-off balance for residential and non-residential accounts is $331 and $603, respectively.

During 2006-2011, PSNH charged off 16,752 residential accounts with balances greater than $500, totaling $15.9M (average balance of $949). During the same period, PSNH charged off 4,638 residential accounts with balances greater than $1,000, totaling $7.6M (average balance of $1,636). By segmenting the Company's charge-offs by balance range allows for further perspective relative to the average arrearage per account when compared to the average monthly bill. Attachment 2 shows the Company's historical average annual bills for both residential and non-residential accounts. The Company's 2010 average monthly bill data is also included. In 2010, the average monthly bill for a residential account was $105. As a result, a residential account with a charge-off balance of $1,636 represents about 14-15 months of worth of arrearage.[1]

During 2006-2011, PSNH charged off 2,049 non-residential accounts with balances greater than $500, totaling $3.9M (average balance of $1,886). During the same period, PSNH charged off 1,125 non-residential accounts with balances greater than $1,000, totaling $3.2M (average balance of $2,861). In 2010, the average monthly bill for a residential account was $422. As a result, a non-residential account with a charge-off balance of $2,861 represents about 5-6 months of worth of arrearage.[2]

Trends in Charge-Offs, 2006-2011

Residential Accounts

Attachment 3 shows the 2006-2011 trends in PSNH's residential charge-offs. For the period 2006-2008 compared to period 2009-2011, the average number of accounts charged-off increased 88%. Likewise, for the same period comparison, the average total dollars charged-off increased 117%. PSNH experienced similar percentage increases on all the segmented balance ranges (i.e., <$500, >$500 & >$1,000). In fact, for the same time comparison, the greater than $1,000 balance range shows the highest percentage increases, 207% and 244% for the average number of accounts and total dollars charged-off, respectively.

Non-Residential Accounts

Attachment 4 shows the 2006-2011 trends in PSNH's non-residential charge-offs. For the period 2006-2008 compared to period 2009-2011, the average number of accounts charged-off increased 142%. Likewise, for the same period comparison, the average total dollars charged-off increased 175%. PSNH experienced similar percentage increases on all the segmented balance ranges (i.e., <$500, >$500 & >$1,000). In fact, for the same time comparison, the greater than $1,000 balance range shows similar percentage increases of 136% and 142% for the average number of accounts and total dollars charged-off, respectively.

In comparing the charge-off data from the 2006-2008 and 2009-2011 periods, it appears that some type of event occurred in, roughly, mid-year 2008, which significantly increased the number of accounts and dollars charged-off.

Charge-Offs by Disconnection Type, July 2008-2011

[1] Average residential monthly bill in 2010: $105. Therefore, an account with a charge-off amount of $1,636/$105 = 15.58 months (i.e., current bill + 14 month's past due = $105 + [$105 x 14] = $1,575)

[2] Average non-residential monthly bill in 2010: $422. Therefore, an account with a charge-off amount of $2,861/$422 = 6.78 months (i.e., current bill + 5 month's past due = $422 + [$422 x 5] = $2,532)

In June of 2010, the Company deployed a new Customer Information and Billing System ('CIS"). As a result, much of the pre-conversion account-level data was not available for analysis by Monticello. Consequently, most analysis shown in the subsequent sections of this report is from the July 2008-2011 period.

Residential Accounts

Attachment 5 shows the July 2008-2011 residential charge-offs by disconnection type, with balances greater than $500. Closed voluntarily is defined as any account that is closed in any manner other than disconnected for non-payment ("DNP"). From July 2008-2011, of all the residential accounts charged-off with balances greater than $500 (12,549 accounts), 63% (7,888 accounts) closed voluntarily; and 37% (4,661 accounts) PSNH disconnected for non-payment. During July 2008-2011, of the total residential dollars charged-off ($12.2M) with account balances greater than $500, 60% ($7.3M) closed voluntarily; and 40% ($4.9M) PSNH disconnected for non-payment.

In addition, Attachment 5 shows the average balance of $929 and $1,052 for residential accounts closed voluntarily and DNP, respectively. The segmentation by balance range and disconnection type provides insight into the delinquency of accounts at the time of disconnection and the Company's collection performance. Specifically, there were 7,888 accounts with an average balance of $929 that closed voluntarily. These accounts, on average, were about seven to eight months past due when they closed.[3] In theory, had these same 7,888 accounts closed with an average balance of $829 (i.e., lower by one month's average bill), the total dollars charged-off during the period would be reduced by $789K.[4] Likewise, there were 4,661 accounts with an average balance $1,052 that PSNH disconnected for non-payment. These accounts, on average, were about eight to nine months past due when they were disconnected for non-payment.[5] By using the same analysis, had these same 4,661 accounts been disconnected one month earlier, the total dollars charged-off during the period would be reduced by over $466K. The combined potential impact from improving performance on both types of accounts is over $1.25M.

Similarly, Attachment 6 shows the July 2008-2011 residential charge-offs by disconnection type, with balances greater than $1,000. During July 2008-2011, of all the residential accounts charged-off with balances greater than $1,000 (3,679), 56% (2,059 accounts) closed voluntarily; and 44% (1,620 accounts) PSNH disconnected for non-payment. During July 2008-2011, of the total residential dollars charged-off ($6.1M) which have account balances greater than $1,000 ($6.1M), 55% ($3.4M) closed voluntarily; and 45% ($2.8M) PSNH disconnected for non-payment.

Non-Residential Accounts

Attachment 7 shows the July 2008-2011 non-residential charge-offs by disconnection type, with balances greater than $1,000. During July 2008-2011, of all the non-residential accounts charged-off with balances greater than $1,000 (865), 90% (776 accounts) closed voluntarily; and 10% (89 accounts) PSNH disconnected for non-payment. During July 2008-2011, of the total non-residential dollars

[3] Average residential monthly bill in 2009: $100. Therefore, an account with a charge-off amount of $929/$100 = 9.29 months (i.e., current bill + 8 month's past due = $100 + [$100 x 8] = $900)

[4] 7,888 accounts x $100 residential average monthly bill (2009) = $788,800

[5] Average residential monthly bill in 2009: $100. Therefore, an account with a charge-off amount of $1,052/$100 = 10.52 months (i.e., current bill + 9 month's past due = $100 + [$100 x 9] = $1,000)

charged-off ($2.5M) with account balances greater than $1,000 ($2.5M), 91% ($2.3M) closed voluntarily; and 9% ($0.2M) PSNH disconnected for non-payment.

In addition, Attachment 7 shows the average balance of $2,922 and $2,437 for non-residential accounts closed voluntarily and DNP, respectively. Specifically, there were 776 accounts with an average balance $2,922 that closed voluntarily. These accounts, on average, were about five to six months past due when they closed.[6] In theory, had these same 776 accounts closed with an average balance of $2,446 (i.e., lower by one month's average bill), the total dollars charged-off during the period would be reduced by $369K.[7] Likewise, there were 89 accounts with an average balance $2,437 that PSNH disconnected for non-payment. These accounts were about four to five months past due when they were disconnected for non-payment.[8] By using the same analysis, had these same 89 accounts been disconnected one month earlier, the total dollars charged-off during the period would be reduced by over $42K. The combined impact from improving performance on both types of accounts is over $400K.

Charge-Offs by Customer Type, July 2008-2011

The purpose of the analysis in the previous section is to illustrate the potential financial impact of reducing the average balance of a relatively small percentage of accounts. In this case, PSNH could have reduced its charge-offs by nearly $1.7M by reducing the average balance on just 20% of the total residential accounts and 15% of the total non-residential accounts charged-off. Some assumptions also can be made of the Company's potential to improve collection performance. In order to refine the analysis, however, further account segmentation is required. Specifically, in order to estimate the level of collection performance historically possible, and which accounts were available for collection treatment activity, certain types of customer account statuses need to be identified, since certain types of account statuses prevent (i.e., usually temporarily) collection activity. For example, accounts coded as Hardship, Medical Emergency and accounts with active payment arrangements are pulled out of the collection cycle.

Attachment 8 shows the July 2008-2011 residential charge-offs by customer type, with balances greater than $500. During July 2008-2011, of all the residential accounts charged-off with balances greater than $500 (12,549 accounts), less than 5% of the accounts (597) and 5% of the dollars ($662K) were a result of a bankruptcy. Medical Emergency accounts accounted for less than 4% of the accounts (465) and 6% of the dollars ($777K). In addition, Hardship accounts accounted for about 22% of the accounts (2,705) and about 22% of the dollars ($2.7M). The remaining residential accounts can be classified as "standard" residential customers, with no "protected" classification. After subtracting protected class accounts from the total, PSNH charged-off 8,782 standard residential accounts totaling $8.1M. Of the 8,782 standard accounts charged-off, 62% (5,418) closed voluntarily, and 38% (3,364) were DNP. Likewise, of the $8.1M charged-off on standard accounts, 58% ($4.7M) closed voluntarily, and 42% ($3.4M) were DNP.

Residential Medical Emergency Accounts, 2008-2011 (balances >$500)

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[6] Average non-residential monthly bill in 2009: $476. Therefore, an account with a charge-off amount of $2,922/$476 = 6.14 months (i.e., current bill + 8 month's past due = $476 + [$476 x 5] = $2,856)

[7] 766 accounts x $476 non-residential average monthly bill (2009) = $369,376

[8] Average non-residential monthly bill in 2009: $476. Therefore, an account with a charge-off amount of $2,437/$476 = 5.12 months (i.e., current bill + 4 month's past due = $476 + [$476 x 4] = $2,380)

Attachment 9 shows the 2008-2011 charge-offs from Medical Emergency accounts, with balances greater than $500. Of the Medical accounts with balances greater than $500, PSNH charged-off a total of 478 accounts totaling $795K. In 2008, PSNH charged-off 28 Medical accounts. In 2011 (November YTD), PSNH charged-off 207 Medical accounts, a 639% increase. The dollars charged-off on Medical accounts represents less than 4% of total residential charge-offs for the period.

Residential Hardship Accounts, 2008-2011 (balances >$500)

Attachment 10 shows the 2008-2011 charge-offs from Hardship accounts, with balances greater than $500. Of the Hardship accounts with balances greater than $500, PSNH charged-off a total of 2,800 accounts totaling $2.8M. In 2008, PSNH charged-off 293 Hardship accounts. In 2011 (November YTD), PSNH charged-off 962 Hardship accounts, a 228% increase. The dollars charged-off on Hardship accounts represent about 20% of the total residential charge-offs for the period.

Non-Residential Bankruptcy, July 2008-2011 (balances >$1000)

Attachment 11 shows the July 2008-2011 non-residential charge-offs from bankruptcy, with balances greater than $1,000. During July 2008-2011, of all the non-residential accounts charged-off with balances greater than $1,000 (865 accounts), about 20% of the accounts (170) and 21% of the dollars ($662K) were a result of bankruptcy. After subtracting the bankruptcy accounts from the total, PSNH charged-off 695 non-residential accounts totaling $1.96M. Of the 695 accounts charged-off, 88% (612) closed voluntarily, and 12% (83) were DNP. Likewise, of the $1.96M charged-off on non-residential accounts, 89% ($1.76M) closed voluntarily, and 11% ($216K) were DNP.

Review and Analysis of Charge-Off Trends

Based on the review of the 2006-2011 charge-off data, it is evident that some type of event occurred in mid-year 2008 which increased the number of accounts and dollars charged-off. The increase in charge-offs is clearly evident across both residential and non-residential accounts, as well as across all balance ranges. An analysis of the monthly and annual bills does not show any direct correlation between bills and charge-off trends. In fact, since 2006, the average annual bill of a non-residential account shows a 21% downward trend, compared to a 135% increase in charged-off dollars between 2008 and 2009.

The economic downturn that started in 2008 certainly had an impact on customers and their ability to pay. However, the swift increase in charge-offs between 2008 and 2009 suggests an internal event, or series of events, is the primary driver of the increase. It turns out that in June 2008, PSNH deployed a new CIS system, including a new collection system. As a result of the system conversion, the Company’s collection treatment activity started approximately two weeks later on 60%-75% of the delinquent customer base. Specifically, before June 2008, the previous system allowed for earlier collection treatment action due to different system-generated collector and billing routes. A two-week delay in collection treatment action could explain much of the increased charge-offs which occurred starting in 2008.

Adding to the increase in charge-offs, PSNH reduced collection activity following the deployment of its CIS system in June 2008. For instance, Attachment 12 shows the 2006-2011 annual number of disconnection notices. Between 2007 and 2008, the number of disconnection notices on residential accounts declined 14% (31,282). For the same period comparison, the number of disconnection notices on non-residential accounts declined 38% (26,737). In 2009, the volume of disconnection notices continued to decline from 2008 levels on both residential and non-residential accounts. In 2010, disconnection notice volumes started to increase. In addition, the number of disconnections for non-payment declined. Attachment 13 shows the 2006-2011 disconnection and restoration data. Between 2007 and 2008, the number of disconnection notices declined 21% (4,246).

Furthermore, after the system conversion, PSNH appears to have relaxed its policy on payment arrangements, allowing customers to renegotiate payment plans multiple times. Attachment 14 shows the 2008-2011 residential customers with 3 or more broken payment plans. Between 2008 and 2009, the number of residential customers with 3 or more broken plans increased 238% (2,048). Attachment 15 shows the 2008-2011 non-residential customers with 2 or more broken payment plans. Between 2008 and 2009, the number of non-residential customers with 2 or more broken plans increased 107% (97). Since 2009, however, the Company appears to have re-tightened its policy on payment plans, dropping 2011 volumes below 2008 levels.

Review and Analysis of PSNH's Current Credit and Collection Practices

Account Initiation

Attachment 16 compares PSNH's account initiation practices to the common practices currently found in the utility industry. Specifically, as shown in the table, the Company utilizes and effectively executes most of the tools, technologies, practices and strategies available from external sources (i.e., third-party solution providers), internal practices commonly found at other utility companies, and procedures required by the PUC Rules and Regulations. Notwithstanding the Company's current practices, however, there are several of areas where PSNH could improve future performance. The last column of the table shows the specific areas where PSNH could add to or modify its current practices to improve future performance. Each opportunity is discussed in more detail below:

1. Credit risk evaluation—PSNH could benefit from external tools and technologies designed to assess a new residential applicant's credit risk.These tools and technologies are widely available and commonly used throughout the utility industry. Credit scoring is typically used to determine whether or not an applicant is assessed a security deposit and may be used to determine subsequent collection treatment strategies based on credit risk (i.e., risk of default).
2. Fraud detection technologies—PSNH could benefit from external tools, technologies and solutions that help detect fraudulent applications for new service, including name switching on premises with delinquent balances. For example, if the Company is not able to initially validate an applicant's identity, the applicant's previous address along with date of birth or driver's license can be sent (electronic, real-time) to a third-party provider (e.g., Experian) for an additional ID verification attempt.
3. Security deposits on residential accounts—although PSNH currently assesses a security deposit on all applicants for non-residential service, the Company could mitigate risk by assessing a security deposit on certain high-risk applicants for residential service. The specific financial opportunity related to deposits is detailed in the next section on Active Account Collection and Customer Management.
4. Require two forms of ID for certain applicants—for those applicants the Company is not able to validate positive identification, PSNH could require an applicant to provide two forms of identification (e.g., driver's license, passport, Social Security Card, military ID, etc.)

5. Fraud investigation and strategies—on applicants suspected of fraudulent activity or on service locations with recent adverse conditions, such as a termination notices, DNP, high outstanding balance due, usage on an inactive meter or theft of service. Where adverse conditions exist, PSNH could require applicants to demonstrate that they reside at the service location and have not benefited from the service provided to the previous accountholder.

6. Balance transfers—although a common practice among utility companies, PSNH's historical charge-off data suggests that residential, high-balance transfers (i.e., >$500, transferred open-final balances and charged-off balances) often default and subsequently charge-off, on average, about six months after the original transfer date.[9]

7. Denial of Service (Puc 1203.15)—PSNH currently adheres to the Rule as written, and based on its understanding of the Commission staff's definition of a "reasonable" payment arrangement pursuant to Puc 1203.07. Specifically, PSNH does not deny service to residential applicants who have an outstanding balance from a prior service. Rather, PSNH allows applicants, regardless of previous payment history and outstanding balances, to negotiate payment arrangements to obtain service. Nonetheless, the Company's historical charge-off data suggests that certain high-balance/high-risk customers often apply for new service with an outstanding balance and then negotiate payment arrangements, transfer the outstanding balance and subsequently charge-off again. As a result of the circumstances and impact to the Company's charge-offs, it is an opportunity for PSNH to open discussions with Commission Staff on future potential changes to the Rule (and Puc 1203.07).

8. Payment Arrangements (Puc 1203.07)—as detailed in paragraph above, there is an opportunity for PSNH to improve customer payment behavior and improve charge-off performance by limiting payment arrangements on certain applicants and active customers with delinquent balances. As a result, it is an opportunity for PSNH to open discussions with Commission Staff on future potential changes to this Rule.

Active Account Collection and Customer Management

Attachment 17 compares PSNH's active account collection practices to the common practices currently found in the utility industry. Specifically, as shown in the table, the Company utilizes and effectively executes most of the tools technologies, practices and strategies available from external sources (i.e., third-party solution providers), internal practices commonly found at other utility companies, and procedures required by the PUC Rules and Regulations. Notwithstanding the Company's current practices, however, there are several of areas where PSNH has an opportunity to improve future performance. The last column of the table shows the specific areas of opportunity for PSNH. Each opportunity is discussed in more detail below:

[9] During 2006-2011, 1,022 "transfer" accounts (charge-off balances >$500) charged-off with a total balance of $1,570,567 (average balance of $1,537). The original transferred balances on those accounts increased 45% (original transfer balance of $1,086,266 and average balance of $1,063). Over 50% of the accounts (515 accounts) made no payments after the original balances were transferred to active accounts. The accounts remained active an average of only 183 days after the original balance transfer—approximately the time required for PSNH to fully execute its collection strategies and effect a disconnection for non-payment Note: at the time of a balance transfer, PSNH's CIS billing system recognizes transferred dollars as a current receivable vs. recognizing the arrearage according to the appropriate aged receivable category and original billing period. This system process delays collection activity on transferred aged balances.

1. Risk monitoring on large commercial/industrial accounts— PSNH could benefit from external tools, technologies and solutions that help detect credit risk (i.e., payment default and bankruptcy) of large commercial and industrial customers. These tools and technologies are commonly used throughout the utility industry.

2. Collection strategy execution—although PSNH effectively executes its current collection treatment strategies, it has an opportunity to further improve performance by refining the execution of some of its collection strategies. Attachment 18 shows the Company's current collection timeline for a typical, residential account with progressive monthly delinquency (i.e., no payments). The example shows the monthly bill amounts, past due balances and due dates. Once the delinquency reaches 68 days past due, the account enters the Company's collection system; and on day 70, collection activity starts with the mailing of a DNP notice. The DNP process continues until the account is disconnected and reconnected or closed.

   However, PSNH could accelerate the residential collection timeline by as much as 30 days. Attachment 19 shows the same collection timeline example with the account entering the Company's collection system on day 38, a full month earlier. This accelerated collection treatment timeline is in accordance with the Disconnection of Service Rules (Puc 1203.11 (g) 1). Attachment 19 also lists several potential types of high-risk accounts that could be targeted for accelerated collection, including customers with a high level of default risk. Accelerating collection by up to 30 days on certain high-risk accounts could significantly reduce the Company's future charge-offs, since a two-week collection delay in 2008 was responsible for much of the past increase in charge-offs.

   PSNH also has the opportunity to reduce future charge-offs by modifying its collection practices during the Winter Period. Currently, the Company sends DNP notices and bills only for the incremental amount above the minimum balance requirements established under Puc 1204 Winter Rules (note: the Company's practice is to add $25 to minimum balance required under the Rule). For example, during the Winter Period, a residential heat customer with a $500 arrearage is currently sent a DNP notice for $25 (minimum balance for collection action set by Puc 1204.03 (a) 3 is $450; and PSNH adds $25). However, the Company could send the customer a DNP notice for $500, a differential of $475.

3. Behavioral scoring—the Company has an opportunity to further refine its collection and account management by utilizing its behavioral scoring methodology.

4. Payment arrangements—the Company should to continue its recent performance relative to limiting the number of broken payment arrangements.

5. Deposits-existing accounts—PSNH has an opportunity to improve performance by increasing the number of security deposits assessed on certain active delinquent residential and non-residential accounts. For example, during July 2008-2011, if PSNH had secured deposits on 33% of the residential accounts with charge-off balances >$500 (excluding Hardship customers), the Company could have reduced charge-offs by $768,942.[10] Similarly, during the same period, if

[10] During July 2008-2011, there were 9,589 "standard" (non-hardship customers) residential charged-off accounts with balances greater than $500, which did not have a security deposit applied after closing. The total amount charged-off on these accounts was $9,220,953 (average balance of $962). Therefore, 9,589 (accounts) x 0.33 (estimated penetration level) = 3,164 (security deposits) x $243 (average security deposit) = $768,942. Note: security deposit estimate is based on the second and third highest average residential monthly bill in 2010 ($122 & $121, respectively).

PSNH had secured deposits on 33% of the non-residential accounts with charge-off balances greater than $1,000, the Company could have reduced charge-offs by $245,461.[11]

6. Legal collections—The Company has an opportunity to improve performance by increasing its legal collections activity on active accounts, including high-balance/high-risk accounts which are "protected" from disconnection for non-payment (i.e., Medical Emergency accounts).
7. Performance measurement, management & reporting—PSNH has an opportunity to improve performance by enhancing its ability to measure and report its active customer accounts receivable arrearage buckets in 30-day increments (i.e., current due to 360+ days vs. current due to 120+ days) by customer class. In addition, the Company has an opportunity to enhance its collection performance by segmenting all measurement and reporting of collection treatment activities and outcomes by the number of accounts, dollars, and average balance, as well as by the type of account (i.e., residential vs. non-residential).
8. Interpretation of Puc Rules & Regulations—PSNH has an opportunity to improve collection performance and customer account management by adjusting its collection practices to the maximum allowed under the existing NHPUC Rules and Regulations. For example, as discussed above, the Company could accelerate collection activity by 30 days on residential accounts. Also, the Company could bill and collect for the entire amount of arrearage due during the Winter Period vs. its existing practice of billing only for the incremental amount above the minimum. In addition, PSNH's current policy regarding the criteria for assessing a security deposit on an existing customer consists of a warning letter, plus at least 7 DNP notices within a 12 month period while Puc 1203.03 requires only 4 DNP notices within a 12 month period.
9. Deposits-Existing Service (Puc 1203.03)—as noted above, PSNH has an opportunity to improve performance by increasing the number of security deposits assessed on certain active delinquent residential and non-residential accounts. The current Rules require certain circumstances (i.e., number of DNP notices in last 12 months) be met before a deposit can be required. As a result, PSNH has an opportunity to open discussions with Commission Staff regarding future potential changes to number and type of delinquency circumstances required for assessing a security deposit on existing service.
10. Payment Arrangements (Puc 1203.07 & Puc 1204.04)—PSNH should open discussions with Commission Staff on future potential changes to this Puc 1203.07, including the definition of "reasonableness" of a payment arrangement, as well as further clarification of the following:
    a. 1203.07 c (1), Size of the arrearage
    b. 1203.07 c (3), Customer's payment history
    c. 1203.07 c (4), Amount of time that the arrearage has been outstanding
    d. 1203.07 c (6), Customer's ability to pay

[11] During July 2008-2011, there were 805 non-residential charged-off accounts with balances greater than $1,000, which did not have a security deposit applied after closing. The total amount charged-off on these accounts was $2,320,461 (average balance of $2,883). Therefore, 805 (accounts) x 0.33 (estimated penetration level) = 266 (security deposits) x $924 (average security deposit) = $245,461. Note: security deposit estimate is based on the second and third highest average non-residential monthly bill in 2010 ($464 & $460, respectively).

In addition, PSNH should open discussions with Commission Staff on future potential changes to this Puc 1204.04, including the benefit and effectiveness of current requirements for down payments and extended payment terms on both standard and financial Hardship customers.

11. Rules and Regulations related to Financial Hardship and Medical Emergency Customers—the prolonged economic downturn, as well as the Company's recent trend in increasing arrearages and charge-offs on protected class customers, suggests PSNH and Commission Staff could examine existing Rules and Regulations reflect current conditions. For example, the recent increase in the number of accounts claiming a Medical Emergency and the subsequent high arrearage balances suggests some customers are obtaining the Medical Emergency status fraudulently or as a way to avoiding paying their bill. As a result, PSNH should open discussions with Commission Staff on future potential changes to the classification and treatment of protected class customers.

Inactive Account Collection and Recovery

Attachment 20 compares PSNH's inactive account collection and recovery practices to the common practices currently found in the utility industry. Specifically, as shown in the table, the Company utilizes and effectively executes most of the tools, technologies, practices and strategies available from external sources (i.e., third-party solution providers), internal practices commonly found at other utility companies. Unlike active accounts, however, there are no PUC Rules and Regulations related to closed accounts. Notwithstanding the Company's current practices, there are several of areas where PSNH has an opportunity to improve future performance. These specific areas of opportunity are summarized in the next section on recommendations.

Summary of Recommendations to Reduce Charge-Off Expense (and Improve Performance)

As noted, PSNH utilizes and effectively executes most of the credit, collections, recovery and customer account management practices commonly found in the utility industry today.

Account Initiation

1. Assess the credit risk of new customer applicants by utilizing a credit score
2. Utilize fraud detection technologies and solutions
3. Obtain security deposits on certain high-risk residential accounts
4. Require two forms of identification for residential applicants not able to validate positive identification through tradition methods
5. Develop additional fraud investigation techniques and strategies, especially where adverse conditions exist
6. Review and re-valuate the benefit of transferring outstanding balances to new accounts from old accounts, particularly high-balances transfers
7. Consider requesting changes to Denial of Service (Puc 1203.15)
8. Consider requesting changes to Payment Arrangements (Puc 1203.07)

Active Account Collection and Customer Management

9. Utilize credit risk technologies and solutions for large commercial and industrial customers
10. Accelerate collection timeline by 30 days on certain residential delinquent accounts
11. During the Winter Period, revise practice of collecting only the incremental amount above the actionable minimum balance set by the PUC and the Company
12. Utilize existing behavioral scoring methodology to enhance collection treatment strategies, including accelerated timeline on residential accounts
13. Continue to limit the number of renegotiated payment plans after broken by the customer
14. Require security deposits on certain delinquent residential and non-residential customers
15. Utilize legal collection strategies on seriously delinquent active accounts, including account protected from disconnection for non-payment (i.e., Medical Emergency accounts)
16. Revise CIS /accounting system to age transferred dollars to reflect actual time period of billed revenue
17. Enhance measurement and reporting of AR buckets out to 360+ days past due
18. Enhance measurement and reporting of collection activities and outcomes by the number of accounts, dollars and average balances, as well as by type of account (residential vs. non-residential)
19. Continue to scrutinize written Puc Rules and Regulations and adjust collection strategies to the maximum level allowed.
20. Require payment of restoration fees before service reconnection after a DNP
21. Consider requesting changes to Deposits-Existing Service (Puc 1203.03)
22. Consider requesting changes to Payment Arrangements (Puc 1203.07 and Puc 1204.4)
23. Consider requesting changes to Rules and Regulations related to Financial Hardship and Medical Emergency customers

Inactive Account Collection and Recovery

24. Measure, monitor, manage and report CACS accounts (i.e., accounts from the collection system) and C2 accounts (i.e., accounts from the CIS system) as separate programs
25. Consider eliminating the final bill reminder notice on CACS and other high-risk accounts
26. Measure all agency performance by monthly-batch comparison
27. Measure, monitor, manage and report residential account performance separately from non-residential account performance
28. Consider eliminating the tertiary and late-stage agency programs due to low yield performance
29. Consider implementing a warehouse ("trigger") program after end of secondary program
30. Establish an agency champion-challenger competition in each agency program (i.e., Early-Out, Primary and Secondary)

31. Use market share of placements to reward best-performing agencies
32. Use Opportunity-Cost analysis to performance manage the agencies
33. Eliminate inconsistent commission fees within each agency program
34. Reduce time accounts worked by agencies in each program
35. Publish monthly KPIs
36. Publish monthly scorecards to promote agency competition
37. Eliminate upstream agencies working same accounts downstream
38. Obtain consistent reports from agencies
39. Obtain data integrity reports from agencies
40. Use reports to enhance future performance and strategies (i.e., stratification)
41. Develop/enhance legal collection program
42. Consider a third-party “middleware” collection agency management solution