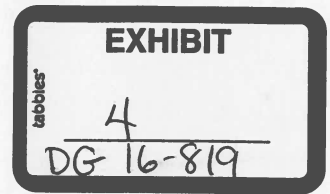


Northern Utilities, Inc.
Docket No. DG 16-819
2016-2017 Winter & Summer Cost of Gas
NHPUC Commission Record Request



Received: October 11, 2016
Request No. Record Request 1

Date of Response: October 20, 2016
Witness: David Chong

Request

- (a) Provide the Company's actual bad debt for each of the last five years.
- (b) State the Company's bad debt as a percentage of annual revenue.
- (c) Explain the steps taken by the Company to reduce bad debt.
- (d) The Company is only seeking to recover a portion of bad debt expense through the cost of gas. How does the Company recover the remainder?
- (e) What incentives does the Company have to reduce its bad debt?

Response:

- (a) Please see RR-1 Attachment 1.
- (b) Please see RR-1 Attachment. As this Attachment indicates, the Company's annual bad debt expense is consistently below 1% of total annual revenues.
- (c) In addition to proactively providing customers with tools and information to manage their accounts and avoid arrearages, the Company has a multi-step program in place for maximizing the collection of receivables from customers with delinquent balances and reducing bad debt. The goal of this program is to enable customers with delinquent balances the ability to avoid disconnection and continue to receive gas service while meeting their payment obligations. A summary of the program is provided in RR- 1 Attachment 2.
- (d) Northern recovers non-distribution / supply related bad debt expenses through its cost of gas consistent with the settlement agreement approved in the Company's 2011 base rate case, DG 11-069. Distribution bad debt expenses are recovered in base rates and reflect write-offs for monthly customer charges, distribution charges and Local Distribution Adjustment Clause charges. The amount of distribution bad debt expense included in Northern's overall annual revenue requirement as approved in the Company's most recent base rate proceeding, DG 13-086, is \$229,098.
- (e) The Company is financially incentivized to pursue collections and minimize and manage its bad debt in the cost of gas in several ways. First, as a regulated utility, the Company's practices, procedures and policies for collecting bad debt are subject to Commission rules and regulations and are regularly reviewed and critically evaluated by the Commission Staff, the Office of Consumer Advocate, and the Commission in the rate setting process. The Company adheres to all applicable rules and regulations and utilizes best practices in the management and recovery of bad debt. Second, the Company is financially incentivized to manage bad debt to avoid loss of income. Lower bad debt expense contributes to higher net income for the Company, and aggressive collection of outstanding

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amounts receivable results in increased cash flow, leading to lower borrowing costs for the Company. Because distribution bad debt expense is recovered in base rates, the Company is incentivized to manage these costs on a bundled basis with supply-related bad debt, as any recovery is attributed pro-rata to the components of bad debt (e.g. cost of gas, base rates), as are losses. Finally, the Company does not earn a return in its cost of gas. As such, the Company is incentivized to minimize its bad debt and avoid the losses that would be attributed (pro rata) to the base rate delivery component on which Company does earn a return.

The Company would welcome an opportunity to meet with the Commission or representatives from the Commission's Consumer Division to discuss these questions in more detail

Northern Utilities
New Hampshire Division
Annual Bad Debt and Revenues
(November through October)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Total Bad Debt Incurred	\$524,094	\$338,785	\$361,786	\$607,154	\$536,057
Total Revenues	\$55,965,374	\$49,196,570	\$49,880,677	\$64,951,948	\$72,135,998
Bad Debt as a % of Revenues	0.94%	0.69%	0.73%	0.93%	0.74%
Supply Related Bad Debt	\$266,232	\$215,445	\$194,751	\$337,854	\$284,325
Supply Related Revenues	\$ 36,761,766	\$ 28,793,213	\$25,359,979	\$34,265,354	\$37,422,522
Bad Debt as a % of Revenues	0.72%	0.75%	0.77%	0.99%	0.76%

Northern Utilities, Inc. ("Unitil" or the "Company") employs a variety of measures to maximize collections of receivables and reduce bad debt. Customer specific measures include the following:

- Invoices are mailed out monthly so the customer is aware of any past due balance;
- All accounts with a delinquent balance that meet the criteria established by New Hampshire Public Utilities Commission ("PUC") rules, and are not protected from disconnection pursuant to said rules, receive a disconnect notice requiring that the customer pay the delinquent balance before the scheduled disconnection date or call the Company to discuss a payment plan;
- If the past due location is a master meter (e.g., a single meter that serves a multi-unit property), the property is posted to advise tenants of potential disconnection of service;

The Company also communicates regularly with its customers via bill messages, bill inserts, newsletters, and its website, and shares tools and information that enable customers to manage their accounts, including a budgeting tool, payment plan options, and information regarding the discount program and financial assistance.

In addition to the steps outlined above, the Company performs a monthly review of commercial customer accounts to identify commercial customers that have received four or more disconnect notices in a twelve month period. Unitil sends a deposit warning letter to such customers notifying them that if their outstanding balance is not paid within 30 days, the Company will assess a deposit to their account.

When a customer calls the Company in response to a disconnect notice or to otherwise address a delinquency, we review several options with the customer to resolve the delinquency, including full payment and sufficient partial payment coupled with a payment plan for the balance. Monthly letters are mailed to customers on any standard payment plan to remind them of payment amounts and due dates to encourage timely payments. The Company may also refer customers to "211" for contact information regarding discounted rates, financial assistance and energy efficiency programs.

When Unitil learns that a customer is protected from a service disconnection per PUC rules, the Company codes customers' accounts accordingly to prevent disconnect notices, but continues to work with the customers to set reasonable payment arrangements. Such efforts include monthly outbound calls to customers to discuss payment and plans and bi-monthly letters to customers to discuss payment and plans.

When a customer remains delinquent two days before the scheduled disconnection date, the Company will make an outbound call to attempt to secure payment and discuss the customer's options. If an adequate payment is not received, an acceptable payment plan is not established, or the Company does not determine that the customer is protected from disconnection, the Company issues a disconnection work order to shut off the customer's service.¹

¹ If a disconnection work order is issued during the Winter Moratorium, the Company makes contact with an adult resident of the property prior to disconnecting service.

If, after an account is shut off for non-payment, the customer calls and makes a full or otherwise sufficient payment, the Company will reinstate service to the customer and may assess a deposit to their account and establish a payment plan for any remaining balance. If the customer does not respond, the Company closes the account and mails a final bill to the customer. If the customer does not make payment on the final bill, the Company mails an additional reminder notice and makes an outbound call to the customer to request payment or establish a reasonable payment plan.

It is only after the Company receives no response to its proactive steps that the customer account is referred to a Collection Agency and the receivables are classified as bad debt.