

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

**EnergyNorth Natural Gas, Inc. d/b/a National Grid NH**

**Docket DG 10-017**

**Testimony  
OF  
Bruce A. Gay**

October 22, 2010

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2

3 **Q. Please state your full name, business address and title.**

4 A. My name is Bruce A. Gay. My business address is 4209 Buck Creek Court, North  
5 Charleston, South Carolina 29420. I am President of Monticello Consulting Group,  
6 Limited.

7

8 **Q. Please describe your educational background and professional experience.**

9 A. I received a Bachelor of Business Administration from the Wharton School, University of  
10 Pennsylvania in 1986 and an M.B.A. from Rensselaer Polytechnic Institute in 1990. In  
11 2002, I founded Monticello Consulting Group. Since 2002, I have provided accounts  
12 receivable management consulting and advisory services to utility companies, utility  
13 commissions, telecoms and other utility industry related companies. Since founding  
14 Monticello Consulting, I have developed and managed client relationships with  
15 numerous utility companies and utility Commissions in the United States and Canada.  
16 My work is exclusively related to credit, collections, recovery and performance  
17 improvement in the electric and gas utility industries. Prior to starting Monticello  
18 Consulting, I worked at PECO Energy Company (Exelon Corp.) for five years, where I held  
19 several positions, primarily in the accounts receivable area.

20

21 **Q. Have you previously testified before this Commission or any other regulatory agency?**

22 A. Yes. I have provided testimony and completed various investigative reports for several  
23 state utility Commissions, including New Hampshire Public Utilities Commission, Maine  
24 Public Utilities Commission and the Rhode Island Division of Public Utilities and Carriers.

25

26 **Q. What was the nature of your previous testimony and reports for the Commissions?**

27 A. My previous work was related to the investigation and assessment of accounts  
28 receivable management practices and performance of an electric or gas utility regulated  
29 by a state Commission. In several instances, my work included recommendations for an

1 appropriate level of bad debt. In January 2009, I completed a report for NHPUC Docket  
2 DG 08-009, which included a recommendation on an appropriate level of bad debt for  
3 EnergyNorth Natural Gas, Inc. d/b/a National Grid.

4

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

6 A. First, I will discuss the direct testimony of Ms. Tracy McCarthy as it relates to  
7 EnergyNorth's ("Company") historical management and performance of its delinquent  
8 and uncollectible accounts. I will specifically discuss her testimony regarding factors  
9 placing an upward pressure on the Company's level of uncollectible accounts, and the  
10 Company's limited ability to anticipate or control the increase in uncollectible accounts.  
11 In addition, I will also discuss her testimony on the Company's recently implemented  
12 and planned initiatives designed to respond to the increase in charge-offs. Second, I will  
13 discuss the direct testimony of Mr. Mark Hirschey. I will specifically discuss his  
14 testimony regarding:

- 15 • The Company's collection practices as compared to industry practices
- 16 • The relationship between the Company's level of charge-offs and the impact  
17 from the incidence of inside meters, customer transiency, seasonal  
18 differences in gas usage, customer payment arrangements, winter  
19 disconnection moratorium, actionable time available to perform  
20 disconnections for non-payment and the effectiveness of disconnections for  
21 non-payment
- 22 • Criticisms of Monticello's previous report (i.e., DG 08-009)
- 23 • The lost revenue from increased disconnection activity
- 24 • The estimated financial impact of the Company's implemented and planned  
25 initiatives

26 Finally, I will discuss and recommend an uncollectible rate for the Company's test year.

27

28 **Q. Has the Company experienced an increase in the amount of charge-offs over the past  
29 several years?**

30 A. Yes. This is discussed in Ms. McCarthy's testimony. The Company indicates that its net  
31 charge-offs have increased to \$5,763,008 in 2009, from \$3,909,930 in 2005 (i.e., 47.4%

1 increase). The Company attributes the increase in charge-offs to factors out of its ability  
2 to control, including increases in gas commodity costs, the recent economic downturn,  
3 increases in unemployment rates and increased financial burden on its customers due  
4 to competing expenses. In addition, Ms. McCarthy notes that winter weather, as well as  
5 the level of governmental assistance available to aid customers can impact the level of  
6 charge-offs.

7

8 **Q. Is the Company proposing any regulatory or rate changes in this proceeding to protect**  
9 **its shareholders from increases in uncollectibles?**

10 A. Yes. The Company has proposed to make uncollectibles related to gas costs, which  
11 represents approximately 75% of test year revenue, subject to reconciliation. Under the  
12 Company's proposal if net charge-offs increase, the Company will be able to recover  
13 approximately 75% of that increase through a timely increase in gas rates. Mr. Frink's  
14 testimony recommends uncollectible costs beyond the Company's control related to gas  
15 costs be subject to reconciliation, whereby that portion of the uncollectibles would be  
16 recognized as an indirect gas cost and recovered through gas rates. Increases in charge-  
17 offs beyond the Company's control attributed to the commodity would be reconciled  
18 annually and recovered through the cost of gas reconciliation process. Since the issue is  
19 addressed in Mr. Frink's testimony, I do not address it here.

20

21

22 **II. UNCOLLECTIBLE EXPENSE PERFORMANCE**

23

24 **Q. Do you agree with the Ms. McCarthy's testimony that the Company had limited ability**  
25 **to anticipate or control the increase in charge-offs over the last five years?**

26 A. No I do not. While external factors can have an impact on a utility customer and their  
27 ability to pay their bills, the primary factor in anticipating and controlling charge-offs is a  
28 company's ability to manage its accounts receivable portfolios. Fundamentally, it is a  
29 utility company's *ability* to collect its billed revenue that is equally as important as an  
30 individual customer's ability to pay. Generally, customers that struggle to pay their bills  
31 have money to pay some creditors, but not all their creditors. As a result, those

1 struggling customers juggle payments and often pay the creditors that are first in line or  
2 the creditors that can cause the most pain by stopping services or other punitive  
3 actions. This observable fact is known as the concept of “share of wallet.” The best  
4 performing utility companies understand the share of wallet concept and manage their  
5 accounts receivable portfolios accordingly. That is, the best performing utilities are first  
6 in line for their customer’s available funds. In addition, the best performing creditors  
7 manage customer’s behavior by limiting growth in past-due balances which helps  
8 customers manage their accounts before high balances cause the account to become  
9 unmanageable.

10

11 In the Company’s case, it did not effectively monitor or manage its accounts receivable  
12 portfolios (i.e., residential and non-residential). As I will demonstrate later, since at  
13 least 2005, the Company either ignored or failed to take action on thousands of  
14 accounts and millions of dollars that were at risk of default in its active accounts  
15 receivable portfolios. The number of active, past-due accounts and dollars were  
16 increasing years before the start of the recession in 2008. In addition, the number of  
17 accounts and dollars charged-off were also increasing years before the start of the  
18 recession. The Company should have recognized the financial risk associated with it  
19 aging and increasing accounts receivable portfolios. Future external events, such as an  
20 economic recession, add a level of uncertainty and increase the financial risk associated  
21 with payment default rates. For this reason, the Company should have anticipated and  
22 planned for the numerous external events that historically occur. Specifically, the  
23 Company should have mitigated its risk by reducing the number of accounts and dollars  
24 at risk in its accounts receivable portfolios.

25

26 **III. IMPACT TO CHARGE-OFFS FROM GAS COSTS AND ECONOMY**

27

28 **Q. Do you agree with Ms. McCarthy’s position that increases in gas commodity costs over**  
29 **the last number of years contributed to the escalation of charge-offs?**

30 A. No I do not. Although commodity prices experienced volatility over the last decade,  
31 there is little evidence that increased commodity costs caused an increase in the

1 Company's charge-offs. In spite of the Company's discussion and charts (i.e., TBM-2)  
2 suggesting a relationship between the cost of gas adjustment rates and charge-offs,  
3 there is no evidence that an increase in commodity costs *caused* the increase in charge-  
4 offs.

5  
6 By reviewing the historical average monthly bills of customers, the impact of price  
7 changes can be analyzed. Prices increases are almost immediately reflected in  
8 customers monthly bills (i.e., typically not much longer than one month, depending on  
9 the date of increase and the Company's billing cycle). By examining the average  
10 monthly bills, the actual dollar increase per month for a typical customer can be put into  
11 perspective. Attachment MCG-1 shows the Company's annual average monthly bill for  
12 residential heat customers (rate: R-3) for 2005-2009. In 2005, the Company's average  
13 monthly bill for a residential heat customer is \$106. In 2006, the average monthly bill  
14 for the same customer is \$105, about one dollar less per month. When adjusted for  
15 inflation, the 2006 bill is \$103, about three dollars less per month. The variation in the  
16 average monthly bills in subsequent years is marginal. In fact, when adjusted for  
17 inflation, the variation is only a few dollars per month, plus or minus. In comparison,  
18 during the same period, the Company's gross charge-off dollars on residential heat  
19 accounts increased to \$5.8M from \$4.1M, representing a 40.4% increase. In addition,  
20 during the same period, the number of accounts charged-off (gross) on residential heat  
21 accounts increased to 8,200 from 6,500, representing a 27.6% increase.

22 To the extent there was variation in the commodity price, it did not have a significant  
23 impact on the average monthly bill. Therefore, it is clear that any increases in  
24 commodity prices did not contribute in any meaningful way to the significant increase in  
25 charge-offs for the same period.

26  
27 Likewise, Attachment MCG-2 shows the Company's annual average monthly bill for non-  
28 residential customers for 2005-2009. In 2005, the Company's average monthly bill for a  
29 non-residential customer is \$608. In 2006, the average monthly bill for the same  
30 customer is \$632, about a \$24 increase per month. When adjusted for inflation, the  
31 2006 bill is \$617, about a \$9 increase per month or about 1.5%. In 2007, there is an

1 increase in the monthly bill (over 2005) of \$54 (\$20, when adjusted for inflation), or  
2 about an 8.8% increase (3.3%, when adjusted for inflation). Subsequent years show a  
3 decrease in the monthly bill. In comparison, during the same period, the Company's  
4 gross charge-off dollars on non-residential accounts increased to \$611,126 from  
5 \$311,213, representing a 96.7% increase. In addition, during the same period, the  
6 number of accounts charged-off (gross) on non-residential accounts increased to 523  
7 from 345, representing a 51.6% increase. As with residential accounts, to the extent  
8 there was variation in the commodity price, it did not have a significant impact on the  
9 average monthly bill. Therefore, it is clear that any increases in commodity prices did  
10 not contribute in any meaningful way to the significant increase in charge-offs for the  
11 same period.

12  
13 Attachment MCG-3 further demonstrates the lack of a causal relationship between  
14 commodity price increases and increased charge-offs. MCG-3 shows the Company's  
15 historical "current" billed receivables bucket (i.e., 0-30 days) for residential heat  
16 customers for April 2006 through December 2009. Since the current receivable bucket  
17 does not contain any past due accounts or balances, it is a good representation of  
18 average monthly bills. The monthly average balance is relatively consistent over time.  
19 In fact, the overall trend-line shows little or no growth. Given that the average monthly  
20 bills are relatively flat over time, it is simply incorrect to state that commodity prices  
21 placed upward pressure on the average monthly bills and ultimately resulted in an  
22 increase in residential charge-offs.

23  
24 Likewise, Attachment MCG-4 demonstrates the lack of a causal relationship between  
25 commodity price increases and increased charge-offs. MCG-4 shows the Company's  
26 historical "current" billed receivables bucket (i.e., 0-30 days) for non-residential heat  
27 customers for April 2006 through December 2009. Since the current receivable bucket  
28 does not contain any past due accounts or balances, it is a good representation of  
29 average monthly bills. Unlike residential heat accounts, the monthly average balance  
30 on non-residential accounts is declining over time. In fact, the overall trend-line shows a  
31 declining growth in average balance. In light of that, there is no support for the



1 allegation that non-residential charge-offs are higher because commodity prices placed  
2 upward pressure on the average monthly bills .  
3

4 **Q. Do you agree with Ms. McCarthy that the economic environment in New Hampshire**  
5 **has had a major impact on the Company's collections?**

6 A. The economic downturn has impacted the Company and its customers. However, the  
7 magnitude of the impact was greater than it should have been due to the Company's  
8 handling of its accounts receivable portfolios in the months and years before the start of  
9 the recession in 2008. As noted, the Company either ignored or failed to take action on  
10 thousands of accounts and millions of dollars that were at risk of default in its active  
11 accounts receivable portfolios. As a result, delinquent account balances were allowed  
12 to grow to unmanageable levels. Customers with high balance accounts could no longer  
13 afford to pay and the Company could not collect. Once the recession took hold, many of  
14 these customers could not keep up with payments. The recession pushed some  
15 struggling customers over the edge.

16  
17 Despite the Company's testimony regarding the impacts from the economy, highly  
18 delinquent residential accounts invariably result from a utility company's poor  
19 performance in managing its accounts receivable portfolios, not external factors such as  
20 economic conditions. A review of the Company's accounts receivable portfolio  
21 between 2006 and 2009 will illustrate the point. In April of 2006, approximately two  
22 years before the start of the recession, the Company had 2,770 active residential heat  
23 accounts with arrearages greater than 180 days past due. The total due on these  
24 accounts was about \$4.5 million,<sup>1</sup> or \$1,612 per account. A year later, in April of 2007,  
25 the Company had 2,919 active residential heat accounts with arrearages greater than  
26 180 days past due. The total due on these accounts was about \$4.7 million, or \$1,596  
27 per account. In April of 2008, at about the start of the recession, the Company had  
28 3,317 active residential heat accounts with arrearages greater than 180 days past due.  
29 The total due on these accounts was about \$5.4 million, or \$1,630 per account. Clearly,  
30 the Company failed to control the number of accounts and dollars flowing into

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<sup>1</sup> Total due estimated based on actual average month bill for R-3 rate class.

1 arrearages greater than six months old. In fact, the accounts receivable trend  
2 continues. In April of 2009, the Company had 3,899 active residential heat accounts  
3 with arrearages greater than 180 days past due. The total due on these accounts was  
4 about \$6.7 million, or \$1,724 per account.

5

6 **Q. Do you agree with Ms. McCarthy's testimony suggesting that bankruptcies have or will**  
7 **significantly impact the Company's level of collections and charge-offs?**

8 A. No I do not. While a bankruptcy is an unfortunate situation that the Company and a  
9 small number of its customers must manage, the overall financial exposure to the  
10 Company is limited. For example, in 2009, there were 81 charge-offs totaling \$80,143  
11 which resulted from personal bankruptcies; and 10 charge-offs totaling \$3,768, which  
12 resulted from business bankruptcies. These bankruptcies account for only a small  
13 fraction of the total volume of the Company's charge-offs. Nonetheless, the financial  
14 risk related to personal bankruptcies can be minimized by reducing the number of  
15 accounts and dollars in arrears when a bankruptcy filing occurs (i.e., the bankruptcy  
16 petition date). That is, since it is difficult to predict a future personal bankruptcy, the  
17 Company should minimize its risk by keeping the number of accounts and dollars from  
18 rolling into older past-due buckets. Utility companies with well-managed accounts  
19 receivable portfolios minimize the number of accounts and dollars past-due, which  
20 minimizes the overall average balance of delinquent accounts. So, when a bankruptcy  
21 does occur, the balance ultimately charged-off is minimized.

22

23

24 **IV. IMPACT TO CHARGE-OFFS FROM COLLECTION PRACTICES**

25

26 **Q. Do you agree with the Ms. McCarthy's position that its collection strategies are**  
27 **continually reviewed to improve performance?**

28 A. Aside from the recently implemented and planned initiatives, there is little specific  
29 evidence to suggest the Company took a proactive approach in analyzing, managing and  
30 improving its collections and bad debt performance in New Hampshire. Since at least  
31 2005, the Company either ignored or failed to take action on its expanding and aging

1 accounts receivable portfolios and increasing level of charge-offs in New Hampshire. As  
2 a result, customer balances on many delinquent accounts increased to unmanageable  
3 levels. Specifically, throughout its testimony, the Company identifies the following areas  
4 as the primary drivers of its bad debt:

- 5 • Rising gas costs
- 6 • Economic downturn
- 7 • Meter accessibility
- 8 • Customer payment arrangements
- 9 • Customer transiency (i.e., accounts open for less than one year)

10  
11 Yet, the Company failed to demonstrate it had any previous internal discussions,  
12 analysis or business cases related to these specific areas. As a result, it is clear the  
13 Company missed an opportunity to recognize many of these issues and develop  
14 appropriate strategies and tactics months and years earlier. For example, despite the  
15 Company's claim that meter accessibility is a major driver of bad debt, the Company did  
16 not produce evidence of any previous internal discussion, analysis or business case  
17 information regarding collection performance or bad debt as it relates to the problem of  
18 meter accessibility. It is difficult to understand how the Company did not analyze and  
19 develop strategies over time to reduce the impact of inaccessible meters. Moreover, it  
20 is difficult to understand why the Company had no systemic strategy to move more  
21 meters outside over time. For example, in 2005, 2006 and 2007 the Company relocated  
22 155, 111 and 116 meters to outside from inside, respectively. In addition, despite  
23 numerous accounts with high balances in its accounts receivable portfolio, it is difficult  
24 to understand how the Company did not attempt to terminate more of these accounts  
25 by executing a disconnection for non-payment via other means, including a street-valve  
26 shut-off.

27  
28 Another example regarding the issue of inaccessible meters, it is puzzling that the  
29 Company does not yet have a formal legal process (i.e., Replevin)<sup>2</sup> in New Hampshire,  
30 which would allow them to access homes and businesses to secure meters through a  
31 legal process and law enforcement. Interestingly, the Company has had Replevin

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<sup>2</sup> Replevin: a legal form of action ordinarily employed to recover possession of personal property (i.e., meter) unlawfully withheld from the plaintiff.

1 process in place in most of its other service territories since, at least, the mid-2000s.  
2 Clearly, the Company has missed another opportunity to take advantage of this  
3 alternative disconnection tool.

4

5 **Q. Do you agree with Mr. Hirschey's testimony that the Company's collections practices**  
6 **were reasonable and consistent with general industry practices.**

7 A. No, I do not. The Company's *past* collections practices were not reasonable or  
8 consistent with industry practices. However, the Company should be given credit for its  
9 recently deployed and planned initiatives related to collection processes and customer  
10 account management. The Company's new account initiation process which was  
11 deployed in December 2009 is a solid program and consistent with the practices of  
12 many other utility companies. In addition, the new behavioral scoring process which  
13 was just deployed (or is in the process of being deployed) is another solid program  
14 consistent with the practices of other many other utility companies. The Company's  
15 increase in the number of field collectors in 2009 will assist in enhancing collections,  
16 modifying customer behavior and stopping usage on high-risk accounts. The deposit  
17 program, which was deployed in May 2010, is a step forward in mitigating risk on newly  
18 established accounts.

19

20 The issue is that all of these types of aforementioned strategies are common in the  
21 utility industry and have been available for a decade or longer. For many years, utility  
22 companies, as well as utility commissions, across the country have been well aware of  
23 the problems related to customer fraud, including name switching and identification  
24 theft and deception on applications for new service. Unfortunately, some utilities did  
25 not improve their new account processes until forced to do so partly because of the  
26 recent Federal Red-Flag Rules. The Company appears to be no exception to the late  
27 implementation of a program designed to eliminate identity theft and fraud. The same  
28 comments are applicable to the Company's behavioral scoring program, increased field  
29 collections activity and deposit process. Given its aging accounts receivable portfolios  
30 and level of charge-offs in the years before the economic recession in 2008, the  
31 Company should have recognized the need to design and deploy these strategies

1 months and years earlier than it did. The ratepayers of New Hampshire should not bear  
2 the burden of the Company's historical poor performance and inaction regarding the  
3 management of its accounts receivable portfolios.

4  
5 The problem now for the Company is that many of these strategies will have limited  
6 effectiveness because of the number of "unmanageable" high-balance residential  
7 accounts in its active customer base. Conventional collection treatment strategies, such  
8 as calling campaigns, reminder notices, and disconnection notices work best on  
9 customers who can still afford to pay their bills. Those same collection strategies are  
10 largely ineffective on unmanageable, high-balance accounts. Even the threat of  
11 disconnection for non-payment will often not work on many unmanageable high-  
12 balance accounts because customers cannot afford to pay the total accumulated  
13 balance due. This may explain why the Company has so many access problems (i.e.,  
14 CGIs) during the course of its field visits on high-balance accounts. That is, many  
15 customers may attempt to avoid or delay the disconnection process by not allowing  
16 access to the meter. Utilities with similar unmanageable high-balance accounts often  
17 experience an increase in PUC-type complaints after trying to ratchet up disconnection  
18 activity on these customers. These customers simply have no other option because they  
19 cannot afford to pay a utility bill of several thousand dollars or higher. In a simple  
20 explanation, it is easier for a customer to pay (and easier for the Company to collect) a  
21 \$500 balance than a \$3,500 balance. The customer with a \$500 balance can often get  
22 help with a portion of the debt from family, friends, neighbors or community  
23 organizations, or even take advantage of a payment arrangement with the Company.  
24 On the other hand, the customer with a \$3,500 balance is likely not to find any help, and  
25 will almost always default on a payment arrangement.

26

27 **Q. Do you agree with Mr. Hirschey's testimony that the Company's charge-offs are**  
28 **primarily driven by factors outside the Company's control, including inaccessible**  
29 **meters, winter disconnection limitations, payment agreements and customer**  
30 **transiency?**

1 A. No I do not. Although the Company is impacted by these factors to some degree, the  
2 primary driver of the increase in charge-offs is the Company's inability to effectively  
3 manage its accounts receivable portfolios on active accounts. For years, the Company  
4 either ignored or failed to recognize and develop strategies designed to reduce risk  
5 associated with an increasing and aging accounts receivable portfolio. For years, the  
6 Company either ignored or failed to recognize and develop strategies designed to  
7 reduce its increasing volume of charge-off accounts and dollars. Until very recently, the  
8 Company failed to change or develop any collection treatment strategies designed to  
9 improve the management of delinquent account workflows or treat delinquency earlier  
10 in the lifecycle of a customer. The most striking part of the testimony by Ms. McCarthy  
11 and Mr. Hirschey is that the Company has yet to offer a plan to resolve most of the  
12 issues it specifically identified as the primary drivers of charge-offs. Specifically, most of  
13 the Company's recent or planned process improvement initiatives have nothing to do  
14 with inaccessible meters, customer payment plans, customer transiency and limitation  
15 on disconnections for non-payment, including winter disconnection policies and early  
16 collection treatment activity.

17

18 **Q. Please explain how the Company's past performance regarding its accounts receivable**  
19 **portfolio drives charge-offs.**

20 **A.** The Company's management of its accounts receivable is directly related to the level of  
21 uncollectible dollars. In general, the Company could have reduced its charge-offs by  
22 reducing the total number of accounts charged-off and/or by lowering the average  
23 charge-off balance per account. By reviewing the Company's past performance relative  
24 to charge-offs, accounts receivable and average balances, it can be demonstrated how  
25 the Company had an opportunity to reduce the total dollars charged-off.

26

27 **Q. Mr. Hirschey devoted a large portion of his testimony to population density and its**  
28 **correlation to the Company's charge-offs. Do you agree with Mr. Hirschey's testimony**  
29 **regarding population density?**

30 **A.** No I do not. While it is an interesting attempt to correlate the Company's charge-offs to  
31 inaccessible meters and customer transiency there is no evidence that these variables

1 cause charge-offs. There are a number of other variables which may better account for  
2 the level of charge-offs, namely collection practices. When comparing the performance  
3 of different utility companies there are many factors that may account for differences in  
4 performance. Therefore, the comparison analysis presented by Mr. Hirschey is not  
5 relevant. Benchmarking utility company performance is difficult and unproductive. It is  
6 more productive to analyze a company's historical processes, data and activity  
7 outcomes to determine what causes charge-offs and what could be done to improve  
8 performance.

9

10 **Q. Do you agree with Mr. Hirschey's testimony regarding population density and**  
11 **inaccessible meters?**

12 A. No I do not. Again, the variables of population density and in the incidence of inside  
13 meters may be correlated to charge-offs, but may have no causal relationship. It is a  
14 stretch of sound statistical principles to suggest correlations without investigating and  
15 including other factors into the analysis. In this case, the most important factor may be  
16 the Company's management and collection practices. For example, a meter located  
17 inside a residence may make a disconnection for non-payment more time consuming,  
18 but it should not take the Company months or a year to terminate a high-risk customer.  
19 The Company should have a systemic process in place to handle premises which they  
20 cannot gain access to the meter. It is puzzling that the Company would continually  
21 send its field staff to premises with a history of meter access problems related to the  
22 same delinquent dollars rather than move to the next logical step.

23

24 Mr. Hirschey offered testimony and Attachment MUH-14 as an example of how an  
25 inside meter makes it difficult for the Company to complete a disconnection on a typical  
26 residential heat account. Specifically, Mr. Hirschey shows seven incidences of "CGI"  
27 (Can't Get In) outcomes from the field staff during 2008 and 2009. The first incidence of  
28 CGI occurred in April 2008, with a total due on the account of about \$1,400. The last  
29 incidence of CGI occurred in May 2009, about a year later. The customer subsequently  
30 closed the account voluntarily and left the Company with a \$3,587 defaulted balance.  
31 Clearly, the Company missed an opportunity to stop the usage on the account months

1 earlier. To send a field representative to the same service address month after month  
2 where access is an issue is fruitless. In the meantime, the customer made no payment  
3 and usage continued. The disconnection attempts on this account were spread out over  
4 the course of 14 -15 months. There is no reason to delay a follow up field visit for  
5 months after the first unsuccessful disconnection attempt, especially on a seriously  
6 delinquent, high-balance account. The Company has the option to schedule follow up  
7 disconnection visits for the next day or week, rather than waiting for the next monthly  
8 billing cycle. The Company should have been monitoring this type of account and  
9 taking the necessary steps to collect its money or stop the usage on the account. If the  
10 Company had initiated collection activity earlier on this account, when the balance due  
11 was “manageable” (i.e., balance due less than \$500 in 2007), the customer and the  
12 Company likely would have experienced a more successful outcome.

13  
14 Mr. Hirschey’s attempt to highlight the impact of inaccessible meters with this example  
15 in Attachment MUH-14 actually highlights a number of the Company’s process gaps and  
16 inefficiencies. The account was a newly established account in 2008, and is exactly the  
17 transient-type account Mr. Hirschey identifies as contributing to the Company’s charge-  
18 offs.<sup>3</sup> His analysis is correct in that a newly established utility customer is a higher risk-  
19 type account for the Company. The risk associated with new utility accounts has been  
20 well-known and well-documented in the utility industry for years. The question is why  
21 does the Company *not* have a unique collection treatment strategy and timeline to  
22 better manage this type of account? In 2007, just after the account opened, there were  
23 multiple months without a payment. Evidently, the Company made no attempt to  
24 collect on this high-risk account because the outstanding balance was less than \$250.

25  
26 By not attempting collection, however, the Company sent a message to the new  
27 customer that its utility bill is not a high priority. The Company’s lack of action allowed  
28 potential other creditors to obtain a share of the customer’s wallet first. The example  
29 also highlights how the Company missed an opportunity to better manage customer  
30 payment behavior before and after the self-imposed, winter no-cut period in 2007. The

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<sup>3</sup> Hirschey Testimony, dated February 26, 2010, lines 5-18, page 7 of 30 and Attachments MUH-3 and MUH-4.



1 Company did not send a disconnection notice to the customer until March or April of  
2 2008. By this time, the total balance due was about \$1,500, and about 11 months past  
3 due. It is not surprising that the Company had access issues (multiple CGIs) at the  
4 premise location. Once the Company finally got serious about collection, the customer  
5 probably could not afford to pay the high bill. Interestingly, the customer avoided  
6 payment for another 15 months before closing the account on his own.

7  
8 **Q. Aside from applying collection treatment actions earlier to this type of account, what  
9 could the Company do differently to disconnect the service?**

10 A. The Company has a number of options to handle extreme collection situations with  
11 high-risk customers. One option, as mentioned, is to schedule follow up field visits  
12 quickly, until access is obtained. The Company also has the option to execute a  
13 disconnection for non-payment via a shut off in the street. Although the cost associated  
14 with a street shut-off is significantly higher than a normal disconnection (i.e., estimated  
15 cost between \$282 and \$785, depending on field conditions), it is an effective tool in  
16 managing customer behavior and stopping usage on certain high-risk accounts. In the  
17 example cited above, this would have been a cost effective way for the Company to  
18 manage the risk associated with the account. Clearly, the Company did not take  
19 advantage of this tool in the case above or in other instances. In 2005, the Company  
20 disconnected only six accounts via a street shut off. In 2006, the number of street shut  
21 offs was two. In 2007, the number of street shut offs was 15. Given the large number  
22 of high-balance, high-risk accounts with “inaccessible” meters in its accounts receivable  
23 portfolio at the time, the Company clearly missed an opportunity to take advantage of  
24 this alternative disconnection tool.

25  
26 **Q. Please elaborate further on your analysis regarding the Company’s charge-offs and in  
27 accessible meters.**

28 A. First, it is important to put the volume of charge-offs into perspective to demonstrate  
29 the Company’s actual performance and where its charge-offs originate. Between 2005  
30 and 2009, the Company charged 40,054 accounts totaling \$26.6 million.<sup>4</sup> Overall, 90%

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<sup>4</sup> Charge-offs related to Occupant Accounts removed from the totals

1 of the dollars charged-off are from residential accounts; and 10% of the dollars charged-  
2 off are from non-residential accounts. In addition, 97% of the residential dollars  
3 charged-off are from residential heat accounts. Since nearly all of the Company's  
4 charge-off volume is from residential heat accounts and non-residential accounts, my  
5 analysis focuses on these two customer classes.

6  
7 Moreover, my analysis focuses on balance ranges. Overall, 59% of the residential  
8 accounts charged-off are from accounts with balances less than \$500, which accounts  
9 for less than 16% of the total dollars charged-off. Since there are thousands of low-  
10 balance accounts charged-off, the average dollar balance on these accounts is only  
11 \$171. On the other hand, 41% of the residential accounts charged-off are from  
12 accounts with balances greater than \$500, which accounts for more than 84% of the  
13 total dollars charged-off. Since there are thousands of very high-balance accounts  
14 charged-off, the average dollar balance on these accounts is \$1,285. Since a high  
15 percentage of the Company's charge-off volume is from accounts with balances greater  
16 than \$500, my analysis focuses on this balance category.

17  
18 My analysis also focuses on two additional categories of the Company's accounts. That  
19 is, accounts which closed voluntarily or were disconnected for non-payment; and  
20 accounts with meters located inside or outside. Overall, 87% of the residential accounts  
21 and 70% of the dollars charged-off are from accounts that were closed voluntarily. On  
22 the other hand, 13% of the residential accounts and 30% of the dollars charged-off are  
23 from accounts that were not closed voluntarily (i.e., disconnected). Finally, 59% of the  
24 residential accounts and 51% of the dollars charged-off were on accounts with meters  
25 outside. On the other hand, 41% of the residential accounts and 49% of the dollars  
26 charged-off were on accounts with meters inside.

27

28 **Q. So what are your overall conclusions regarding charge-offs and inaccessible meters?**

29 A. Attachment MCG-5 shows that between 2005 and 2009, 49% of the Company's total  
30 charge-offs on residential heat accounts, with balance greater than \$500, had meters  
31 located outside. That is, \$9.7 million of the total \$19.8 million charged-off on residential

1 heat accounts had meters outside. As a result, the Company missed an opportunity to  
2 apply collection treatment activity earlier, including disconnection activity, on 5,642  
3 accounts which closed voluntarily, had meters outside and had an average charge-off  
4 balance of \$1,037. In addition, the Company missed an opportunity to apply collection  
5 treatment activity earlier, including disconnection activity, on 2,707 accounts which  
6 were DNP, had meters outside and had an average charge-off balance of \$1,470.

7

8 In spite of Mr. Hirschey's testimony and analysis, which focused on inaccessible meters,  
9 customer transiency, population density and the Company's limited time to apply  
10 collection efforts, it is clear that the Company missed many opportunities to apply  
11 collection treatment activities earlier on all charged-off accounts, including the accounts  
12 with meters inside and outside. As previously shown, had the Company asked for and  
13 demanded its money earlier in the customer delinquency lifecycle, the number of  
14 accounts and dollars charged-off would have been substantially reduced.

15

16 There is one more important fact that Mr. Hirschey failed to mention in his testimony.  
17 Between 2005 and 2009, 10% (i.e., \$2.6 million) of the Company's overall charged-off  
18 dollars were on non-residential accounts. Although the same analysis and conclusions  
19 made on residential heat accounts can be applied to non-residential accounts, there is  
20 one major exception. For the most part, there are no access problems on non-  
21 residential accounts. Businesses are open during the day, and there are few, if any,  
22 restrictions on the Company regarding disconnection rules. As a result, with everything  
23 else being equal, Mr. Hirschey's overall testimony and analysis failed to account for at  
24 least 10% of the Company's charge-off performance.

25

26 **Q. What are your overall conclusions regarding the Company's charge-offs on non-**  
27 **residential accounts?**

28 A. Between 2005 and 2009, the Company's charged-off 2,120 non-residential accounts  
29 totaling over \$2.6 million. Over 83% of the dollars charged-off, or \$2.2 million, were on  
30 accounts with balances greater than \$1,000, with an average balance charge-off of  
31 \$3,506. In fact, there were 83 accounts with an average balance charge-off of about

1           \$12,975. As noted earlier, many of these accounts were many months past due when  
2           they closed, either voluntarily or by disconnection. There are very few good reasons the  
3           Company should allow a non-residential account to become greater than 60 days past  
4           due. Clearly, the Company missed many opportunities to apply collection treatment  
5           activities earlier on non-residential accounts. Had the Company asked for and  
6           demanded its money earlier in the customer delinquency lifecycle, the number of  
7           accounts and dollars charged-off would be substantially reduced.

8  
9           It is worth mentioning that non-residential customers behave very differently than  
10          residential customers regarding disconnection for non-payment. This is due to the fact  
11          that most utilities better execute collection treatment activities on non-residential  
12          accounts vs. residential accounts. In addition, non-residential customers are much more  
13          likely to pay when facing the threat of disconnection vs. residential customers. Non-  
14          residential customers cannot afford a shutdown of their business as a result of a  
15          termination. The financial impact is too great for a non-residential customer to risk  
16          termination for non-payment. Generally, the service restoration rate on non-residential  
17          accounts is lower than residential accounts. The reason the restoration rate is lower is  
18          that once a business customer allows its business to be shut down by a utility, the  
19          business is usually already on the edge of financial collapse.

20  
21          The opposite is true for residential accounts, where the restoration rate is high over the  
22          long-term. For example, when the Company fails to apply collection treatment  
23          activities, including sending disconnection notices and following through on the notices  
24          it does send, it sends a message to the residential customer that the Company is not  
25          really serious about collecting its money. Over time, these customers start to ignore the  
26          Company's bills and "take their chances" that the Company will not send a  
27          disconnection notice or send a field collector out to disconnect the meter.

28

29          **Q. Do you agree with Mr. Hirschey's testimony and analysis regarding the Company's**  
30          **limited "actionable" time to more quickly disconnect past due customers?**

1 A. No I do not. Mr. Hirschey states that “the two most significant limitations on the  
2 Company's ability to more quickly disconnect customers are its policies of not  
3 disconnecting customers within the first 60 days after their accounts become past due  
4 and not disconnecting residential heating customers between November 15th and  
5 March 31<sup>st</sup>.”<sup>5</sup> Mr. Hirschey suggests that because of these limitations, the Company’s  
6 actual available time to disconnect a past due account is severely limited; and, as a  
7 result, the limited actionable time drives the Company’s charge-offs. First, it is  
8 important to note that Mr. Hirschey correctly identifies these limitations as the  
9 Company’s internal policies (i.e., not driven by the NHPUC rules and regulations). Mr.  
10 Hirschey also correctly identifies these internal workflow policies and procedures as  
11 potentially restrictive to the Company’s ability to disconnect past due customers during  
12 certain periods of time during the lifecycle of a delinquent account. However, Mr.  
13 Hirschey is incorrect when suggests that it was over the past several years that the  
14 Company was operating with the “understanding that field disconnections were not  
15 permitted by the state's regulations within 60 days of an account becoming past due.”<sup>6</sup>  
16 Since 2006, the Company has had at least several conversations with the PUC Staff  
17 regarding the interpretation of the rule, which states that the customer’s balance must  
18 be greater than \$50 or more than 60 days past due before a disconnection notice can be  
19 sent.<sup>7</sup> According to the PUC Staff, as a result of at least one of those meetings with the  
20 Company, the Company clearly understood that the rules did not prohibit them from  
21 disconnecting past due accounts earlier.

22  
23 This exact issue of earlier disconnections was identified and detailed in my previous  
24 report and assessment of the Company’s performance, which was delivered to the PUC  
25 about 21 months ago.<sup>8</sup> As a result, it is difficult to understand how the Company could  
26 be confused or unaware of the issue for the past several years as Mr. Hirschey states.  
27 Given the importance and need to apply collection treatment activity to accounts early  
28 in the delinquency lifecycle, while balances are still manageable, it is inexcusable for

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<sup>5</sup> Hirschey Testimony, dated February 29, 2010, lines 22-23, page 10 of 30 and lines 1-3, page 11 of 30.

<sup>6</sup> Hirschey Testimony, lines 3-5, page 11 of 30.

<sup>7</sup> Puc 1203.11(d)(1)

<sup>8</sup> Monticello Report: A Review and Assessment of Collection & Termination Activities at EnergyNorth Natural Gas, Inc. (Docket DG 08-009), dated January 19, 2009, pages 12 and 15.

1 Company to have operated for years without getting clarification or pushing back on the  
2 regulators for relief or finding an alternative solution. For instance, at some date in time  
3 over the last number of years, it would have been opportune for the Company to  
4 discuss the issue with the PUC Staff, particularly in the context of improving  
5 performance of earlier collection treatment strategies specifically targeted to newly  
6 established accounts. Clearly, the Company missed another opportunity to better  
7 manage its accounts.

8

9 **Q. Do you have any additional comments regarding the issue of not disconnecting**  
10 **customers within the first 60 days after the start of delinquency?**

11 A. Yes. In my previous report and assessment of the Company's performance, it was  
12 documented that the Company delays shut-off notices on bills, separate mailings and  
13 disconnection activity until accounts are greater than 60 days past due.<sup>9</sup> In addition, it  
14 was documented that the Company appeared to be limiting the number of  
15 disconnection notices though its IT system demand table because of field resource  
16 constraints.<sup>10</sup> Since the company applies disconnection collection treatment activity to  
17 only a small fraction of its eligible past due accounts, it contradicts Mr. Hirschey's  
18 assertion that the Company's collection treatment activities are delayed due to its  
19 interpretation of the New Hampshire rule and regulations. A more plausible  
20 explanation for the Company's delay is that it did not have or deploy sufficient field  
21 resources to respond to the increasing number of past due accounts eligible for  
22 disconnection. For example, between 2006 and 2008, the Company increased its  
23 number of disconnection notices (i.e., a rough estimate of accounts eligible for  
24 disconnection) by 5,150, a 35% increase, but increased the number of actual  
25 disconnections by only 223, or a 13% increase.

26

27 Finally, Mr. Hirschey is incorrect to state "that a delay of 1.8 months of actionable time  
28 before disconnection is both reasonable and indicative of prudent field disconnection  
29 practices."<sup>11</sup> It is not reasonable or prudent to delay collections. One of the most

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<sup>9</sup> Monticello Report, page 12.

<sup>10</sup> Monticello Report, page 12.

<sup>11</sup> Hirschey Testimony, lines 2-4, page 12 of 30.

1 important and fundamental concepts of collections is that as debt ages the probability  
2 of collection declines. Faced with rising commodity costs, worsening economic  
3 conditions, increases in delinquency and charge-off rates, utilities across the country are  
4 designing and deploying disconnection strategies designed to target high-risk accounts  
5 earlier in the delinquency cycle. In fact, the Company's recently deployed behavioral  
6 scoring program (Experian is the vendor provider) is designed specifically to identify,  
7 score and prioritize high-risk accounts for earlier disconnection activity. Interestingly,  
8 the Company provided numerous studies and analysis by Mr. Hirschey and his company  
9 espousing the benefits of behavioral scoring and earlier treatment activities.

10

11 **Q. Do you agree with Mr. Hirschey's testimony that it is standard industry practice for**  
12 **utilities not to disconnect residential accounts during the winter period?**

13 A. No I do not. First, it is worth noting that the northern U.S. electric utilities handle winter  
14 disconnections differently than gas only utilities. Many electric utilities are more  
15 conservative regarding disconnection in the winter because they believe that a  
16 disconnection on an electric account represents more risk in terms of customer health  
17 and safety. Gas utilities in the northern part of the U.S., have been more aggressive in  
18 managing and disconnecting high-risk accounts in the winter. Second, in the early to  
19 mid-2000s, a number of northern utilities began to change their strategies regarding  
20 disconnections in the winter due to rising arrearages and increased charge-offs. For  
21 example in about 2005, a number of utilities in Pennsylvania successfully lobbied the  
22 state regulators to ease the rules which restricted winter disconnection on residential  
23 accounts. A number of other utilities designed strategies and processes to target high-  
24 risk, high-balance delinquent accounts that repeatedly avoided payment during the  
25 winter period.

26

27 A recent example in Minnesota highlights a success story for a gas-only utility. About  
28 five years ago the gas company began a comprehensive program to improve the  
29 performance of its accounts receivable portfolios and reduce charge-offs. Before the  
30 new initiative, the company disconnected only a relatively small number of accounts  
31 during the cut season, and no disconnections during the six-month winter period. The

1 company began a strategy that dramatically increased the number of disconnections  
2 during the cut season. In addition, the company developed plan to target and  
3 disconnect a large number of high-risk, high balance accounts during the winter period.  
4 The strategy required the company's senior management approval, as well as approval  
5 of the state regulators. The primary purpose of the targeted winter cut initiative was to  
6 send a message to certain customers that they needed to pay their utility bill and the  
7 company would not forget about the bills during the winter. Although the program is  
8 not easy to administer, it is a resounding success, which has improved the company's  
9 financial performance.

10

11 The point of the story is that the Company also has an opportunity to better manage  
12 certain high-risk, high-balance accounts before, during and after its winter period. The  
13 Company should have recognized years ago that it needed to change customer payment  
14 behavior by applying collection efforts earlier and more often, especially on high-risk  
15 accounts. Clearly, the Company missed another opportunity to improve performance.

16

17 **Q. Do you agree with Mr. Hirschey's testimony regarding payment agreements and the**  
18 **Company's charge-off performance?**

19 A. No I do not. Mr. Hirschey states that "it is the Company's policy not to disconnect  
20 accounts within 60 days of becoming past due. This means that a customer cannot  
21 become eligible for field disconnection until 90 days after entering the payment  
22 agreement, even if the customer never pays a single installment."<sup>12</sup> Mr. Hirschey  
23 correctly identifies the Company's internal policy as the driver in delaying disconnection  
24 of accounts with broken payment promises. However, Mr. Hirschey is incorrect to imply  
25 that there is nothing the Company could do to change the policy. The policy could be  
26 changed tomorrow. The rule regarding broken promises is clear: the Company may  
27 immediately and without further notice terminate any customer who breaks a payment  
28 agreement. Clearly, the Company ignored or failed to better manage customer

---

<sup>12</sup> Hirschey Testimony, lines 13-17, page 17 of 30.



1 payment arrangements by not acting immediately. This exact issue was identified and  
2 detailed in my previous report.<sup>13</sup>

3  
4 Mr. Hirschey offered testimony, including Attachment MUH-15, as an example of how  
5 past due balances can increase due to payment arrangements and the Company's  
6 limited time to act. Aside from the issues previously discussed, this particular customer  
7 example shows a sizable payment by the customer directly after a disconnection in the  
8 month of April. At the time of the disconnection in April, the customer was 8 months  
9 past due. When the customer broke the terms of the payment agreement, the account  
10 was 9 to 10 months past due. Despite having the option of disconnecting the customer  
11 immediately and without further notice, the Company waited another 4 months to  
12 disconnect the customer again. Clearly, the Company missed another opportunity to  
13 better manage its accounts.

14

15 **Q. Do you have any additional comments regarding payment agreements and the**  
16 **Company's charge-off performance?**

17 A. Yes I do. Mr. Hirschey states that "24% of accounts charged-off in 2009 had previously  
18 been on a payment agreement..."<sup>14</sup> Further, using the customer example in Attachment  
19 MUH-15, he implies that because the Company obtains an initial down payment from  
20 customers at the time a payment agreement is negotiated, overall past due balances do  
21 not increase as a result of broken payment agreements. Mr. Hirschey fails to provide  
22 any specific data on those other 2009 charged-off accounts with previous agreements  
23 (i.e., about 2,232 accounts),<sup>15</sup> including the total number of agreements per customer  
24 for the same past due balances (i.e., number of previously broken agreements), the  
25 terms of those agreements, the average amount of any down payments, the number of  
26 agreements negotiated by the Company which it was not obligated to make per the  
27 regulations, or the financial outcomes of those agreements. As a result, Mr. Hirschey is  
28 incorrect to make any assumptions on the overall financial impact by using one  
29 customer example.

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<sup>13</sup> Monticello Report, page 13.

<sup>14</sup> Hirschey Testimony lines 22-23, page 17 of 30 and lines 1-7, page 18 of 30.

<sup>15</sup> 2009 total residential and non-residential charge-offs: 9,299. Therefore  $9,299 \times 24\% = 2,232$

1  
2 Throughout his testimony, Mr. Hirschey suggests that customer payment agreements  
3 significantly limit the Company's ability to reduce past due balances and apply collection  
4 treatment activity, since accounts with agreements are not eligible for collection action.  
5 This is simply not the case. Attachment MCG-6 shows the impact of payment  
6 arrangements on the total number of accounts and dollars eligible for collection  
7 treatment activity. Specifically, in April of 2007, just after the winter period, there were  
8 15,824 accounts past due, with a total due of \$16.7 million.<sup>16</sup> In the same month, there  
9 were 1,268 net active customer payment arrangements, totaling \$1.1 million. As a  
10 result, the number of payment agreements reduced the total accounts eligible for  
11 collection activity by 8% and the total dollars by 7%. A year later, in April of 2008, just  
12 after the winter period, there were 17,126 accounts past due, with a total bill due the  
13 Company of \$20.2 million. In the same month, there were 1,405 net active customer  
14 payment arrangements, totaling \$1.1 million. As a result, the number of payment  
15 agreements reduced the total accounts eligible for collection activity by 8% and the total  
16 dollars by 6%. Clearly, the overall impact of payment agreements is marginal since the  
17 Company still has thousands of eligible accounts to work.

18  
19 **Q. Mr. Hirschey had a number of criticisms your previous report on the Company's**  
20 **performance. Do you have any comments related to his testimony regarding your**  
21 **report?**

22 A. Yes I do. Although a number of Mr. Hirschey's criticisms have been previously  
23 addressed in my testimony on industry practices, inside meters and limitations on  
24 disconnections, I will offer some additional comments. First, it is worth noting that a  
25 number of the Company's recent and planned process improvement initiatives are  
26 designed to address the very issues which were identified as problems areas for the  
27 Company in my previous report.<sup>17</sup> In fact, my previous report thoroughly discusses the  
28 issues behind nearly every one of the Company's current initiatives including:

- 29
- Account initiation process

---

<sup>16</sup> Number of accounts greater than 30 days past due. Total bill due includes current bill and all arrearages. Arrearages estimated using actual historical average monthly bill data.

<sup>17</sup> Monticello Report, Summary of Opportunities, page 15.

- 1                   • Increase in field collections
- 2                   • Change in balance threshold of field collections
- 3                   • Residential deposit program
- 4                   • Replevin (i.e., legal action) process
- 5                   • Behavioral scoring strategy
- 6

7                   As a result, it is difficult to understand the level of criticism of the report. In addition,  
8                   Mr. Hirschey's comments regarding the Company's unsuccessful debt sale demonstrate  
9                   his lack of familiarity with the bad debt industry and market conditions. The previous  
10                  Monticello report identified a debt sale as a potential opportunity for Company to  
11                  increase its late stage recovery performance on aged, charged-off accounts.<sup>18</sup> The  
12                  report noted that in 2006, the market pricing for accounts between 300 - 720 days old  
13                  (from the date of disconnection) was 2.5% to 4.5% of the total balance due. Mr.  
14                  Hirschey states that I "significantly overstated by as much as 16 to 20 times the size of  
15                  the opportunity to generate revenue by selling these accounts."<sup>19</sup> He bases his  
16                  statement on the fact that the Company was not able to achieve this level of market  
17                  pricing for its attempted debt sale in early 2009. In 2006, the market pricing for utility  
18                  paper was indeed as noted in my report. Since 1997, I have assisted dozens of U.S.  
19                  utilities and wireless telecoms with selling billions of dollars of bad debt. Between the  
20                  mid-1990s and 2008, market prices for virtually all types of bad debt paper (i.e., credit  
21                  card, retail cards, auto loan, wireless telecom, etc.) steadily increased. Utility paper was  
22                  no exception.

23

24                  Unfortunately, everything changed in 2008. The economic recession started to depress  
25                  market pricing and buying interest from debt buyers. Then, in the third quarter of 2008,  
26                  the worldwide financial market collapsed. As a result, the debt sale market completely  
27                  imploded. Debt buyers stopped buying paper and began to close operations in late  
28                  2008 and 2009. The debt sale market has yet to fully recover. I assisted several utilities  
29                  with successful debt sales in early to mid-2008, before the financial market collapse.  
30                  Since then, I know of no successful utility company debt sale. Currently, the surviving  
31                  industry debt buyers have little or no interest in utility paper. Unfortunately, the

---

<sup>18</sup> Monticello Report, pages 13 and 14.

<sup>19</sup> Hirschey Testimony, lines 13-14, page 19 of 30.

1 Company's debt sale solicitation was after the market collapse in late 2008. In fact, the  
2 Company's RFP solicitation to potential buyers was on or about February 3, 2009.

3  
4 Clearly, the Company missed its opportunity to sell its bad debt before the market  
5 collapse in 2008. However, there are a number of other factors that worked against the  
6 Company and further depressed pricing and market interest. The most important factor  
7 was that a large percentage of the Company's bad debt portfolio included accounts with  
8 debts originating from New York State. In early, 2009, there was pending legislation in  
9 the New York State Senate that would have, if enacted as law, severely limited the  
10 ability of debt buyers and collection agencies to collect the debt. Essentially, the  
11 legislation would have eviscerated the New York debt after 3 years. The debt buyers  
12 bidding on the Company's bad debt portfolio were well aware of this pending legislation  
13 and lowered their prices accordingly.

14  
15 **Q. Do you agree with Mr. Hirschey's testimony regarding lost revenue from increasing**  
16 **the number of disconnections?**

17 A. No I do not. Mr. Hirschey suggests that the Company's revenue would be reduced as a  
18 result of increased disconnections for non-payment. As noted in my previous report,  
19 the long-term (i.e., 12 months) *customer* restoration rate for gas utilities is about 80%.<sup>20</sup>  
20 On the other hand, the long-term restoration rate on *premises* is near 100%. As noted,  
21 residential customers who are terminated usually restore the service. Residential heat  
22 customers may not immediately restore service, but eventually do so when the gas is  
23 needed for the next heating season. When customers move out of premises  
24 permanently, someone else usually moves in or takes responsibility for the utility bill.  
25 Even in extreme cases of a mortgage foreclosure, the bank takes responsibility for the  
26 utility bills. In general, premises are rarely abandoned. In the case of an abandoned  
27 property, the utility will remove its meter. Therefore, Mr. Hirschey's assertion that  
28 revenue would be lost on increased disconnections is not a valid assumption.

29  
30  

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<sup>20</sup> Monticello Report, page 21.

1 **V. EVALUATION OF PLANNED COLLECTION INITIATIVES AND RECOMMENDATION ON BAD**  
2 **DEBT LEVEL**

3  
4 **Q. What is your evaluation of the Company's implemented and planned initiatives to**  
5 **reduce charge-offs?**

6 A. Ms. McCarthy identified the following seven strategies and process improvements the  
7 Company has recently implemented, or plans to implement, in order to reduce charge-  
8 offs:

- 9 1. Increase in field collection staff
  - 10 2. Reduction in the balance threshold of accounts selected for disconnection
  - 11 3. Enhanced account initiation process
  - 12 4. Expanded outreach program for low income customers
  - 13 5. Residential deposit program
  - 14 6. Replevin process
  - 15 7. Behavioral scoring program
- 16

17 As discussed previously, the Company should be given credit for these recent and  
18 planned efforts to reduce charge-offs. At the same time, it is clear that the Company  
19 had the opportunity to implement these initiatives years earlier. It is puzzling to  
20 understand why the Company did not respond years earlier to its increasing level of  
21 charge-offs. The problem now for the Company is that many of these strategies will be  
22 more difficult to execute due to the volume of high-risk, high-balance accounts in the  
23 Company's active accounts receivable portfolio. More importantly, it is the Company's  
24 ability to execute these initiatives that will determine the overall level of success. For  
25 example, in spite of the Company's recent increase in field disconnections, there are still  
26 hundreds of high-risk, high-balance accounts eligible for disconnection that the  
27 Company is not pursuing on a monthly basis. The Company's initiative to reduce the  
28 balance threshold of accounts selected for disconnection will add to the monthly  
29 volume of accounts that must be managed. Consequently, the increased number of  
30 accounts requiring action will put added pressure on the Company's field staff to  
31 execute, in spite of the recent increases to the field staff.

32  
33 The behavioral scoring initiative also presents an execution dilemma for the Company.  
34 Since the program is designed to identify, score and rank order the highest risk accounts

1 for collection action, the Company will have to allocate its limited resources to a less  
2 than optimal level. For example, because of the current high number of high-risk  
3 accounts, the Company will likely not be able to treat all the accounts in the short to  
4 medium-term (i.e., 6 - 12 months). In other words, the Company will find it challenging  
5 to apply collection treatment action to its entire portfolio of high-risk accounts. At the  
6 same time, it is essential for the Company to apply collection treatment action to its  
7 entire portfolio of lower risk accounts (i.e., the manageable accounts). Treatment  
8 action on the lower risk portfolio is essential because it will reduce the number of  
9 accounts and dollars that eventually roll to the older arrearage buckets and become  
10 unmanageable. Unfortunately, the Company is in this dilemma because it failed to act  
11 earlier, when the number of past due accounts and dollars were at more manageable  
12 levels.

13

14 **Q. In addition to implementing these initiatives earlier, what else could the Company**  
15 **have done to reduce charge-offs?**

16 A. Throughout my testimony, I have identified a number of areas that the Company either  
17 ignored or failed to act on in the past. Many of these specific areas were identified by  
18 Ms. McCarthy and Mr. Hirschey as the “primary drivers” of the Company’s charge-offs.  
19 Hence, it is puzzling to understand why most of the Company’s recent or planned  
20 initiatives do not include strategies to improve problems related to the following areas:

21

- 22 • Inaccessible meters
- 23 • Customer payment plans
- 24 • Customer transiency
- 25 • Limitation on disconnections for non-payment, including winter
- 26 disconnection policies and early collection treatment activity (i.e., first 60-
- 27 day delinquency window)
- 28 • Earlier collection treatment action on non-residential accounts

29

30

31 **Q. Could you summarize your list of strategies and actions the Company could have taken**  
32 **on the areas it identified as the primary drivers of its charge-offs?**

33 A. Yes. The list is as follows:

- 34 1. Earlier collection treatment action on all past due residential accounts

- 1                   2. Earlier collection treatment action on all past due non-residential accounts
- 2                   3. Long-term strategy to relocate meters outside from inside
- 3                   4. Strategy to relocate meters outside on premises with history of multiple
- 4                   disconnection activity and access problems
- 5                   5. Immediate disconnection action on accounts with defaulted payment
- 6                   agreements
- 7                   6. Increased use of disconnection via the street shut off option
- 8                   7. Fast-track and custom collection treatment action on new customers
- 9                   8. Increased disconnection activity
- 10                  9. Deposit program for delinquent active residential customers
- 11                  10. Winter disconnection program for high-risk residential heat accounts
- 12

13       **Q.     If the Company had acted years earlier to implement its current initiatives, as well as**  
14       **the additional ones you have just identified, what would the impact be to charge-offs?**

15       A.     Clearly, the number of charged-off accounts and dollars would be reduced. For every  
16       month the Company acted earlier there would be a compounding effect. That is, by  
17       applying collection treatment action earlier, on a larger portion of the accounts  
18       receivable portfolio, the Company could have reduced charge offs, as well as increased  
19       its ability to execute by having less unmanageable, high-risk accounts. Over time, the  
20       accounts receivable portfolio would have been easier for the Company to manage, and  
21       not as sensitive to risk from outside forces, such as increases in gas costs and economic  
22       downturns. Notwithstanding, Mr. Hirschey estimated the impacts of the Company's  
23       implemented and planned initiatives on net charge-offs during the test year to range  
24       between \$1.1 million and \$1.8 million. Attachment MCG-7 summarizes the benefits Mr.  
25       Hirschey identifies in MUH-17. In addition, Attachment MCG-7 shows the estimated  
26       impact to net charge-offs during the test year had the Company acted earlier and  
27       included the additional strategies and actions listed above. Specifically, the estimated  
28       benefits to the Company's net charge-offs during the test year increase to between \$1.7  
29       million and \$2.7 million. In sum, Mr. Hirschey' estimates on net charge-offs are  
30       increased by a factor of 50% to account for the Company acting earlier and more  
31       comprehensively.

32

33       **Q.     So what is the net charge-off dollars and percentage rate you are recommending in**  
34       **this proceeding?**

1 A. A net charge-off of \$3,531,008, or a percentage rate of 2.06%, which corresponds to Mr.  
2 Hirschey's "likely scenario" estimate.

3

4 **Q. Do you believe that a 50% increase in the Company's estimated impact to net**  
5 **receivables is reasonable?**

6 A. Yes it is reasonable. By factoring in earlier and more comprehensive action by the  
7 Company, the estimated net charge-offs during the test year range between \$1.7 million  
8 for a conservative scenario, and \$2.7 million for an aggressive scenario. Had the  
9 Company acted earlier and included the additional strategies and actions identified, it  
10 could have achieved results within this range of scenarios.

11

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

13 A. Yes it does.