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***Summary of document: Review of the Credit and Collection
Policies and Practices of Columbia Gas of Ohio, Inc.
The East Ohio Gas Company d/b/a Dominion East Ohio,
Duke Energy of Ohio and Vectren Energy Delivery of Ohio***

REVIEW OF THE CREDIT AND COLLECTION POLICIES AND PRACTICES OF

**COLUMBIA GAS OF OHIO, INC. (CGO),
THE EAST OHIO GAS COMPANY D/B/A
DOMINION EAST OHIO (DEO),
DUKE ENERGY OF OHIO (DUKE), AND
VECTREN ENERGY DELIVERY OF OHIO (VEDO)**

Submitted to the:
The Public Utilities Commission of Ohio

180 E. Broad Street
Columbus, OH 43215

May 3, 2010

CONFIDENTIAL REPORT

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APPENDIX A



CHAPTER I: EXECUTIVE SUMMARY

This chapter summarizes the results of our utility audits. It also provides a discussion of selected PUCO regulations and recommendations for future utility performance reporting to assist the PUCO staff in monitoring the utilities' credit and collections activities and performance. Subsequent chapters provide the detailed audit results and are organized functionally. Conclusions and recommendations are summarized in this Chapter by utility to facilitate implementation.

A. Background and Environment

Audit Background

By entry dated August 19, 2009, the Public Utilities Commission of Ohio (PUCO or Commission) ordered a review of the credit and collection policies and practices of Columbia Gas of Ohio, Inc. (CGO), the East Ohio Gas Company d/b/a Dominion East Ohio (DEO), Duke Energy of Ohio (Duke), and Vectren Energy Delivery of Ohio (VEDO), collectively "the Companies". The purpose of the review was to: audit, evaluate, and recommend improvements in the collection policies, practices, and performance of the gas companies; evaluate whether the four companies' collection practices and policies are effective in minimizing uncollectible expense (uncollectibles); ascertain benchmarks to be used by the Commission to monitor the effectiveness of the Ohio natural gas companies' collection policies, practices and performance; and recommend "best practices" to be employed to minimize uncollectible expense.

NorthStar Consulting Group (NorthStar) was selected to perform the audit which began in November 2009. Fieldwork was completed in February 2010 and the report was submitted in May 2010. As part of the audit, NorthStar reviewed the credit and collections activities at each utility. Orientation presentations by each utility were held at the PUCO offices. NorthStar issued and reviewed numerous document requests and conducted a series of interviews at each utility. Obtaining data and analyses regarding the effectiveness of the credit and collections practices proved to be somewhat challenging at certain of the utilities due to the age and limitations of the billing systems. Utility practices were reviewed against PUCO regulations and NorthStar's preferred credit and collections practices, as described throughout the report.

Current Utility Collections Environment

Uncollectibles represent a challenge for the natural gas industry and are affected by a number of factors including state regulations, utility collections practices, economic conditions, geographic location, service territory, customer demographics, and the volatility of natural gas prices. Recently, utilities across the US have experienced a significant change in customer payment behavior commensurate with the decline in the economy – delinquencies, bankruptcies and receiverships have increased, the numbers of customers on assistance programs have increased, and although gas prices have declined, bad debt and write-offs have increased.



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During 2009, increases in production and utilization of shale deposits caused an overabundance of natural gas and a condition referred to as the “storage overhang”, with natural gas production having increased almost eleven percent since 2007. Currently, US natural gas storage fields are filled to capacity with a record volume of 3.9 trillion cubic feet. The overabundance of natural gas caused the wellhead price to decline over fifty percent from 2008 to 2009, as shown in **Exhibit I-1**.

Exhibit I-1
Gas Wellhead Prices

Year	2003	2004	2005	2006	2007	2008	2009
Wellhead Price	4.88	5.46	7.33	6.39	6.37	8.07	3.70

Source: http://tonto.eia.doe.gov/dnav/ng/ng_pri_sum_dcu_nus_a.htm

Absent the reduction in gas prices, bad debt dollar levels would have worsened. Even with the reduction in natural gas prices, utilities have had to respond with new programs and increased collections efforts.

Ohio Environment

Statewide unemployment in Ohio more than doubled between 2005 and 2009, from 4.8 percent to 10.9 percent. From mid-2008 to mid-2009, Ohio incurred a significant statewide loss of available jobs. During that period, Ohio lost 80,000 jobs, representing the single biggest decline in available history. Ohio ranked seventh in the US in terms of unemployment.¹ As an example of the effect of the declining economy on Ohio, in 2007, CGO experienced \$10.1 million in losses due to bankruptcies. In 2008, the number jumped to \$17.4 million and by September 2009, bankruptcies had already reached \$19 million.² From 2005 to 2008, the number of CGO customers on the Percentage of Income Payment Plan (PIPP) program for low-income consumers increased from 60,715 to 89,077.³ DEO experienced an increase in the PIPP arrearage as a percent of billings from 34 percent to 43 percent from 2008 to 2009, as PIPP customers reached ten percent of its total customer count.

During difficult economic conditions, customers typically conserve to reduce household costs; however, customers are also less able to pay their bills. Additionally, Ohio has experienced colder than normal winters. According to AccuWeather.com, the 2009-2010 Plains East winter was projected to be the coldest winter since 1983-1984. For Columbus, Ohio, normal winter weather would incur 4,047 heating degree days (HDD). The 2008-2009 winter incurred 4,073 HDD and the 2009-2010 winter incurred 4,090 HDD.

Bad Debt Expense

NorthStar conducted a survey of the credit and collection experiences for selected utilities in Indiana, Michigan, Pennsylvania, Illinois, Tennessee, and Kentucky to obtain current bad debt write-off levels. Many of the utilities contacted were reluctant to provide data due to concerns

¹ DEO Ohio Economic Outlook

² Document Response 1-6.

³ January 15, 2009, CGO PIPP Rider Adjustment Application.



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regarding confidentiality. For the utilities where data was obtained, care must be taken with the use of survey results as it is not possible to ensure that the information was provided on a consistent basis. In addition to the survey, NorthStar reviewed FERC Form 2 data, American Gas Association (AGA) benchmarking studies, and selected utility annual reports. The most current data available is from 2008, as the FERC Form 2 data for 2009 is not yet available on the FERC website, and AGA's annual survey is based on that data. Some utilities provide uncollectible expenses on their balance sheets; however, other utilities recover uncollectibles through rider mechanisms similar to those in place in Ohio and do not specify the amount of uncollectible expense in their annual reports. Additionally, NorthStar reviewed summary data for Pennsylvania utilities available from by the Pennsylvania Public Utilities Commission (PAPUC)

Gas utilities typically have higher uncollectibles on a percentage basis than electric utilities. For example, in 2008 the Pennsylvania electric companies report an average net residential write-off ratio of 1.33 percent relative to an average net write-off ratio of 3.14 percent for the gas utilities. According AGA's annual survey, total natural gas uncollectible expenses increased about 24 percent in 2008, from 1.32 percent to 1.50 percent of total gas revenues. As shown in Exhibit I-2, the numbers for gas-only utilities are worse than combination utilities. Uncollectible expenses were highest in the East North Central Region which encompasses Illinois, Michigan, Wisconsin, Indiana and Ohio – 3.11 percent for gas-only utilities in 2008.

Exhibit I-2
Uncollectible Expense – 2007 and 2008
AGA Survey

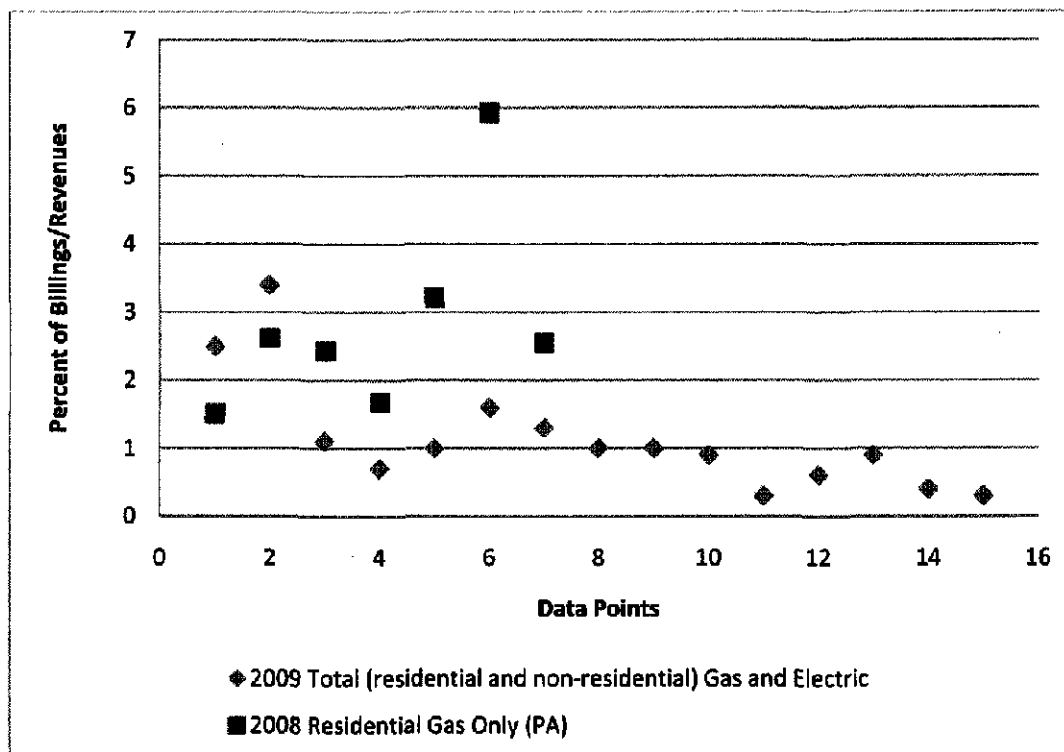
Weighted Average	2007 US	2008 US	2008 East North Central
All Utilities	1.32%	1.50%	2.42%
Combination Utilities	0.93%	1.20%	1.14%
Gas Only Utilities	1.48%	1.62%	3.11%

Source: AGA, based on data from 142 companies (38 states). While combination utilities are included, the data are from gas operations only. AGA data is taken from FERC Form 2s and results of the annual survey are not available until October.

Bad debt expense ratios for the utilities surveyed ranged from 0.3 to 5.9 percent of revenue (2008 and 2009 data). This information includes electric and combination utilities which drives the average ratio down. The Pennsylvania utility data provides a more comparable basis for comparison to the Ohio gas utilities.

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Exhibit I-3
Uncollectibles as a Percent of Revenue
2008 and 2009



Note: 2008 and 2009 data taken from different sources. 2008 data is the net residential write-off as a percentage of gross residential billings for the Pennsylvania gas utilities, taken from the PA PUC website. 2009 data is taken from various sources and may include consolidated results (multiple states) and include non-residential numbers. Inclusion of non-residential numbers will result in a lower percentage.

Consistent with the industry, the Ohio utilities' bad debt numbers have also increased as shown in **Exhibit I-4**, which provides bad debt as a percent of billings. Billings were used for this comparison to reflect Ohio regulations. The Ohio utilities are at risk for the bad debt associated with customers who receive gas under the CHOICE program. The utilities bill the customer for the gas, but do not receive the revenues associated with the third-party supplier. As a result, a comparison based on revenues will be skewed depending on the percentage of each utility's customers that take gas from third-party suppliers.

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Exhibit I-4 Residential Bad Debt as a Percent of Billings Ohio Utilities (\$ Millions)

Utility/Measure	2007	2008	2009
CGO			
Bad Debt Expense (total, incl. PIPP write-offs)	58.5	66.7	64.3
Customer Billings (total)	1,979.8	2,168.4	1,801.4
Percent	3.0%	3.1%	3.6%
Percent without PIPP Bad debt expense	1.2%	1.2%	1.6%
DEO [Note 1]			
Bad Debt Expense (total)	64.1	63.6	61.2
Customer Billings (total)	2,177.6	2,546.1	2,133.6
Percent	2.9%	2.5%	2.9%
Duke			
Bad Debt Expense (total)		10.6	10.4
Customer Billings (total)		532.6	418.7
Percent		2.0%	2.5%
VEDO [Note 2]			
Bad Debt Expense (total)			
Customer Billings (total)			
Percent	1.3%	1.2%	2.5%

Note 1: DEO does not report any PIPP bad debt expense.

Note 2: VEDO 2009 data through November only.

Source: Bad_Debt_Request_COH.xls, DR-BOG-4-1, Vectren binder, Duke Verification Response.

B. Summary of Ohio Utility Best Practices

The following highlights the best practices employed by the various utilities:

- Duke and VEDO's collections timelines are not adversely affected by the billing cycle. In contrast, CGO and DEO's termination orders expire with a new bill - this presents unnecessary resource and collections challenges, and increases the opportunities for customers to avoid terminations with limited or no payments.
- CGO and VEDO have recently implemented a number of collections initiatives and have a culture that focuses on accounts receivable and reducing bad debt dollars.
- All utilities verify customer identity before initiating service.
- CGO has a "true" risk-based behavioral scoring model used to determine collections activities. Some of the other utilities use thresholds and scoring to prioritize accounts.
- CGO, DEO and VEDO respond to delinquencies and initiate collections activities in a relatively timely manner.
- CGO, DEO and VEDO use outbound dialing for some customer segments. Used effectively, phone calls represent a relatively low-cost method of issuing collections reminders.

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- DEO has a robust customer system which allows it to perform sophisticated collections analytics and test new collections initiatives against a baseline.
- VEDO's contract with its field collection agency provides for payment based on collections performance.
- CGO and Duke provide consistent signals to their customers. The thresholds for termination notices and field terminations are the same. In contrast, DEO and VEDO have a gap where low past due balance customers are sent termination notices, but will never be scheduled for actual terminations.
- Duke and DEO have aggressive programs for requiring deposits from customers who are delinquent but have not been terminated.
- Most of the utilities attempt to obtain full payment before offering payment options.
- Duke has adequate resource to perform scheduled terminations.
- Duke and VEDO use a \$100 threshold for terminations. CGO's varies based on customer risk and ranges from \$100 to \$200. DEO uses a \$250 threshold.
- Duke established a credit counseling program to assist customers facing financial difficulties.
- CGO, Duke and VEDO use a tiered-approach for managing outside collection agencies (OCAs) – different agencies are used at various stages in the life of an account. CGO, DEO and Duke use more than one OCA at a specific account stage.

The following sections summarize the conclusions and recommendation for each of the utilities and provide an estimate of the cost and ease of implementation. NorthStar has assigned a priority ranking of "A", "B", and "C" to each recommendation based on our judgment of their importance for Ohio ratepayers. "A" represents those items that are most critical and should be implemented in the near term (next six months). "B" represents those items that will result in performance improvements but would have a less immediate effect. "C" represents those items that should be implemented to improve processes or procedures, but may not have a significant effect on performance.

NorthStar has classified the level of effort required as either "nominal", moderate," or "significant" based on our judgment of the effort that would likely be required to implement the recommendations. The incremental cost is classified as "nominal", "moderate," or "significant" once again, based on our judgment of the incremental dollars that might be needed to achieve the recommendation. The "nominal" is for those items that should be achievable within normal business operations with no outside resources required. The "moderate" category is for those recommendations that would require a re-assignment of existing internal resources, but should be achievable with current staffing or some systems modifications. The "significant" category is for those items that may or likely would require outside costs or capital investment.



C. CGO Summary of Conclusions and Recommendations

Strategy and Organization

1. CGO has a clearly articulated credit and collections strategy: to maximize collections of delinquent receivables while minimizing administrative and field costs associated with collections activities.
2. CGO's collections process has undergone a number of significant changes since 2005, resulting in the implementation of key initiatives.
3. In addition to the process/efficiency changes, CGO has implemented a number of targeted collections initiatives to reduce bad debt and improve performance.
4. With the exception of the expiration of termination orders when a new bill is issued, CGO's collections timeline is reasonable.
5. While CGO uses a reasonable behavioral scoring process to determine the collections path for each customer; it has not validated the thresholds which may be too high.
6. CGO resets the collections timeline with the issuance of a new bill, which affects its collections performance and prevents it from optimizing its collections activities, particularly during the winter period.

Deposits

7. CGO uses an appropriate process to verify customer identity and determine security deposit requirements for new service requests.
8. Security deposits are collected on about forty percent of accounts turned on (either new service or non-pay disconnect reconnects).
9. Although allowed by regulation, CGO does not require deposits of delinquent, non-terminated customers (residential or commercial).
10. CGO appropriately requires deposits from residential customers and commercial customers that it has disconnected for non-payment.
11. CGO holds, applies, and returns deposits as specified by Commission regulations.

Terminations and Payment Arrangements

12. CGO field collectors and service techs ultimately work a small percentage of the accounts to whom it sends termination notices (about twenty-five percent). A large portion of customers pay an adequate portion of the delinquent balance or enter into a payment arrangement to avoid disconnection.



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13. CGO appropriately measures the performance of its field collectors, who successfully complete about 60 percent of scheduled trips.
14. CGO is not able to terminate all eligible or scheduled customers for termination for non-payment due to workload, lack of resources and the fact that the life of a disconnect order ends when a new bill is issued.
15. As a result of CGO's behavioral scoring parameters, PIPP customers may be delinquent for a number of months before termination.
16. CGO appropriately attempts to collect the full payment before offering the customers extended payment options.
17. CGO calls delinquent customers who have received termination notices to attempt to obtain payment or enroll the customer in an extended payment plan prior to terminating service.
18. The majority of CGO's customers are not on an extended payment plan (not including budget billing).
19. CGO may not sign customers up for an extended payment plan when the customer uses the Winter Reconnection Order (WRO) to reconnect service or avoid termination.
20. Depending on the timing of the request, it is possible for a CGO customer to delay the termination process for two months with each medical certificate, instead of the 30 days allowed by rule.
21. It is possible for a CGO customer to delay the termination process for a month by scheduling a PIPP appointment with a Community Action Agency (CAA).
22. Since CGO does not drop customers from PIPP eligibility until it receives the drop file from the Ohio Department of Development (ODOD), customers that are no longer income-eligible may remain on PIPP for an extended period of time.

Recovery Activities

23. Although CGO has implemented an early-out program to encourage customers to pay a final bill before it affects their credit report, accounts are not transferred to the early-out collection agency until 33 days after the final bill is issued.
24. CGO uses a tiered-approach and multiple OCAs to ensure competition and appropriate attention to the accounts.
25. CGO appropriately monitors and measures the performance of its OCAs, and the OCAs are compensated based on their performance.

Meter Reading, Billing and Payments

26. CGO has appropriate processes to ensure meters and reads are accurate.



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27. Less than one percent of the CGO meters had not had an actual read within the last twelve months as required by the OAC.
28. CGO uses an industry standard system of checks to ensure the accuracy of customer bills, and bills are rendered timely.
29. CGO offers its customers an appropriate array of payment options.

Recommendations

Recommendation	Priority	Level of Effort	Incremental Cost
Organization and Strategy			
1. Develop the necessary information and validate the behavioral scoring model. When validating, ensure the scoring parameters and the termination notice dollar thresholds are not in conflict, determine whether the model is accurate, that scoring ranges are appropriate, and that threshold levels are optimal.	A	Moderate	Moderate
2. Evaluate modification of the collections timeline so that non-pay disconnect orders do not expire when a new bill is issued. This should also help prevent customers using medical certificates and PIPP appointments from delaying collections activities for multiple months.	A	Moderate	Moderate
Deposits			
3. Evaluate the cost-effectiveness of the system modifications necessary to charge deposits for delinquent, non-terminated customers (residential and commercial) as allowed by the OAC.	B	Moderate	Significant
Terminations and Payment Arrangements			
4. Evaluate modification of practices so that termination orders do not expire with the issuance of a new bill. (See also Recommendation 2)	A	Moderate	Moderate
5. Correct the WRO data provided to the PUCO staff, and ensure that all customers using the WRO are placed on a payment plan.	B	Minimal	Minimal
6. Remove PIPP customers from the program in a timely manner if the customer fails to re-verify his income.	C	Minimal	Minimal
Recovery Activities			
7. Transfer accounts to the early-out agency more promptly.	B	Minimal	Minimal
8. Complete the OCA review. Multiple agencies should be used to ensure competition and maximize performance. The review should also consider the optimal timing of transfers to the secondary OCA.	B	Minimal	Minimal
9. Encourage competition among the OCAs through an appropriate performance monitoring/reward system.	B	Minimal	Minimal

D. DEO Summary of Conclusions and Recommendations

Strategy and Organization

1. DEO's credit and collections organization structure is generally appropriate.
2. DEO does not have an effective collections strategy to guide its collections efforts.

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3. DEO's collection efforts are hampered by its "resetting" of the termination clock each time a customer is billed.
4. DEO's collection process limits the number of customers that it terminates.
5. While DEO uses an internal behavioral scoring system, its thresholds should be reviewed and validated.
6. DEO's decision to file infrequent changes to its PIPP Rider rates has masked the effects of changing economic conditions, increased gas costs and collection practices on PIPP cost recovery, leading to large increases in PIPP Rider rates.

Deposits

7. DEO has appropriate systems to verify the identity of individuals and businesses desiring to initiate service and to ensure that any past due balances are linked to new accounts.
8. While DEO does not currently perform credit scoring, it is in the process of adding a credit scoring system.
9. DEO has an appropriate process for assessing security deposits for delinquent customers.
10. DEO holds, applies and returns deposits as specified by PUCO regulations.

Terminations and Payment Arrangements

11. DEO's \$250 threshold for active terminations is high and unduly delays termination activity for customers with past due balances.
12. DEO sends termination notices to customers it knows it will not terminate, thereby creating the potential that customers learn they will not likely be terminated if they have received a notice.
13. The termination goals that DEO has established are arbitrary, not particularly aggressive, and do not relate to the number of accounts eligible for termination.
14. Only about fifty percent of accounts that are scheduled for termination are successfully completed, and are either terminated or paid day of.
15. DEO has more success with disconnections of outside meters than with inside meters, and has a particular problem with disconnecting multi-manifold meters located inside the service premises.
16. DEO PIPP customers are not treated less stringently than non-PIPP customers relative to disconnect notices and terminations.
17. Depending on the timing of the request, it is possible for a DEO customer to delay the termination process for two months with each medical certificate or by scheduling a PIPP appointment with a Community Action Agency (CAA).



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18. While DEO makes some outbound calls to attempt to obtain payment prior to termination, it has not reviewed the success of the calls relative to behavioral scores or internal credit ratings, nor has it experimented with making courtesy calls to customers with lower scores to see if those accounts could be encouraged to pay without an actual disconnect order being placed.
19. DEO offers each of the extended payment plans called for by regulations, and the plans are offered on a consistent basis to all customers.
20. DEO does not take all opportunities to obtain full payment from delinquent customers prior to offering extended payment plans.
21. DEO automatically enrolls customers in the current plus one-sixth payment plan when they invoke the WRO.
22. DEO has developed creative programs to encourage customers to pay their arrearages.

Recovery Activities

23. Although DEO promptly transfers high balance final accounts to an OCA (five days after the final bill), it is not otherwise aggressive in pursuing recovery, and its fee structure is counter to standard practice.
24. DEO is not aggressive at managing its existing OCAs.
25. DEO's practice of executing charge-offs once a year does not appear to have either a positive or negative impact on the UEX rider or the collections effort.

Meter Reading, Billing and Payments

26. DEO has appropriate systems in place to ensure accurate and timely meter reading.
27. The meter reading and billing processes are part of Sarbanes-Oxley compliance audits and are audited on an annual basis by DEO's internal audit group. DEO has appropriate mechanisms in place to ensure that all meters have an actual read at least once every twelve months, as required by the OAC.
28. DEO has appropriate mechanisms embedded in its meter reading and billing systems to identify and evaluate high/low, negative use, and zero reads.
29. DEO offers its customers an appropriate range of payment options.



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Recommendations

Recommendation	Priority	Level of Effort	Incremental Cost
Organization and Strategy			
1. Develop an effective, financially-driven credit and collections strategy that places more emphasis on getting to customers sooner and maximizing rapid recovery of arrearages.	A	Moderate	Minimal
2. Tie performance evaluations for internal credit and collections staff to achieving financial recovery targets (i.e., collections performance).	B	Minimal	Minimal
3. Modify processes to allow collections activities to continue after a new bill is issued. ⁴	A	Significant	Minimal
4. File for annual PIPP Rider rate adjustments to mitigate the size of future rate increases as required by the Commission's Finding and Order in Case No. 09-2011-GA-PIP dated March 24, 2010.	B	Minimal	Minimal
Deposits			
5. Incorporate third-party credit scores into the deposit assessment process to obtain deposits from more customers. ⁵	B	Moderate	Moderate
Terminations and Payment Arrangements			
6. Evaluate options to increase the number of termination orders worked by increasing the number of field service representatives assigned to termination activity, or retaining outside contractors, and implement most cost-effective option.	A	Minimal	Minimal
7. Establish termination goals based on the number of accounts eligible for termination, rather than at arbitrary levels based on prior year activity.	B (follows increased resources for terminations)	Minimal	Minimal
8. Lower the threshold for actual termination activity from its current \$250, possibly setting thresholds in accordance with behavior scores or credit ratings.	B (follows increased resources)	Moderate	Minimal
9. Provide better linkage between issuance of termination notices on bills to actual termination activities, thereby resetting customers' expectations that a termination notice means you will have service disconnected.	B	Moderate	Moderate
10. Develop a link between collector performance in the field (e.g., termination accounts worked) and compensation.	C	Significant	Moderate
11. Develop a more automatic process to link multi-manifold meter accounts that have past due balances to maximize the ability to disconnect them.	B	Moderate	Moderate
12. Evaluate the effectiveness of the existing courtesy call program and explore placing courtesy calls to customers with lower behavioral scores to increase the number of customers who either pay or are placed on a payment plan before sending termination orders to the field.	B	Moderate	Moderate

⁴ Work already underway to implement this recommendation

⁵ Work already underway to implement this recommendation

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Recommendation	Priority	Level of Effort	Incremental Cost
13. Evaluate, through a champion/challenger test, increased focus by CSRs on first offering customers short-term extensions to pay their full bill before being told about extended payment plans.	B (after timeline modified so bills don't expire)	Minimal	Minimal
Recovery Activities			
14. Begin using a secondary OCA for accounts past the initial primary recovery period.	B	Moderate	Minimal
15. Eliminate the practice of paying a reduced OCA commission on older accounts.	A	Minimal	Minimal
16. Institute a performance monitoring system for the OCAs with monthly or annual rewards for the top performing OCA.	C	Minimal	Minimal

E. Duke Summary of Conclusions and Recommendations

Strategy and Organization

1. Duke's organizational structure balances cost efficiencies and synergies with localized control.
2. While Duke's stated strategy is to minimize write-offs by ensuring adequate security deposits and taking timely follow-up action on delinquent active and inactive accounts, it does not address account delinquencies in a timely manner.
3. Duke uses a complex process to determine credit status; however, resulting differences in the notification process are minimal.

Deposits

4. Duke verifies customer identity and checks for past due balances when initiating service.
5. While Duke has a formal process for determining credit worthiness, its threshold for credit worthiness may not be appropriate.
6. Duke has an aggressive policy for pursuing deposits.
7. Despite the existence of procedures designed to check for past due balances, a number of Duke customers with outstanding balances have been allowed to establish new service without paying past arrearages.
8. Duke's policies regarding screening and the collection and refund of customer deposits follow regulatory guidelines.



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Terminations and Payment Arrangements

9. Duke provides customer with proper disconnect notices, and more than ample opportunity to avoid disconnection.
10. Non-pay disconnects (DNPs) are scheduled and performed by a dedicated internal workforce, and disconnections are not generally limited by manpower or scheduling conflicts.
11. DNP work is scheduled based on customer dollars outstanding.
12. In 2009, Duke disconnected fifty-seven percent of its eligible accounts, compared to a target of 60 percent.
13. The majority of Duke's delinquent customers pay all or a portion their bills or enter into payment arrangements during the termination notification process. A small portion of delinquencies are ultimately scheduled for termination.
14. Duke appropriately attempts to collect the full payment before offering customers extended payment options.
15. In the 2008-2009 winter season, seventy-four percent of Duke customers using the WRO to avoid termination or reconnect service and who were not already on a payment plan were subsequently placed on a payment plan.
16. Depending on the timing of the request, it is possible for a Duke customer to delay the disconnection process for an additional thirty days with each medical certificate.
17. It is also possible for a Duke customer to delay the disconnection process for ten days if they are a new PIPP customer in order to allow a CAA time to gather the information necessary to set up the PIPP.

Recovery Activities

18. Duke's recovery activities reduce the uncollectible debt rider. Duke quickly assigns the account to a pre-collection agency thereby maximizing opportunity for recovery (recovery opportunity diminishes with time). Accounts are assigned fourteen days after the final bill is issued.
19. Duke's addition of OCAs in 2010 could increase competition and potentially improve performance. In 2010, Duke added an additional OCA at each of the primary, secondary and tertiary levels of collection.

Meter Reading, Billing and Payments

20. Duke has appropriate processes to ensure meters and reads are accurate.
21. Less than one percent of Duke's meters have not had an actual read within the last twelve months as required by the OAC.



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22. While Duke has an industry standard system of checks and balances to ensure that customer bills are accurate and are rendered in a timely manner, the PUCO staff has identified some deficiencies in Duke's processes for monitoring and responding to potentially defective meters.

23. Duke offers its customers an appropriate array of payment options for both their gas and electric customers.

Recommendations

Recommendation	Priority	Level of Effort	Incremental Cost
Organization and Strategy			
1. Accelerate the collections process. Terminations could begin as early as day forty-four in the non-winter and fifty-four in the winter.	A	Moderate	Moderate
Deposits			
2. Perform an analysis to determine if the risk model score threshold used to determine residential deposit is appropriate. <ul style="list-style-type: none"> At a minimum, Duke should stratify its residential bad debt accounts based on a range of scores. There should also be an overall strategy as to why the score is set at a certain level and what benefits would be expected from changing the score (i.e., raising the score to "x" will reduce bad debt by "y" percent 	B	Significant	Moderate
3. Rigorously examine the initial screening process to determine where weaknesses exist that allows customers to receive new service without clearing previous balances. <ul style="list-style-type: none"> As a result of efforts already underway Duke has identified a sample set of customers who have continued to receive service when Duke should have been required them to clear arrearages. Using this sample as a starting point, Duke should identify specific improvement opportunities, put procedures in place to achieve those opportunities and develop and track metrics to ensure they are achieved. 	A	Moderate	Minimal
Terminations and Payment Arrangements			
4. Increase the aggressiveness of the disconnection program. <ul style="list-style-type: none"> Duke Ohio should at a minimum strive to achieve the Midwest overall performance. A study should be undertaken to determine exactly why Ohio disconnects lag Duke's other states and determine appropriate steps to improve performance. These could include: <ul style="list-style-type: none"> Increased manpower (including seasonal contractor use) More aggressive pre-collection activities More aggressive collections timeline A systematic program to address problem inside meters 	A	Moderate	Moderate
Recovery Activities			
5. Encourage competition among the OCAs at each collections stage through an appropriate performance and reward monitoring system.	B	Minimal	Minimal



F. VEDO Summary of Conclusions and Recommendations

Strategy and Organization

1. VEDO effectively utilizes its three organizations and its customer information system to perform its customer collection activities.
2. Over the past two years, VEDO has implemented a number of initiatives to reduce net write-offs.
3. VEDO has negotiated an innovative contract with its field collections contractor, which is compensated based solely on how many DNPs are completed or dollars are collected and how many assigned door tags are delivered.
4. While VEDO's collections timeline is reasonable, it has a three-day lag between issuing the ten-day notification and the time it begins terminations, which could be eliminated.

Deposits

5. VEDO has appropriate systems to verify the identity of individuals and businesses requesting service and ensure that any past due balances are linked to new accounts.
6. VEDO has established process for determining new customer creditworthiness in accordance with PUCO regulations.
7. VEDO does not utilize mid-stream deposits to minimize risk.
8. VEDO holds, applies, and returns deposits as specified by PUCO regulations

Terminations and Payment Arrangements

9. VEDO's disconnect timelines are generally reasonable.
10. While VEDO has a low disconnect threshold, termination notices and disconnect scheduling do not have the same thresholds.
11. While VEDO manages its field collection activities through the use of dedicated contract services, it only completed forty-one percent of its scheduled disconnects in 2009.
12. VEDO places courtesy calls to delinquent customers to attempt to obtain payment prior to terminating service.
13. VEDO offers each of the extended payment plans called for by regulations, and the plans are offered on a consistent basis to all customers.
14. VEDO appropriately communicates with customers on available payment options.



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15. VEDO attempts to obtain full payment from delinquent customers prior to offering extended payment plans.
16. VEDO requires customers to agree to payment terms or a payment plan when they invoke the WRO option.
17. VEDO tracks enrollments and expirations of medical certificate and PIPP plans.

Recovery Activities

18. While VEDO's primary collection agency reduces the uncollectible debt rider, the use of only one primary OCA does not promote competition. VEDO appropriately added a secondary OCA in November 2009.

Meter Reading, Billing and Payments

19. VEDO has appropriate processes to ensure meters and reads are accurate.
20. VEDO uses an industry standard system of checks to ensure the accuracy of customer bills, and bills are rendered timely.
21. VEDO effectively minimizes the number of meters with multiple months of estimated reads.
22. VEDO offers its customers an appropriate array of payment options.

Recommendations

Recommendation	Priority	Level of Effort	Incremental Cost
Organization and Strategy			
1. Eliminate the three day lag that occurs before non-pay disconnects are performed.	C	Minimal	Minimal
Deposits			
2. Evaluate the cost-effectiveness of assessing mid-stream deposits for residential customers that have received two or more disconnect notices within the past twelve months and commercial customers that have received a disconnect notice.	B	Moderate	Moderate
Terminations and Payment Arrangements			
3. Evaluate changing the disconnect notice threshold to \$100 to coincide to with the threshold for actual disconnects. Determine effect on payments.	C	Minimal	Minimal
4. Increase termination performance.	A	Moderate	Moderate
Recovery Activities			
5. Consider adding a second, primary OCA, and encourage competition among the OCAs at each collections stage through an appropriate performance and reward monitoring system.	B	Moderate	Minimal

G. Summary of Regulatory Recommendations

The following summarizes NorthStar's recommendations related to specific regulatory programs (i.e., PIPP and moratoriums). Additional discussion is provided in Chapter VIII. Our review focused on those regulations which have the greatest effect on the utilities' collection activities and was not intended to be an exhaustive assessment.

In general, NorthStar is hesitant to recommend specific credit and collections targets. NorthStar's survey found that most states have not implemented targets, and bad debt expense is driven by a significant number of outside factors. Although the utilities' practices are a significant driver of collections performance, bad debt expense can fluctuate based on gas prices, weather, and changes in economic conditions. The substantial effect of changing economic conditions can currently be seen in the recent increase in bad debt expenses experienced by utilities across the US. For this same reason, utilities in the same state may experience different results based on the demographics of the customer base.

NorthStar recommends additional reporting requirements to assist the PUCO staff in monitoring as opposed to a specific bad debt target. Currently a range of 1.5 to 2.5 percent for non-PIPP bad debt expense (depending on the service territory) would represent a reasonable target; however, as the economy improves or gas prices increase, this range may not longer be appropriate. For those interested in alternative bad debt recovery mechanisms, NorthStar directs the reader to the discussion of the Michigan approach (Chapter VIII) which provides a target range and associate penalties and sharing mechanisms for bad debt recovery. NorthStar does not recommend PIPP balances be included in any bad debt targets.

Recommendation Summary

1. Require the utilities to file quarterly or annual reports providing information on their collections activities and effectiveness to assist the PUCO staff in monitoring performance. Work with the utilities to develop consistent definitions and a reporting framework. Suggested metrics could include:
 - Financial: Non-PIPP residential bad debt as a percent of Non-PIPP residential billings (gross and net of recoveries), total bad debt as a percent of total billings (gross and net), delinquency aging, net write-offs and recoveries, and PIPP arrearages.
 - Economic: Numbers of bankruptcies, numbers of PIPP customers, and numbers of delinquent customers.
 - Effectiveness:
 - Deposits: numbers of accounts eligible for deposits and number of deposits collected.
 - Termination Notices: Number of bills sent, number of delinquent accounts, number of accounts eligible for termination notices, number of termination notices sent, and number of customers eligible for termination following notification.

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- Payment Arrangements: numbers of payment arrangements made and broken by type.
 - Field Collections: Number of accounts eligible, number scheduled, number worked, number terminated, and number collected.
2. Require annual PIPP filings and adjustments to the rates if the rates increase or decrease beyond a certain threshold.
 3. Continue and increase efforts to aggressively pursue terminations for PIPP customers who are delinquent with their payments.
 4. Develop and implement education programs to PIPP customers regarding the new regulations and necessary changes in payment patterns.
 5. Restrict the WRO to limited income customers (preferred) or, at a minimum, develop a tiered-payment amount based on income level. Reevaluate payment amount.
 6. Consider eliminating mandatory winter moratoriums.



CHAPTER II: INTRODUCTION

This Chapter provides a discussion of the framework within which this study was undertaken, including an overview of the Percentage of Income Payment Plan (PIPP) and uncollectible expense (UEX) riders.

A. Background

The Public Utilities Commission of Ohio (PUCO or Commission) regulates the credit and collection activities of the gas utilities under its jurisdiction. The PUCO established the PIPP program and associated rider in the late 1980s, and the UEX rider in 2003. Together these riders recover utilities' bad debt expenses. The PIPP rider is used to recover the arrearages and past due balances associated with the PUCO-mandated limited income assistance program. The UEX rider is used to recover the bad debt expenses associated with non-PIPP customers.

While the riders allow for the recovery of the bad debts themselves, most of the costs associated with the actual collection activities are not included in the riders. Instead, these costs continue to be recovered through base rates.¹ This disconnect between the cost of recovery and the actual bad debt expense creates a potential incentive for the utilities to minimize the costs associated with its collection efforts. The use of 100 percent recovery riders, rather than bad debt recovery through base rates, also eliminates any risk of non-recovery for the utility. Together, these factors create the potential for higher total rates for customers.

PUCO-Ordered Audit

By entry dated August 19, 2009, the Commission ordered a review of the credit and collection policies and practices of Columbia Gas of Ohio, Inc. (CGO), the East Ohio Gas Company d/b/a Dominion East Ohio (DEO), Duke Energy of Ohio (Duke), and Vectren Energy Delivery of Ohio (VEDO), collectively "the Companies". The purpose of the review was to: audit, evaluate, and recommend improvements in the collection policies, practices, and performance of the gas companies; evaluate whether the four companies' collection practices and policies are effective in minimizing uncollectible expense; ascertain benchmarks to be used by the Commission to monitor the effectiveness of all Ohio natural gas companies' collection policies, practices, and performance; and recommend "best practices" to be employed by natural gas companies in the state of Ohio to minimize uncollectible expense.

NorthStar Consulting was selected to perform the audit which began in November 2009. Fieldwork was completed in February 2010 and the report was submitted in May 2010.

¹ VEDO includes outside collection agency fees and commissions through the UEX rider

B. PIPP Cost Recovery Rider

The PUCO established the PIPP cost recovery rider in the late 1980s in conjunction with the establishment of the PIPP program that was designed to assist utility customers (both gas and electric) with limited incomes. On December 2, 1993, the Commission adopted several changes to the PIPP program and its cost recovery (the December 2 Order).² Under the December 2 Order, utilities are authorized to recover costs associated with the implementation of the PIPP program, including:

- Customers' arrearages incurred prior to entering the program.
- PIPP program arrearages (both the differences between PIPP payments and PIPP customers' full bills and unpaid PIPP payments).
- Post-PIPP arrearages incurred during the 24-month grace period after customers come off of PIPP.
- Customer credits earned through any mandated or company-specific regular payment reward programs.
- Any costs associated with the program including income verification and re-verification charges from the Ohio Department of Development (ODOD).

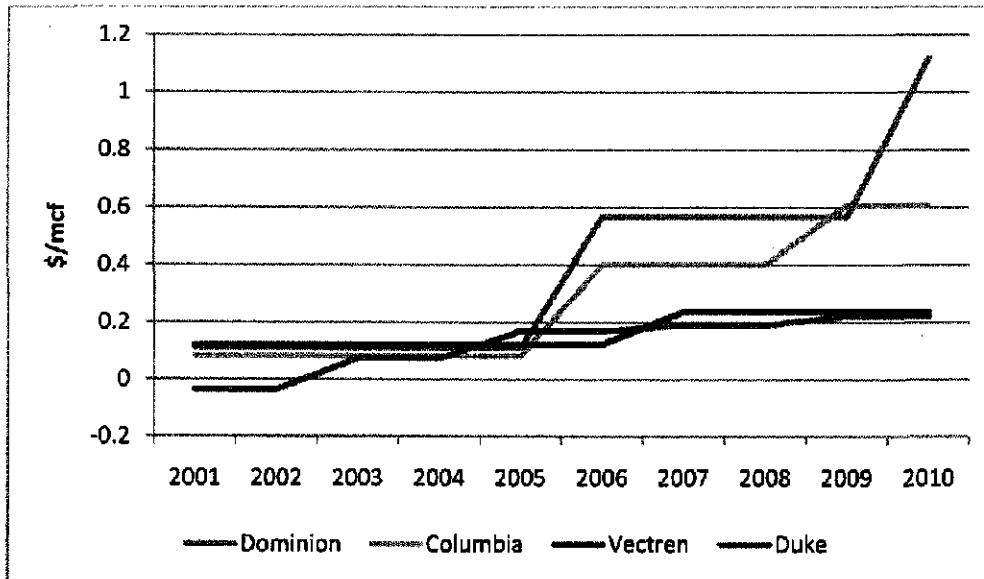
The PIPP rider is set based on the existing balance in the PIPP arrearage accounts plus projected arrearages for the twelve months following the filing date. Originally, the rider amortized the balances over twelve months, but subsequent filings by several utilities have provided for amortization of the historical arrearage balance (not the projected) over 36 months.

The PIPP rider is paid by all customers who pay the UEX rider, including PIPP customers. The December 2 Order allows the companies to file for adjustments to the rider rate no more frequently than annually. Different companies have filed for PIPP rider adjustments at different times. **Exhibit II-1** illustrates the PIPP rider rates for the gas utilities over the past ten years.

² Finding and Order in Cases No. 88-1115-GE-PIP, 90-705-GE-PIP, and 90-879-GE-ORD, December 2, 1993



**Exhibit II-1
Comparison of PIPP Rider Rates
All Gas Utilities**



Source: PUCO GA-PIP filings of each utility.

CGO

PIPP accounts are tracked separately in CGO's billing system. PIPP is immediately considered a regulatory asset (182 account). There are no PIPP arrearages in accounts receivable. To calculate the rider, CGO looks at the net change in receivables balance for all PIPP customers. Arrearage balances less than two months old are recovered over one year and an ongoing recovery rate is developed. Arrearage balances greater than two months old are recovered over three years and a deferred recovery rate is developed. The two rates constitute CGO's PIPP rider rate. CGO had just over 100,000 customers (less than 8 percent of its residential customers) on PIPP in 2008 and 2009.³

DEO

DEO has had, and continues to have, the highest PIPP rider rate of the four gas utilities. Approval of DEO's December 2009 PIPP rider filing, as supplemented in February 2010, established the rate at \$1.7078/mcf. DEO attributes its high rate to the large percent of PIPP customers (about 120,000 customers or ten percent of its total customers), the run up in natural gas prices, and poor economic conditions within its service territory.⁴

Since 1999, DEO has only filed for adjustment to its PIPP rider rate twice – in 2006 and in December 2009. As a result, the effect of the increases in the DEO PIPP rider rate on customers

³ Data Response 1-37

⁴ Company filing in Case No. 09-2011-GA-PIP and on-site interviews



is significant. Exhibit II-2 shows the balance in the PIPP deferral account over the past several years.

Exhibit II-2
DEO PIPP Arrearage Account Balances

Date	Balance of Pre-PIPP and PIPP over 12 months old, as of date (without carrying charges) \$ million
11/30/2005	\$76.4
12/31/2006	\$122.1
12/31/2007	\$139.1
12/31/2008	\$137.6
11/30/2009	\$148.6

Source: Filing in Case No. 05-1421-GA-PIP and DR-EOG-2-9

In DEO's recent rate case (07-829-GA-AIR), it agreed to credit the PIPP deferral account with a portion of revenues from firm receipt point option and commodity exchange transactions. Through December 31, 2009, DEO credited \$16.4 million to the PIPP arrearage accounts from these additional revenue sources.⁵

Duke

The Duke Energy PIPP rider was approved for use beginning July 2, 2007 in Case NO. 07-606-GA-PIP. The mechanics of the Duke program are similar to the other Ohio gas utilities in that it is designed to recover a gas PIPP customer's bill including their PIPP installment if not paid.

Duke is the only Ohio gas utility that also provides electric service. Under the PIPP program, the required payment amount varies depending on the heating source. If natural gas is the customer's primary heating source, the customer pays a gas PIPP installment that is ten percent of their gross monthly household income. If the customer uses natural gas as their secondary heating source, they pay only five percent of their gross monthly household income.

In 2006, the number of Duke PIPP customers increased significantly, from 8,118 at the beginning of the year, to 10,261 at the end of the year. The number of Duke PIPP customers has held at approximately 10,000 since the end of 2006.⁶ This represents a relatively small portion of Duke's customer base - 680,000 electric customers and 420,000 gas customers in Ohio.

VEDO

VEDO's current PIPP filing was approved on December 21, 2006 and became effective on February 5, 2007. The rate is \$0.2337/mcf. In 2009, approximately 13,700 of VEDO's 294,000 residential customers (4.7 percent) qualified for PIPP. They represent approximately \$15.5

⁵ Initial Presentation and DR-EOG-2-9c, DEO Verification Response

⁶ DR Duke 01-037

million in revenues and \$11 million in natural gas cost.⁷ PIPP customers are segmented into three groups:

- Pre-PIPP – customers in the process of qualifying for PIPP. When they are qualified, their balance during the application period is transferred to the PIPP rider.
- PIPP – active PIPP customers whose balances are recovered through the PIPP rider.
- Post-PIPP – this category represents receivable balances for PIPP customers whose certificate has expired during a billing month. The determination as to whether the balances are classified as UEX or PIPP is based on record of eligibility as of the date the bill is generated. Any charges incurred in a billing month, where at the end of the month the customer is identified as PIPP, are recovered through the PIPP rider. Any other charges incurred on an account for a billing month that, as of the end of that month the customer is no longer participating in PIPP, are recovered through the UEX rider.⁸

C. UEX Rider

In Case 03-1127-GA-UNC, five natural gas utilities filed a joint application requesting establishment of a new mechanism to enable them to recover actual uncollectible expenses in a timely manner.⁹ Prior to this case, uncollectible expenses were recovered through base rates and therefore the amount being recovered could not be modified absent a full rate case. The companies argued that as a result of increasing volatility in natural gas prices and weather effects, the level of their uncollectible expenses fluctuated widely and that they should be entitled to recover uncollectible expenses in a manner that was more closely tied to the incurrence of the expenses.

In the Order in the case (termed “the December 17 Order”), the PUCO agreed that a more contemporaneous recovery of expenses that fluctuate widely was an understandable business approach.¹⁰ The PUCO established the UEX rider to recover the bad debt expense of customers not participating in the PIPP limited income assistance program. The UEX rider removed bad debt recovery from base rates and established the bad debt tracker mechanism, which is adjusted annually to achieve dollar-for-dollar recovery of actual bad debt write-offs. Sales volumes are used to convert the bad debt expense to a per mcf rate, which is applied to the bills of all customer classes from which the debt was incurred. Any over or under collection is included in the tracker deferral account and rates are adjusted as needed to facilitate full recovery. The utilities are required to file annual reports, and a UEX rider-rate adjustment is required if the variance in the rate is greater than or equal to ten percent.

For purposes of the rider, bad debt expense, (or uncollectibles) is defined as the past due balance once service is terminated, a final bill has been issued but not paid, and the account is

⁷ DRs 37 and 38

⁸ I Barrett, Initial Presentation and VEDO Verification Response

⁹ Participating utilities were: Dominion East Ohio Gas, Columbia Gas of Ohio, Vectren Energy Delivery of Ohio, Northeast Ohio Natural Gas Corp, and Oxford National Gas Company. Finding and Order, Case 03-1127-GA-UNC, December 17, 2003, p. 1

¹⁰ Op. cit. p. 11



written off. Because the utilities purchase the CHOICE program (third-party gas supplier) accounts receivable, associated bad debt costs are included in the bad debt expense.

The Order established a basic framework for the UEX rider, as follow:

- The initial UEX rate was to be set equal to the bad debt amount in base rates.
- The UEX rider was to be kept separate from the PIPP rider.
- Companies were authorized to recover carrying costs associated with the expenses.
- The UEX was to cover both company sales customers and competitive retail service customers.
- Companies with deferred account receivable balances were to recover those costs over 60 months (five years).
- Companies were to file reports on the UEX balances annually in May, and must propose to adjust the recovery rate if there was sufficient change (set at ten percent either over or under).
- Audits of the UEX balances were to be included in the financial gas cost recovery (GCR) audit dockets.
- No customer could opt out of the UEX mechanism if their uncollectible balances are recovered through the UEX.
- Companies were to provide information on their credit and collection policies within 60 days of the order, and were to meet with the Commission Staff and the Office of Consumers Counsel (OCC) to discuss possible improvements to their credit and collections policies.
- Companies were to make separate filings to implement the December 17 Order.

In accordance with the December 17 Order, all of the gas utilities filed cases to establish their uncollectible expense rider, and have subsequently filed reports annually. The calculation of the UEX rate generally follows the procedure shown in **Exhibit II-3**. The UEX rider is paid by all customers except some large industrial customers who were the early participants in open-access gas markets.



Exhibit II-3
Calculation of Uncollectible Expense Rider Rates
Example Utility

	(\$ in thousands)
Beginning Balance as of March 31 of current year	\$ 9,000
Plus: Estimate of Bad Debts to be Written Off	80,000
Plus: Amortization of A/R Regulatory Asset ¹	0
Less: Projected UEX rider recoveries	(25,000)
Less: Other recoveries	(12,000)
Plus: Carrying costs	2,000
EQUALS: Total amount to be collected by UEX rider	\$54,000
Divided by volume of gas sold over past 12 months	200,000,000 mcf
EQUALS: Uncollectible Expense Rate	\$0.27/mcf

¹ Eliminated for all utilities effective mid-2009.

As shown in **Exhibit II-4**, the UEX rider rates have fluctuated significantly over time, as a result of changes in gas prices, weather, economic conditions, and potentially each utility's collection practices.

Exhibit II-4
Uncollectible Expense Rider Rates - \$/mcf

	CGO	DGO	PUG	WDO
Initial Rate (set equal to bad debt expense in last rate case)	\$0.0493 ¹	\$0.0601 (East) \$0.0782 (West)	\$0.0000 (incl. in base rates) ³	\$0.0382
Effective 2004	\$0.2076	\$0.1877	\$0.0000	\$0.1567
Effective 2005	\$0.1338	\$0.2531	\$0.0000	\$0.0923
Effective 2006	\$0.2116	\$0.2906	\$0.0000	\$0.1468
Effective 2007	\$0.1631	\$0.5674	\$0.0000	\$0.1882
Effective 2008	\$0.2157	\$0.4444	\$0.0000	\$0.1165
Effective 2009	\$0.1866	\$0.2133	\$0.1569	\$0.2115

¹ Columbia's base rates had last been adjusted on September 29, 1994.

² Dominion had separate UEX rates for its East and West division up through October 2008 at which the gross receipts tax was removed from the UEX rider and the two tariffs were consolidated. In the prior years, the difference between the two rates was less than 1 mil. This chart shows the East tariff.

³ Duke did not file for its UEX until 2009. The amount in base rates had been \$0.0810 per mcf.

Source: UEX Filings with the PUCO.

CGO

CGO has filed annual adjustments to its UEX rate since the rider was established in 2003. At the time the rider was established, CGO's base rates were last adjusted in 1994, and included 4.93 cents per mcf for the recovery of bad debt. The original UEX rider rate was set at \$0.0493/mcf effective October 25, 2004. By PUCO entry, the rider provided for the recovery of \$23 million of deferred expense resulting from the PUCO's 2001 moratorium and the recovery of carrying costs on unrecovered balances exclusive of the 2001 moratorium deferral. CGO's October 1, 2004 rider filing established a new rate of \$.2076/mcf, based on the 2003 calendar year deferred uncollectible account expense, the 2004 estimated uncollectible accounts expense and one-fifth of the deferred accounts receivable balance authorized by the PUCO in Case No.



01-3278-GA-AAM. Since the 2004 filing, CGO's UEX rider rates have fluctuated. The 2009 approved rate is \$.1866/mcf. The rider excludes PIPP bad debt expense and includes CHOICE program bad debt costs. CGO includes the projected imbalance during the collection period in the calculation of the UEX rider rate. The amortization of the 2001 deferral ended in November 2009.

If a CGO customer pays its past due balance and has service reconnected, the amount paid is credited to the rider. During the heating season, if a customer uses the \$175 WRO to re-establish service and pays \$175 against their \$1,000 balance, the rider is credited with \$1,000 and the \$825 difference becomes a current accounts receivable.

DEO

DEO has filed adjustments to its UEX rate annually since the rider was established. The rider rate increased significantly from \$0.2906/mcf in 2006 to \$0.5674/mcf in 2007. The 95 percent increase was a direct result of increased gas prices over that time period, and a commensurate increase in the level of bad debt write-offs. With the decline in gas prices over the past two years, the company's UEX rate has declined just as dramatically. In 2008-09, DEO over-recovered its actual expenses, and showed a credit in the UEX accrual account. The credit was used to offset projected UEX write offs for 2009-10. As a result of the over-collection and the elimination of deferred accounts receivable amortization, the UEX rider rate was reduced approximately \$0.23/mcf, or 52 percent, in July 2009.¹¹

DEO writes off its bad debt accounts once a year in December. DEO believes this process reduces the amount of reversals that would otherwise be required due to customers going off the system, through termination and final bill in the spring, only to come back on the system in the early winter. DEO projects write-offs of approximately \$66 million and recoveries of approximately \$21 million through post write-off collections of bad debt for the twelve months ending March 31, 2010. In 2009, DEO recovered approximately \$88 million through the UEX rider.¹²

Duke

Unlike the other utilities, Duke did not apply for its first UEX rider until September 2009. Prior to that time, Duke recovered bad debt expense through base rates. Duke, like the other Ohio gas utilities, had received approval to establish a gas uncollectible expense rider in 2003 and the amount had remained at \$0.0/mcf.

On September 3, 2009, Duke filed an application (Case No. 09-773-GA-UEX) and supporting testimony to remove its uncollectible expense from base rates and establish an initial UEX rider rate. Duke's testimony detailed its base rate recoveries of uncollectible expenses and the associated tariff changes. Duke proposed to reduce its sales service and firm transportation base rates by \$0.081/mcf and to establish its initial UEX rider at \$0.1569/mcf, or a net increase to its customers of \$0.0759/mcf. On November 18, 2009 the PUCO authorized the rate. The PUCO further authorized Duke to change its accounting methods to defer incremental

¹¹ DEO Verification Response

¹² Rider filing 09-457-GA-UEX



uncollectible expenses not otherwise recovered in base rates or through the UEX rider until such time as they are included in the UEX rider.

VEDO

VEDO's first UEX rate was set on April 7, 2004. The most recent UEX rate became effective on July 29, 2009 at a rate of \$.2115/mcf, increasing 82 percent from the 2008 rate of \$.1165/mcf.¹³ The rate includes all utility tariff costs associated with written-off accounts. Accounts are written off 90 days after the final bill.¹⁴

VEDO's process for developing the rate is based on the previous year's write-off and a forecast of future year write-offs and future year revenues. VEDO's billing system (Banner) tracks which accounts are 90 days past final bill and automatically sends a list at month close to Vectren's regulatory accounting function. Non-utility charges are not captured in the PIPP rider.¹⁵

VEDO's UEX rider is also credited for any debt recovery from the outside collection agency (OCA) activities and pre-write off revenues received through Banner. Credits from the OCA are net of commissions. Accounts representing approximately \$15 million in bad debt were transferred to the OCA for collection in 2009. The OCA recovered approximately \$1 million.¹⁶

Typically VEDO carries approximately \$50 million per month in accounts with balances over 90 days past due. The total revenue recovered through the rider approximates \$11 million per year.¹⁷

D. Transfers between PIPP and UEX Riders

Under PUCO regulations, there are limited situations where amounts are to be transferred between the PIPP and UEX riders. The most common of these situations is when customers move from being non-PIPP customers to the PIPP program. In this case, the customer's past due balances are transferred to pre-PIPP arrearages and are subsequently included in the PIPP rider calculations. However, unless the customer's account was written-off, none of their past due balances would have been included in a UEX rider calculation. Conversely, once a customer's past due balances are moved to PIPP, they are not transferred back to the UEX rider, even if the customer goes off PIPP. Pre-PIPP, PIPP and post-PIPP crediting program arrearages all remain in the PIPP rider regardless of the customers' present status.

¹³ Rider filing 09-456-GA-UEX

¹⁴ Initial presentation page 11

¹⁵ I Barrett

¹⁶ Initial presentation pages 11 and 12 and Binder from L. Friedeman (R. Goodge tab)

¹⁷ Analysis based on binder from L. Friedeman and DR 23



CHAPTER III: ORGANIZATION AND STRATEGY

This Chapter provides an overview of the Ohio gas utilities' credit and collections organization, strategy and processes. More detailed discussion of the utilities' specific practices is provided later in this report.

A. Summary of Regulatory Requirements

The Ohio Administrative Code (OAC) Chapters 4901:1-13, 4901:1-17 and 4901:1-18 set forth requirements governing the utilities' credit and collections activities. In general terms, the regulations define:

- Meter reading and billing requirements, including bill due dates and meter reading and billing frequencies.
- Bill payment options and crediting of customer payments.
- Procedures for establishing customer creditworthiness and requiring customer deposits.
- Payment plans and assistance programs for customers who are delinquent or have difficulty paying their bills. Utilities are expected to offer all customers a range of options to manage their bills, including short term extensions, and a variety of extended payment options.
- Limited income and medical assistance programs. The state established the Percentage of Income Payment Program (PIPP) for customers with income at or below 150 percent of the federal poverty level. Customers with medical conditions may use a medical certificate, signed by a licensed medical provider, to defer disconnection for thirty days or reconnect service.
- Notification requirements and allowed collections activities in the event a customer does not pay their bill. With proper notification the utilities are allowed to disconnect the gas service of delinquent customers. The utilities must provide fourteen-day notification for residential customers year-round and an additional ten-day notification during the winter season.

The state and PUCO have also established special programs and protections which are in effect during the winter heating season. Each year a Winter Reconnect Order (WRO) is issued which allows any customer, regardless of income or qualification for payment plan, the opportunity to pay \$175 towards their past due amounts, be placed on a payment plan, and have their service left on or reconnected if it had previously been disconnected for nonpayment. Although not in effect during the 2009-2010 winter heating season, in the past the Governor has also requested that the utilities not terminate service of certain customer groups during the heating season (the Winter Moratorium). During the 2007-08 heating season the special winter moratorium applied to residential customers earning at or below 200 percent of the poverty level.



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An informal moratorium on disconnections for all residential customers regardless of income level was in place during most of the 2008-09 winter season.¹

In November 2010 OAC rule changes will go into effect.

B. Preferred Practices

The Ohio gas companies were evaluated against the following preferred practices:

- The utility has an overall collections strategy.
- The utility addresses delinquency as early as reasonably allowed by regulation.
- The billing cycle does not drive collections activity (e.g., termination notices do not expire with a new bill).
- Company communications and collection activities align, and provide appropriate signals to the customer.
- Collections activities are tailored to customer risk. Customer payment history and behavior is tracked and used to determine collections treatment.
- Contractors and internal collections staff are evaluated based on collections performance.

C. Key Practice Comparison

Exhibit III-1 provides a comparison of key collections practices. Additional details regarding each utility's activities are provided in later sections.

Exhibit III-1
Key Practice Comparison – Collections Strategy and Process

Collections cycle	Not required to restart with new bill	Restarts	Restarts ²	Continuous	Continuous in summer and semi-continuous in winter. Termination orders typically expire after seventeen days
Bill due	No sooner than fourteen days after postmark	Fourteen days	Fourteen days	Twenty-one days	Twenty-four days
Earliest termination date (residential)	Earliest is forty-four days	Forty-five days non-winter,	Forty-five days non-winter,	Eighty-four days	Forty-eight days

¹ DEO Verification Response

² DEO is in the process of modifying its billing and collection computer systems to enable disconnect notices to "live" beyond each meter read.



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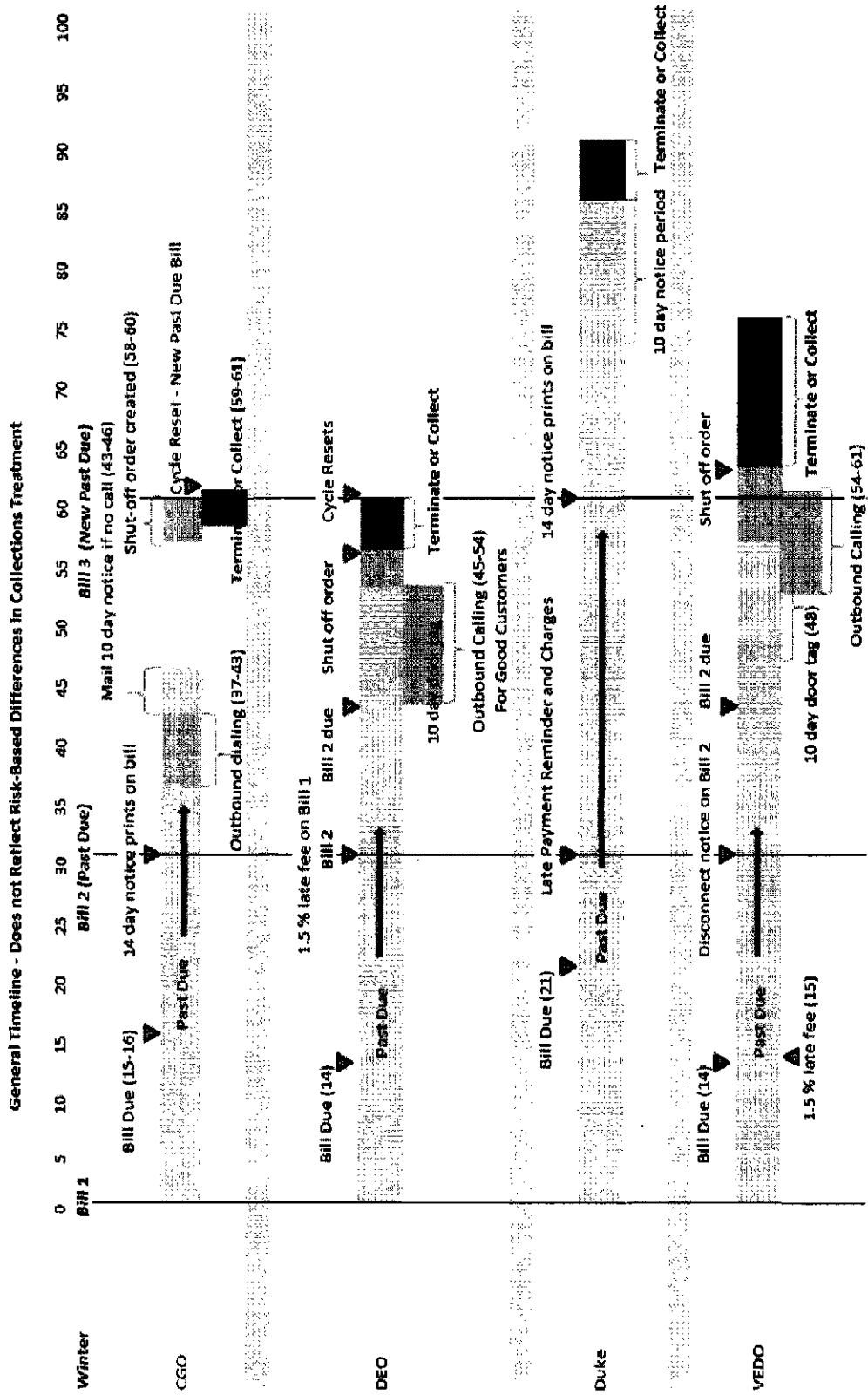
	Regulation	CED	DEO	DRA	ADPS
		fifty-eight days winter	Fifty-six days winter		
Risk segmentation performed	NA	Yes	Yes	Partial – minor differences in treatment	Partial – only used to determine disconnect priority not to tailor collection activities
Number of segments	NA	Four	Three	Numerous credit statuses	NA
Collections treatment based on assessed risk	NA	Yes	Yes	Notification process only	Termination prioritization only
Outbound dialing/ courtesy calls performed	Not required	All customers with term notice. Calls also used for ten-day notification	Some past due customers rated as “good” by DEO scoring system	None	Customers with balances greater than \$50
Workforce/contractors evaluated based on	NA	Number of accounts worked	Number of accounts worked	Number of accounts worked	Collections performance
Cash accepted in the field	NA	No	No	No	Yes

Despite the existence of a uniform set of regulations, the utilities’ payment and collections time frames differ substantially as shown in **Exhibit III-2**.



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Exhibit III-2 Collection Timeline Comparison – Winter



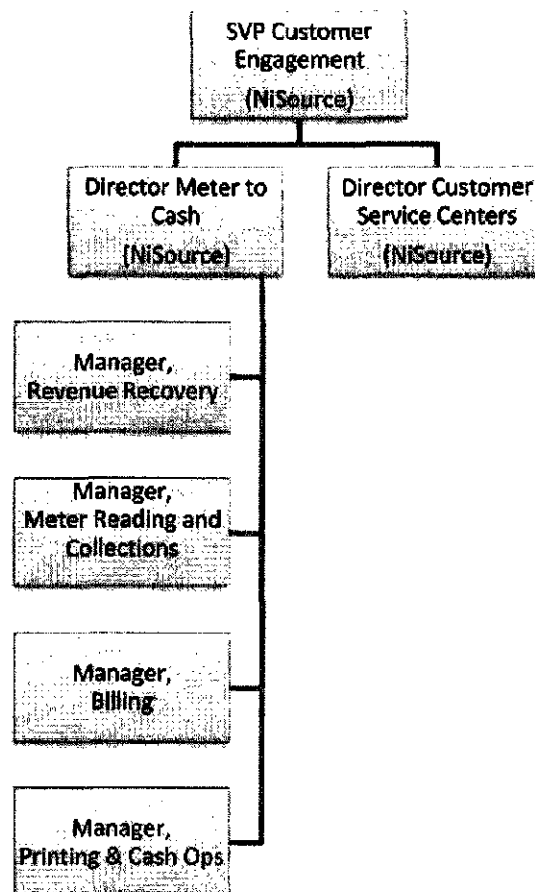
D. Columbia Gas Ohio (CGO)

Background

CGO provides gas service to 1.4 million customers in over 1,000 communities in Ohio, including Columbus (CGO's headquarters) and Toledo. CGO is the largest natural gas company in Ohio, serving 61 of 88 Ohio counties, with a service territory that spans 25,400 square miles. CGO operates 19,161 miles of distribution mains, with a total plant investment of \$1.6 billion.³ CGO is a wholly-owned subsidiary of NiSource which operates nine energy distribution companies throughout the country.

Credit and collections activities are primarily managed by the Meter to Cash Group which reports to the NiSource Senior Vice President Customer Engagement, as shown in **Exhibit III-3**.

Exhibit III-3
Credit and Collections Organization
CGO



Source: Data Response 1-1.

³ November 18, 2009 Orientation Presentation



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The Meter to Cash group establishes the credit and collections policies and strategies for NiSource. This organization handles meter reading, billing, payment and cash processing, revenue recovery, collections strategy and outbound collections activities for all of NiSource. The Meter Reading and Collections group performs meter reading and field collections services (including terminations) for NiSource. A Front Line Leader within that group is responsible for Ohio. Revenue Recovery handles bankruptcies and receiverships, identity theft, termination exceptions, large commercial account collections, returned checks, large commercial account collections, manual processing of certain shut-off notices, PIPP account issues and some outbound collections calls. This group also manages the outside collections activities and specialized collections initiatives. CGO's Revenue Recovery group handles receivership and bankruptcy cases. From January through September 2009, CGO processed 23,535 bankruptcies and 100 receiverships.

The Customer Service Center organization manages the outsourced call centers, which handle service requests, credit calls, customer inquiries and payment arrangements. Escalated customer complaints are handled by the Strategic Affairs organization, which also handles the company's limited income and assistance programs. Strategic Affairs reports to the President of CGO.

In 2005, CGO's Revenue Recovery function was outsourced to IBM/Vertex, as part of a larger initiative of outsourcing several of the company's administrative functions. On June 1, 2008, CGO elected to bring Revenue Recovery back in-house. Although the management of credit and collections activities is performed in-house, the majority of CGO's day-to-day collections activities are performed by contractors:⁴

- Outbound dialing and incoming credit calls (payment arrangements) are handled by an outside contractor, NCO. NCO has been handling outbound dialing since 1993 and inbound calls since 2000.
- Field collections are handled by a combination of internal resources and an outside contractor, Bermex, which is used in the more urban areas. Bermex also provides meter reading services.
- Late stage collections activities (post-final bill/write off) are handled by third party outside collection agencies.
- Customer segmentation scoring is provided by Total Solutions Incorporated (TSI).

Process Overview

CGO's collections processes are tailored to the risk profile of the customer. For customers requesting new service, CGO verifies identity and determines creditworthiness using an Equifax external utility index score from Equifax. This credit score is used to determine deposit requirements. Creditworthiness for previous or existing customers requesting new or transfer of service is determined based on the customer's payment history with CGO.

⁴ Various interviews and Document Response 1-20



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Once service has been initiated, customers are assigned to a risk segment (based on a behavioral score) which determines the collections activities that will be initiated if the customer goes delinquent. The behavioral score differs from the customer's credit rating and considers the customer's payment history and assumed risk profile. No new customers are classified as low risk - as they have no history with CGO, even if the customer's credit score is high enough that the customer is not required to pay a deposit.

For collections purposes, customers are segmented into four risk groups (low, medium, high and ultra-high) based on the customer's behavioral risk scoring. Behavioral risk scoring is performed daily by TSI for all customers as they go to billing. CGO transmits files containing payment and billing data for all active customers to TSI. TSI scores the customers using a proprietary behavioral scoring model and sends the score data back to CGO in advance of each bill cycle. Customers are assigned a base score and then points are added or subtracted depending on the following factors, resulting in a final possible score ranging from a theoretical 50 (best) to 950 (worst):

- Months as a customer
- Number of times delinquent within the last eight months
- Number of months since the customer was last eligible to be disconnected for nonpayment
- Delinquent balance
- Number of months since the last payment
- Age of the delinquency (number of buckets with arrearage)⁵

The behavioral score is used to determine the collections path for that customer. Bills are due at day fifteen or sixteen and the collections process begins with the second bill if the customer is delinquent. Whether the customer receives a reminder notice or a termination notice on the second bill is dependent on its risk group and the dollar amount of the delinquent balance. Customers with delinquent balances are charged a late fee of 1.5 percent, which is assessed on the date of its next scheduled meter read.⁶ If the termination notice does not prompt the customer to contact CGO, outbound calls are made by NCO over a three-day period, using a system called Soundbite. If the system reaches an answering machine, NCO leaves a message requesting that the customer contact CGO. Neither customer nor delinquency information is left on an answering machine. NCO contacts about 400,000 CGO customers per year.⁷ During the period December 2008 through September 2009, NCO called an average of 71,618 CGO accounts per month, achieving an overall average contact rate of 65 percent and a right-party contact rate of 33 percent. Account volumes ranged from a low of 32,559 accounts in October 2009 to a high of 123,650 accounts in February 2009.⁸

If the customer fails to pay the bill in response to the termination notice or the outbound call, the account is scheduled for field collection. Once a field collector is at a customer's premise, it

⁵ Data Response 2-4 CONFIDENTIAL

⁶ Data Response 1-28

⁷ Data Response 1-34

⁸ NCO Outbound Calling Performance, "Sample of automatic DIS Reports", provided during December 16, 2009 interview with Manager, Revenue Recovery, Manager, Meter Reading and Field Collections and Director, Meter to Cash.



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is CGO's policy to either collect or shut-off the service. While CGO does not accept cash in the field, customers can pay by electronic check or credit card while the collector is at the premise to avoid termination. If the customer wishes to pay using cash, they are directed to an authorized payment location and advised to call in the receipt number which will automatically pull the shut off order from the field collector. If the customer does not call in the payment receipt, the field collector will return to the premise to confirm payment or terminate service. Collectors have the authority to continue service in hardship situations or under extenuating circumstances.

Once a new bill is issued, the termination orders age off the system and the collections cycle begins again.

Bad Debt Expense

In 2008, CGO wrote off \$26.6 million in non-PIPP residential and small commercial customer balances, an increase of \$4 million from the 2007 write-off level of \$22.6 million. In 2009, CGO's write offs were \$27.7 million.⁹ Non-PIPP bad debt as a percent of customer billings increased as shown in **Exhibit III-4**.

Exhibit III-4
Non-PIPP Bad Debt Expense – 2007 to 2009
CGO
(\$ millions)

	2007	2008	2009
Non-PIPP Bad Debt Expense	22.8	26.7	28.3
Total Non-PIPP Customer Billings	1,860.6	2,041.7	1,689.1
Percent	1.2%	1.3%	1.7%

Note: Includes industrial customers.

Source: Bad Debt Data Response provided 4-19-10.

Bankruptcies increased year over year, from \$10.2 million in 2007, to \$17.4 million in 2008, and \$24.6 million in 2009.¹⁰ At December 31, 2008, delinquencies represented thirty-seven percent of CGO's residential and commercial customer accounts receivable balances (active and final).

CGO's PIPP arrearages were 5.2 percent of total billings (PIPP and non-PIPP) in 2007, 5.3 percent in 2008 and 3.0 percent in 2009. Year-end PIPP-only arrearages and billings are shown in **Exhibit III-5**.

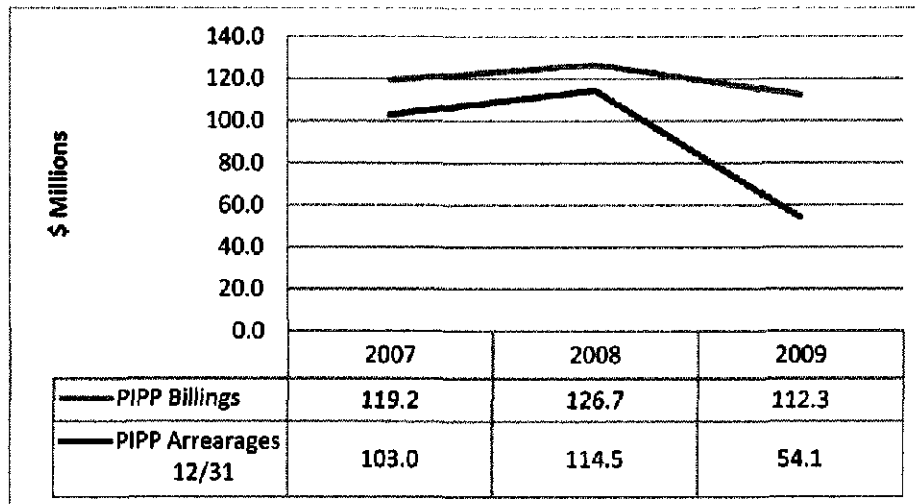
⁹ CGO Verification Response

¹⁰ CGO Verification Response



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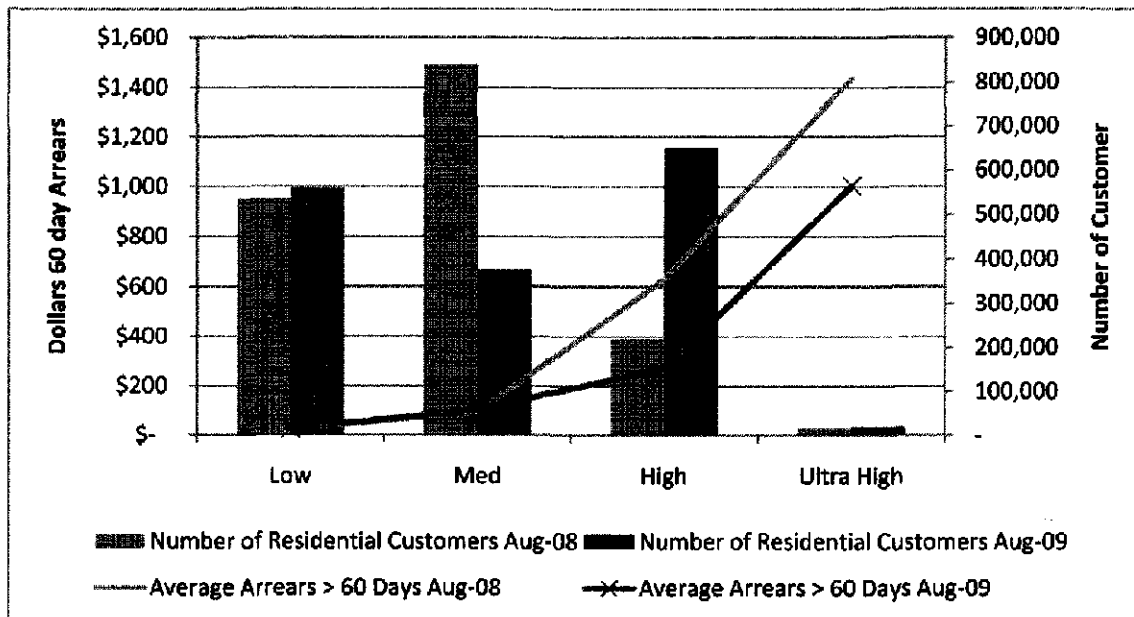
Exhibit III-5
Arrearages and Billings (PIPP only) – 2007 to 2009
CGO
(\$ millions)



Source: Bad Debt Data Response provided 4-19-10.

CGO has seen a decline in customer scores between 2008 and 2009 - as customers shifted from medium to high risk, but also a slight decrease in average arrearage balance, as gas prices declined. **Exhibit III-6** shows this trend for residential customers.

Exhibit III-6
Scoring Comparison August 2008 to August 2009
CGO



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	Average Account Balances		Average Number of Times Delinquent in the Last 12 Months	
	Aug-08	Aug-09	Aug-08	Aug-09
Low	\$ (3.12)	\$ 8.77	0.31	0.33
Med	103.35	113.74	1.08	1.51
High	742.66	308.62	7.74	2.88
Ultra High	1,576.01	1,137.45	9.39	9.20
Total/Average	\$ 171.13	\$ 168.59	1.82	1.75

Source: Customer Segmentation Analysis – CDC Results provided during December 16, 2009 Interview.

Conclusions

1. CGO has a clearly articulated credit and collections strategy: to maximize collections of delinquent receivables while minimizing administrative and field costs associated with collections activities.
2. CGO's collections process has undergone a number of significant changes since 2005, resulting in the implementation of the following key initiatives:¹¹
 - Behavioral scoring and customer segmentation was implemented in 2007.
 - The collection timeline was automated. Termination notices and shut-off orders are generated without manual intervention.
 - Automated outbound dialing replaced live agent calls. Prior to 2007, courtesy calls to customers who had received a collection notice were performed by a live agent. The shift to Soundbite allowed CGO to increase the number of attempts and the consistency of the message and reduce costs. Customers are able to pay in full at the time of the call or can contact CGO to make payment arrangements.
 - A three-tiered approach to the use of outside collection agencies was adopted and an early-out program was introduced.
 - Remote and on-site audits of first and third-party collection agencies were initiated.¹²
3. In addition to the process/efficiency changes, CGO has implemented a number of targeted collections initiatives to reduce bad debt and improve performance.
 - CGO maintains a "Top Ten Most Wanted List" for each of its operating areas to address high dollar delinquent accounts with access issues. Initially, the list included those accounts with balances greater than \$1,000 that had been in the termination queue two to

¹¹ December 16, 2009 interview with Manager, Revenue Recovery, Manager, Meter Reading & Collections and Director, Meter to Cash

¹² Data Response 1-2 and December 16, 2009 interview



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- three times, but had aged off due to access issues.¹³ CGO has dropped the threshold to \$500, due to the success of the initiative.
- The Revenue Recovery group implemented special procedures to address manifold meters. Inside manifold meters represent a collections challenge as these customers are difficult to terminate for non-payment. Most meters have a single curb box.
 - About 23 percent of CGO's active residential meters are inside. Just under 40,000 of CGO's active meters are on an inside manifold (about twelve percent of its active inside meters).¹⁴
 - To attempt termination on these meters, other accounts on the meter are reviewed to determine if the residences might be vacant or already turned off, in which case the entire meter can be turned off. CGO also contacts the property owner in an attempt to obtain payment.¹⁵
4. With the exception of the expiration of termination orders when a new bill is issued, CGO's collections timeline is reasonable.
- Customers may be terminated 45 days after the bill is issued in the summer and 58 days after the bill is issued in the winter.
 - CGO provides proper notification as required by the OAC.
5. While CGO uses a reasonable behavioral scoring process to determine the collections path for each customer; it has not validated the thresholds which may be too high.
- The use of the behavioral scoring process allows CGO to target collections activities based on the perceived risk of charge-off, minimize costs and maximize resources. Termination notices are targeted to those customers with poorer payment histories, and those customers are then eligible for actual field termination.
 - All new customers are classified as high risk. Approximately twenty-four months of payment history is required before a new customer moves to a lower risk category.
 - The scoring model considers time as a customer, payment history and past due balance. **Exhibit III-7** provides examples illustrating the scoring parameters.

¹³ December 18, 2009 interview with Manager, Meter Reading and Collections and March 3, 2010 phone interview

¹⁴ Data Request 2-3

¹⁵ March 3, 2010 phone interview



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**Exhibit III-7
Risk Scoring Examples
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Risk Category	Examples
1 - Low	<ul style="list-style-type: none"> • Long history, no delinquency
2 - Medium	<ul style="list-style-type: none"> • 65 months history, delinquent two times in the last eight months, current • 36 months history, delinquent zero times in the last eight months, \$100 balance, 1.5 months since last payment • 37 months history, delinquent one time in the last eight months, \$0 balance, 0.5 months since last payment
3 - High	<ul style="list-style-type: none"> • New customer – no history • 18 month history, delinquent three times in the last eight months, \$300 balance, two months since last payment, not previously eligible for termination
4 - Ultra High	<ul style="list-style-type: none"> • 25 month history, delinquent seven times in last eight months, \$1,500 balance, two months since last payment, three buckets, three months since eligible to be cut

Source: Data Response 2-4.

- Customers perceived to be higher risk receive a termination notice for a lower balance. The majority of CGO's customers are categorized as medium or high risk.
- Medium risk customers do not receive a disconnect notice until the delinquent balance reaches \$200. The threshold for high risk customers is \$150.
- Exhibit III-8 provides the specific parameters for termination notices and the risk scoring parameters for each segment.

**Exhibit III-8
Risk Scoring Parameters and Associated Notification Process
CGO
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Risk Category	Behavioral Score (Range 50-950)	August 2009		Termination Notice Past Due Balance Parameters
		Percent of Residential Customers	Percent of Commercial Customer	
Low Risk	50 to 222	34.8	40.1	Reminder notices only
Medium Risk	223 to 339	23.4	36.1	Reminder notice ≤ \$200 Termination notice > \$200
High Risk	340 to 674	40.6	23.0	Reminder notice ≤ \$150 Termination notice > \$150
Ultra High Risk	675 to 950	1.2	0.8	Reminder notice ≤ \$100 Termination notice > \$100

Source: November 18, 2009 Presentation, Data Response 2-4.



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- CGO's cost to terminate a customer is about \$20.¹⁶
 - The scoring model is applied to all customers, consistently, regardless of income status or geographic location. However, the past due balance for a customer on a payment arrangement or PIPP customer is the amount of the defaulted agreement amount. As a result, a PIPP customer may go a number of months before being eligible for termination.
 - CGO's process appropriately aligns customer signals and collections activities. All customers who are sent disconnect notices are included in the termination queue.
 - The behavioral scoring process was implemented in 2007; however, CGO has not validated it or determined the appropriateness of the behavioral scores ranges and thresholds. Adequate data should now be available to allow for validation.
6. CGO resets the collections timeline with the issuance of a new bill, which affects its collections performance and prevents it from optimizing its collections activities, particularly during the winter period.
- CGO has interpreted the regulations such that collections activities must stop upon issuance of a new bill.
 - During the ten-day winter notification period, CGO may have as little as one to two days to perform terminations, depending on the meter reading cycle.
 - CGO tracks the numbers of unsuccessful termination trips and the termination orders that age off the system. In 2009, 18 percent of the termination orders aged off the system before execution. The number was 30 percent in 2008.¹⁷

Recommendations

1. Develop the necessary information and validate the TSI scoring. When validating, ensure the scoring parameters and the termination notice dollar thresholds are not in conflict, determine whether the model is accurate, confirm that scoring ranges are appropriate and that threshold levels are optimal. (Refers to Conclusion No. III-4)
2. Evaluate modification of the collections timeline so that non-pay disconnect orders do not expire when a new bill is issued.¹⁸ (Refers to Conclusion No. III-6).

¹⁶ Data Response 1-32

¹⁷ Unsuccessful Trip and Aged Off Data.xls provided in the March 10, 2010 follow-up to the March 3, 2010 phone interview

¹⁸ CGO's customer information and billing system was designed in 1987



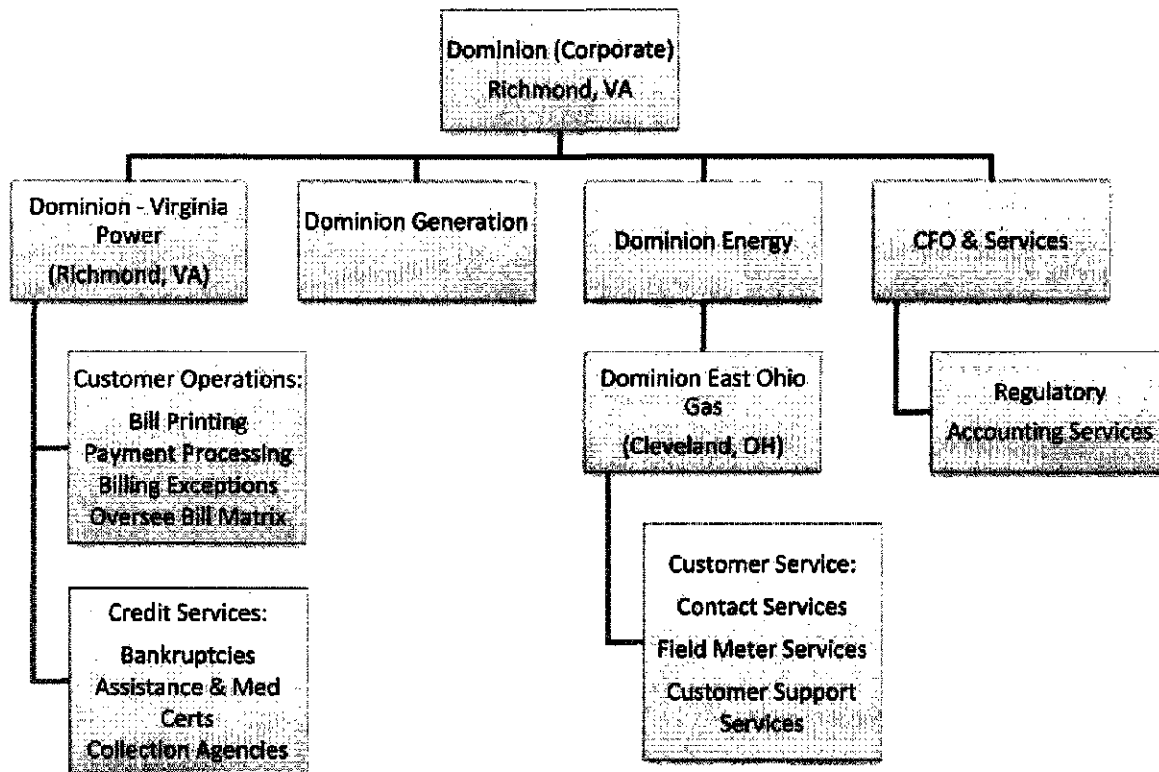
E. Dominion East Ohio Gas (DEO)

Background

DEO provides natural gas service to 1.2 million customers in northeast, southeast and west-central Ohio. The system has an annual throughput of 260 bcf, over eighty percent of which is provided by third-party gas marketers. DEO operations are managed from offices in Cleveland, Ohio. Dominion's corporate headquarters are in Richmond, Virginia. Dominion provides electric and natural gas services to retail customers in twelve states throughout the Midwest and Mid-Atlantic areas.

In June 2008, Dominion began a reorganization of its credit operations that moved customer service and active credit functions closer to the customers, while retaining control over in-active credit and collections at its headquarters in Richmond. Some functions did not move to the local organization until June 2009. The current organizational structure is shown in **Exhibit III-9**.

Exhibit III-9
Credit and Collections Organization
DEO



Source: Company presentation, IDR-1.

There are three primary groups within the DEO Customer Service organization: Contact Services, Field Metering Services, and Customer Support Services. Contact Services handles all customer contact, including the call center, dispatch, e-mail responses and other customer



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correspondence (non-billing), and training and development for customer contacts. This group is also the liaison with Richmond regarding the CIS technology and provides back office support for metering and billing.

Field Metering Services handles all field activities, including meter reading, meter maintenance, meter sets and new connections, disconnections, compliance work, and routine and emergency field calls. This group is also responsible for the deployment and installation of AMR equipment. This group was always managed from Cleveland and is a represented labor force.

The Customer Support Services group establishes credit strategies, addresses customer relations and consumer and agency outreach, complaint resolutions, energy diversion cases, disconnect for nonpayment (DNP) scheduling, and payment plans. The group is also responsible for regulatory reviews, Sarbanes-Oxley (SOX) compliance audits and performance reporting.

The three Cleveland-based customer service groups are supported by the Credit Services group in Richmond. Credit Services handles bankruptcies and processing of requests for energy assistance payments and medical certifications. Richmond also oversees the performance of outside collection agencies and letters of credit and bonds. Bill printing, exceptions, and payment processing are also located in Richmond.

Process Overview

DEO's credit and collections strategy comprises the following five items:¹⁹

- Maintain regulatory compliance
- Provide assistance to need-based agencies and customers
- Identify high "at-risk" large volume customers
- Complete disconnect for nonpayment orders
- Review active credit "needs" and customer balances.

DEO's strategy for maintaining regulatory compliance includes enhanced credit and collections policies to significantly improve customer payment patterns, reduce outstanding arrears and reduce charge offs.²⁰

DEO utilizes a multi-layer process to handle past due collections and termination actions for its customers. The action taken depends on the size of the past due arrearage and consideration of the credit history of individual customers is applied to determine which accounts are actually sent to the field for physical disconnection.

DEO's process forecasts a "credit schedule" for all accounts at the time customer bills are prepared. The credit schedule is developed automatically by the customer billing system (CCS). Most bills with a past due amount greater than zero and less than \$100 receive a reminder notice on their bill, and no further action is taken on these accounts. There are some exceptions to this

¹⁹ IDR-3

²⁰ Company presentation, p. 37



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rule - i.e., PIPP accounts that are more than 120 days in arrears receive a disconnection notice even when arrears are less than \$100.²¹

Accounts with past due balances greater than \$100 all receive a disconnect notice on the bill, with a forecasted disconnection date set at the day after the day the bill is due. Additional credit actions are forecasted depending on several factors including: account status, payment history (internal credit rating), a behavioral score, whether they are currently on a payment plan (including PIPP), the type/location of meter (master meter, landlord/tenant), and duration of past due amount. On the forecasted date, CCS determines whether further action is needed based on activities since the bill was generated:

- If payment has been received, the bill is marked "Paid" and no further action is taken.
- If the customer has established a payment plan, applied for PIPP, requested a credit extension, or provided a medical certificate, then the bill is marked "Exempt" and no further action is taken on that bill.
- If the bill is not marked "Paid" or "Exempt", then the DNP prioritization process determines the next action.

This process begins again with the next bill.

The customer's payment history is used to establish an internal credit risk rating of GOOD, FAIR, or POOR. Customers with GOOD rating have either paid their bills in full and on time for the past twelve months, or have paid the required budget bill amount or payment plan amount. Customers are given a FAIR rating if they have had a payment returned for insufficient funds, or have one to three instances where they were more than one month late with a payment. All new customers are considered FAIR for the first twelve months. Customers with POOR ratings have had multiple items returned for insufficient funds, have been more than one month late on four or more occasions, or been disconnected for nonpayment in the prior twelve months.

A behavioral score is then developed to determine whether the account will be scheduled for termination. The behavioral score considers a number of factors including the credit risk rating. The program used to establish the behavioral score is the result of an internal Dominion project conducted several years ago when Credit and Collections was housed in Richmond. The Behavioral Score is a number between 0 (bad) and 998 (good) that is the result of a regression analysis that considers the following:

- Length of service
- Payment history (GOOD, FAIR, POOR)
- Total amount in arrears
- Amount of the last payment
- Whether the customer is on budget billing
- Whether the customer has ever been on payment plan (including PIPP), broken a payment plan, or used the \$175 WRO or a medical certificate.

²¹ DEO Verification Response



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Generally, only accounts with arrearages greater than \$250 and behavioral scores less than 700 are scheduled for actual disconnection. While the minimum dollar amounts and behavioral score limits are variable and can be changed based on a business review, the majority of accounts scheduled for disconnection currently are selected using these two criteria.

DEO does not treat PIPP customers differently from the standpoint of collections. PIPP is handled as a payment plan for establishing the behavioral scores, and missing a PIPP payment is the same as missing a payment on any other payment plan.

DEO uses outbound calling for some delinquent accounts. The decision factors for which accounts are called depends on a customer's behavioral score and the size of arrearage. DEO indicated that outbound calls were only made to accounts that they believe have a good chance of paying in response to a call.²² There appears to be little difference in resolution of accounts between those customers actually reached by the outbound call and those not reached. Eighty percent of customers eligible for calls either paid their bills or were put on a payment plan before their account was sent to the field for disconnection, regardless of whether they were actually reached by the outbound calling agency.²³

Accounts that are "better than" the decision criteria (lower arrearages, better behavioral scores) are automatically graced by the CCS and no further action is taken on these accounts that month. This occurs even though the customer's bill included a termination notice and date.

Bad Debt Expense

DEO tracks bad debt and arrearages on a monthly basis, monitoring net charge offs, number of accounts and dollars in arrears for residential, commercial and industrial, and high pressure industrial accounts. They also monitor the number of customers with past due balances at ninety and over ninety days. DEO's non-PIPP bad debt was 3.1 percent of customer billings in 2009 (before any recoveries), as shown in Exhibit III-10.²⁴

Exhibit III-10
Non-PIPP Bad Debt Expense – 2007 to 2009
DEO
(\$ millions)

	2007	2008	2009
Non-PIPP Bad Debt Expense	64.1	63.6	61.2
Total Non-PIPP Customer Billings	2,016.3	2,339.2	1,967.1
Percent	3.2%	2.7%	3.1%

Note: Includes industrial customers.

Source: DR-EOG-4-1.

²² On-site interviews

²³ IDR-7, Outbound Call Results for September 2009, p. 22

²⁴ DR-EOG-4-1, revenues defined to include billings for third party gas suppliers

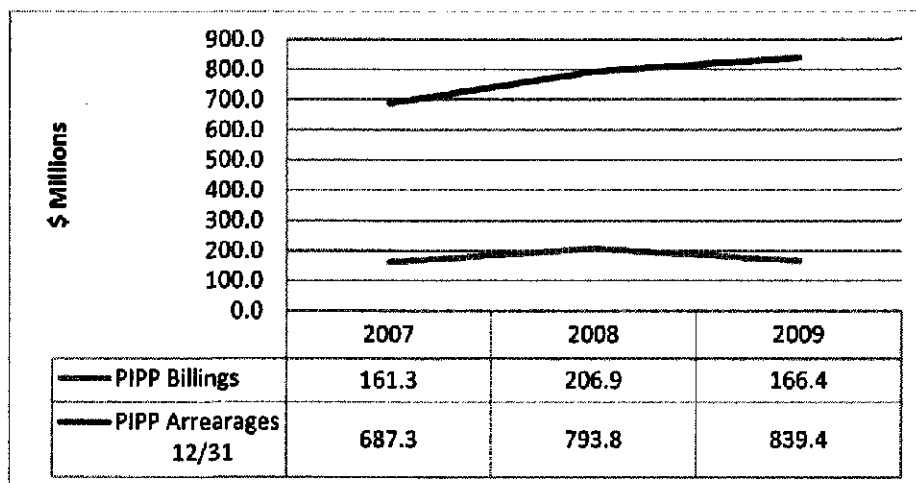


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DEO's bad debt rider set to recover bad debt arrearages has declined from a high of \$0.5674/mcf effective July 2007 to its most recent filing of \$0.2133/mcf effective July 2009.²⁵

Arrearages from PIPP customers on the DEO system have risen steadily for several years. While the PIPP program is not under the control of the utilities, the utilities collect PIPP arrearages through the PIPP rider, and hold some responsibility for minimizing PIPP arrearages through active collections, to minimize PIPP bad debt (as opposed to the portion of the bills PIPP customers are not required to pay). DEO's PIPP arrearages were 32 percent of total billings (PIPP and non-PIPP) in 2007, increasing to 39 percent of in 2009.²⁶ As a result of this increase in PIPP arrearages, DEO's PIPP rider increased from \$0.111/mcf in 1999 to \$1.7078/mcf approved in the company's most recent filing.²⁷ Year-end PIPP arrearages and PIPP billings are shown in **Exhibit III-11**.

Exhibit III-11
Arrearages and Billings (PIPP only) – 2007 to 2009
DEO
(\$ millions)



Note: PIPP arrearages shown are cumulative and likely have been accruing over a number of years. Arrearages are not specifically tied to current billing; however, the above shows how these balances can build over time.

Source: DR-EOG-4-1.

Conclusions

7. DEO's credit and collections organization structure is generally appropriate.

- There is appropriate separation and control between customer contact personnel, meter reading, billing, payment processing and complaint resolution.

²⁵ DEO's UEX rider filings.

²⁶ DR-EOG-4-1

²⁷ PIPP rider applications and DEO Verification Response. See also Chapter II for further discussion of the factors impacting DEO's PIPP rider.



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- The physical separation of back office and customer contact does not adversely impact customers or billing efficiency.
8. DEO does not have an effective collections strategy to guide its collections efforts.
- The strategic goals are more process than results oriented, and are not focused on early intervention or aggressive disconnection of past due accounts.
 - In 2009, DEO reports the following activities.²⁸
 - Utilize Top Offenders report to focus termination activity on high dollar arrears and accounts with arrears at 90 days or more.
 - Ensure the completion of curb box disconnection orders.
 - Evaluate account arrears to ensure appropriate levels of disconnection activity.
 - Evaluate remote shutoff valve metering.
 - These actions are focused on 90 day plus arrearages, not early intervention. Additionally, DEO's strategy for addressing meters that are difficult to turn off is to evaluate technologies that are still under development.
 - The "Top Offenders" list does not selectively target the biggest arrearages. Instead it is a listing of all customers eligible for disconnection each day. Field supervisors must rely on separate reports and individual analysis to identify, for example, multiple accounts at a single address that might enable shutting off a multi-manifold meter at the curb box.
 - DEO has a quality customer information system that enables it to access a considerable volume of data regarding its customers, payments and arrearages. However, the company does not appear to leverage this information to focus collection efforts or test different collection plans.
 - The performance of DEO's internal credit and collections staff is measured by general corporate objectives and is not tied to specific collections metrics.²⁹
9. DEO's collection efforts are hampered by its "resetting" of the termination clock each time a customer is billed. DEO believes that it was instructed to do so by PUCO staff.³⁰ Regardless, the practice should be discontinued.
- During the winter, DEO has a one to three day window within which to execute terminations. If that short period is over a weekend, if the weather is forecast to be cold, or there is snow cover such that field service representatives cannot terminate service, the customer will not be shut off that month and will have another month of service.
 - Once a new bill is issued, DEO does not take action for fifteen to twenty-six days.
 - During the summer, the window for turning off service is close to two weeks.

²⁸ IDR-3

²⁹ IDR 19 provided no specific collection metrics

³⁰ DEO Verification Response



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- Following discussions with staff and NorthStar, DEO has initiated actions to change its policies, software systems, and billing notices so that it will be able to continue termination activities independent of the billing cycle.

10. DEO's collection process limits the number of customers that it terminates.

- In theory, all customers with delinquent balances greater than \$250 are eligible for disconnection; however, internally established goals for the number of disconnects do not result in termination of all eligible customers.
- The goals for terminations are set based on prior year actions and manpower considerations, rather than being tied to the number of customers eligible for termination. Less than fifty percent of possible disconnections are selected and assigned to field crews, and only twenty-two percent of possible disconnections are completed. As a result, it appears that customers have learned that the likelihood of actually being disconnected for non-payment is small.³¹
- Collections actions undertaken in 2009 were focused on process execution and review, with little focus on field performance. The actions were not part of an aggressive termination strategy.
- DEO has increased its termination activity over the past several years as shown in Exhibit III-12.

Exhibit III-12
Termination Activity – 2006 to 2009
DEO
(\$ millions)

	Terminated	Field Collected	Total Collected or Terminated	Dollars
2006	44,028	5,091	49,199	\$62.3
2007	55,840	4,680	60,520	70.1
2008	78,321	9,027	87,348	78.9
2009	78,808	10,520	89,328	67.8

Source: DR-EOG-1-5, DNP_Analysis Cognos provided during site interviews, and DEO Verification Response.

11. While DEO uses an internal behavioral scoring system, its thresholds should be reviewed and validated.

- The \$250 past due balance threshold for terminations is high and, with one minor exception, applies to all customers, regardless of credit status or behavior score, where best practice would apply different thresholds to different groups of customers or based on changing conditions.

³¹ DR-EOG-4-3



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- The exception to the \$250 threshold is customers with POOR credit and arrearages over \$100 and 120 days.
12. DEO's decision to file infrequent changes to its PIPP rider rates has masked the effects of changing economic conditions, increased gas costs, and changes in collection practices on PIPP cost recovery, and led to large increases in PIPP rider rates.
- DEO did not file for revision to its PIPP rider rates from 1998 to November 2005, and then did not file again until December 2009.
 - Over the four-year period from 2005 to 2008 the balance in the PIPP arrearage accounts increased from \$76 million to \$156 million, requiring a near doubling of the PIPP rider rate.
 - While more frequent PIPP rider filings would not have eliminated PIPP rider rate increases, it would have resulted in more gradual increases, and it would have kept recoveries more in line with costs.

Recommendations

3. Develop an effective, financially-driven credit and collections strategy that places more emphasis on getting to customers sooner and maximizing rapid recovery of arrearages. (Refers to Conclusions No. III-8 and III-10).
4. Tie performance evaluations for internal credit and collections staff to achieving financial recovery targets. (Refers to Conclusion No. III-8)
5. Modify processes to allow collections activities to continue after a new bill is issued. (Refers to Conclusion No. III-9)
6. File for annual PIPP rider rate adjustments to mitigate the size of future rate increases as required by the Commission's Finding and Order in Case No. 09-2011-GA-PIP dated March 24, 2010. (Refers to Conclusion No. III-12)

F. Duke Energy Ohio (Duke)

Background

Duke Energy of Ohio (Duke) provides natural gas and related services to 420,000 customers and electric service to 680,000 in the southwest Ohio area. The Duke operations serving southwest Ohio also provide gas and electric service to northern Kentucky. Duke's parent corporation, Duke Energy, also provides electric service in North Carolina, South Carolina and Indiana. In total, Duke provides energy-related services to over four million customers in the US. Duke's corporate headquarters are located in Charlotte, NC. The Ohio/Kentucky operations are managed primarily from offices in and around Cincinnati, OH.

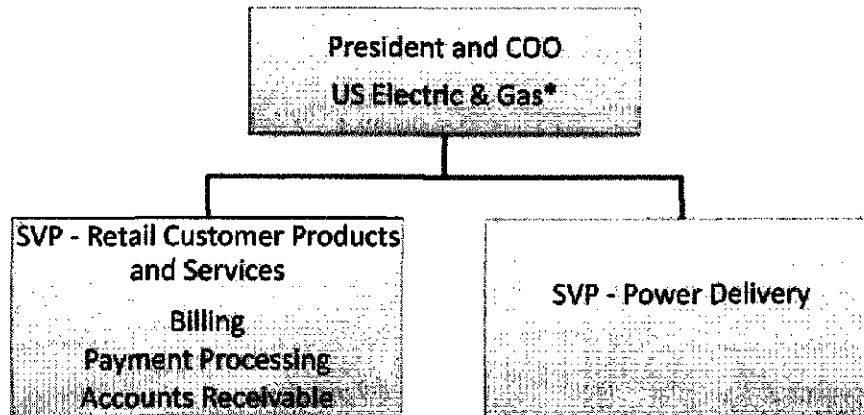
Credit and collections activities are performed by two Duke organizations: Retail Customer Products and Services and Power Delivery. Customer billing, payment processing, call center



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operations and accounts receivable are performed by the Retail Customer Products and Services organization. Customer meter reading and non-pay disconnects are performed by Power Delivery. Both of these organizations are led by Senior Vice Presidents and report to the president and COO of US Franchised Electric and Gas operations as shown in **Exhibit III-13**.

Exhibit III-13 Credit and Collections Organization Duke



Source: IDR-1.

Retail Customer Products and Services responsibilities include:

- Service application processing including identity verification
- Assessing customer risk and deposits
- Collecting debt and past due balances
- Providing payment location information
- Scheduling of reconnects and receipt of payments
- Providing information concerning low income programs and referrals to Community Action Agencies for PIPP applicants
- Enrolling customers in budget billing
- Establishing payment arrangements
- Debt/balance transfers
- Medical holds on termination
- Delinquency notices
- Disconnect for nonpayment prioritization
- Account write off
- Bankruptcy and receivership management
- Theft of service management
- Final stage collections
- Late payment courtesy calls
- Account credit of payments
- Billing



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Power Delivery provides the field implementation of the revenue management and customer service activities. Because of its dual utility status, Duke provides these services for both gas and electric services. Power Delivery's responsibilities include:

- Turn-ons and turn-offs
- Meter reading
- Door tagging
- Reconnects
- Field collections including disconnects for nonpayment
- Gas leak investigation

Process Overview

Duke's credit and collections strategy is to minimize write-offs by ensuring adequate security deposits and taking timely follow-up action on delinquent active and inactive accounts.³² Duke defines its processes in support of its strategy as follows:

- Through ensuring adequate security deposits, various processes are focused on assessing customer creditworthiness and requesting payment of security deposits based on assessed creditworthiness. Supporting processes provide consistent calculation of the actual security deposit amounts. These processes are applied to all customer segments.
- Through timely follow-up action on delinquent accounts, various processes are focused on identifying accounts with past due balances and taking proper steps to collect payments. These actions are intended keep past due balances to the lowest achievable level.³³

Duke's creditworthiness screening and deposit strategy is designed to identify potential bad debt risk and attempt to mitigate that risk to the extent allowed by regulations and good business practice. As discussed in detail in Chapter IV, Duke pursues security deposits for all new commercial customers, new residential customers where credit scoring determines a deposit is required, and if the customers identity cannot be verified. For prior or existing customers, deposits are required in the event of delinquency and disconnect eligibility, disconnection, bankruptcy filing, tampering, theft or fraud, and account charge-off. Duke uses Experian for credit scoring.

Once a customer has established service, Duke determines its collections activities based on the amount past due and the credit status of the customer. The amount due and credit status are used for purposes of determining the notification process and thresholds, but not the actual disconnection process.³⁴

In general, for an Ohio customer with good credit, at thirty days past due a late payment charge will be applied and if the past due balance is greater than \$50, a late payment reminder is

³² Duke is appropriately aggressive in pursuing security deposits, and has the most aggressive process of the four utilities.

³³ DR 01-003

³⁴ DR 01-011 Duke Energy Credit and Collection Training Manual, pg 6



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printed on the next bill. No reminder is provided if the balance is less than \$50. At sixty days past due, the customer will receive a fourteen-day disconnect notice on their bill. If no payment is received and no payment arrangements are made during the fourteen-day period (at day seventy-four), a ten-day disconnect notice is generated. Duke applies the ten-day notice in both the winter and non-winter. Residential customers become eligible for disconnection at day eighty-four and commercial customers become eligible at day eighty-one.

In general, the minimum requirements for disconnection include: sixty-day arrears with a balance of \$100 or more, no active payment arrangement in place to address the arrearage, and the first and second disconnect notices have been delivered.

Reconnection is made if the customer pays either the full amount in default (or the default amount of a payment agreement) plus a reconnect fee and the applicable security deposit.

Bad Debt Expense

Duke has seen a steady increase in net charge offs from 2007 to 2009, as the economy has worsened. The following table shows net charge-offs as of September for each of the last three years.

Exhibit III-14
Duke Net Charge-Off as of September by Year
Gas-Only, Kentucky and Ohio

As of September	Net Charge Off (\$ million)
2007	\$13.1
2008	\$17.2
2009	\$23.1

Source: Data Response 01-023

Duke's 2008 and 2009 bad debt as a percent of customer billings is shown in **Exhibit III-15**. Duke does not separately track PIPP and non-PIPP bad debt.

Exhibit III-15
Bad Debt Expense (PIPP and non-PIPP) – 2008 to 2009
Ohio Gas Only
Duke
(\$ millions)

	2008	2009
Bad Debt Expense	10.6	10.4
Total Customer Billings	532.6	418.7
Percent	2.0%	2.5%

Note: Includes industrial customers.

Source: NSC-DR-03-060 and 4/26/10 email.



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Conclusions

13. Duke's organizational structure balances cost efficiencies and synergies with localized control.

- Customer service systems, billing and call center operations are centralized (or cross jurisdictional). These functions lend themselves to cost efficiencies as a result of centralizations, team size optimization and grouping of technology.
- There remains appropriate local control and presence.

14. While Duke's stated strategy is to minimize write-offs by ensuring adequate security deposits and taking timely follow-up action on delinquent active and inactive accounts, it does not address account delinquencies in a timely manner.

- The earliest possible date a Duke residential customer may be terminated for non-payment is eighty-four days. Ohio regulations allow the utilities to terminate service, with proper notification, in forty-four days.
- The earliest possible date a commercial customer may be terminated for non-payment is eighty-one days. Commercial customers can be terminated as early as five days after notification is provided (day thirty-five).
- While Duke's bills are due at twenty-one days, regulations allow for bills due at fourteen days.
- At thirty days past due, Duke prints a late payment reminder on the bill. Duke does not issue the fourteen-day disconnect notice until sixty days past due – a full billing cycle later than allowed by regulation.
- If payment is not received and no payment arrangements are made during the fourteen-day period, a ten-day disconnect notice is generated. Although PUCO regulations require an additional ten day notification during the winter period, Duke provides the additional ten-day notification year-round. According to Duke, this is done for consistency purposes and as the reminder prompts payment. This practice delays the termination cycle. In the winter, this notice must be either hand-delivered or notice given by telephone via contract call agents.

15. While Duke uses a complex process to determine credit status, resulting differences in the notification process are minimal.

Recommendations

7. Accelerate the collections process. Terminations could begin as early as day forty-four in the non-winter and fifty-four in the winter. (Refers to Conclusion No. III-14)

- Termination notices should be printed on residential and commercial customer bills beginning with the first past due bill.



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- Commercial customers should be terminated as soon as allowed by regulation and billing cycles to minimize high past due balances.
- The additional ten-day termination notification should be eliminated during the non-winter period. If deemed appropriate, outbound/courtesy calls could be used instead, but should be used earlier in the cycle.
- Residential customers should be terminated following appropriate notification - fourteen days, with and an additional ten-day notification in the winter only.

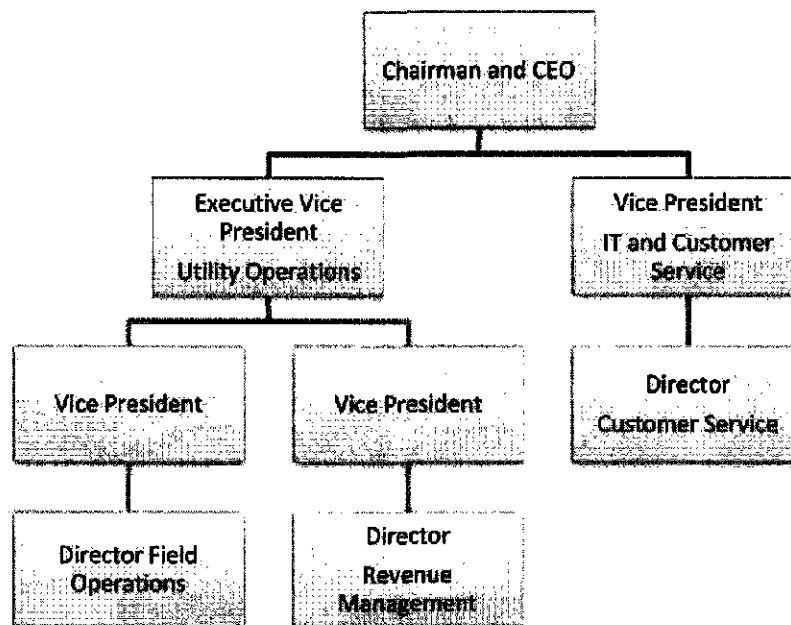
G. Vectren Energy Delivery Ohio (VEDO)

Background

VEDO provides natural gas and related services to 315,000 customers in the greater Dayton, Ohio area. Its parent corporation, Vectren Corporation (Vectren), is also the parent corporation of Indiana Gas Company and Southern Indiana Gas and Electric Company. In total, Vectren provides energy-related services to over one million customers in the Midwest. Vectren provides consolidated customer service and revenue management functions from its Evansville headquarters while maintaining regional operations.

Vectren has organizationally and functionally split customer service from its revenue management and field operations activities as shown in **Exhibit III-16**.

Exhibit III-16
Credit and Collections Organization
Vectren



Source: Initial Presentation November 18, 2009



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Customer Service is organized into four functional units: Customer Relations, Administration, Performance Assurance, and Contact Center. The Contact Center is the primary interface with the customer. Customer Service's responsibilities include:

- Scheduling meter reads for move-ins, move-outs, new service, and termination of service
- Obtaining positive identification and required applicant information
- Assessing customer risk and deposits
- Collecting of debt and past due balances
- Providing payment location information
- Scheduling of reconnects and receipt of payments
- Providing information concerning low income programs and referrals
- Enrolling customers in budget billing
- Establishing payment arrangements³⁵

Revenue Management is organized into five functional units: Customer Service Support, Large Customer Billing, Receivables, Billing and Meter Reading, and Customer Accounting and Margin. Revenue Management's principal responsibilities include:

- Debt/balance transfers
- Medical holds on terminations
- Delinquency notices
- Disconnect for nonpayment prioritization
- Account write off
- Bankruptcy and receivership management
- Theft of service management
- Final stage collections
- Customer late payment courtesy calls
- Meter reading
- Account credit of payments
- Billing

Field Operations provide the field implementation of the revenue management and customer service activities. Field operations is divided into four regions, one of which is specific to Ohio. Responsibilities include:

- Shut-offs and turn-ons
- Door tagging
- Reconnects
- Moratorium compliance
- Disconnects for nonpayment
- Gas leak investigation

Process Overview

VEDO utilizes a risk-based strategy in assessing new customer deposits and a risk-based process for determining termination priority when an account becomes delinquent. Customers

³⁵ Initial Presentation, page 9



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with over a \$100 past due bill are placed into a queue on a daily basis and evaluated based on six parameters. Work is then schedule by field operations based on the priority and geographic efficiency.

New customer risk is minimized by requiring positive identification and establishment of credit-worthiness or collection of a deposit prior to initiation of service. Credit worthiness can be established through an Equifax credit score of 700, ownership of a property in the service territory, credit references from another utility, or a guarantor letter.

For existing customers, VEDO has an automatic routine in its customer information system (Banner) that identifies delinquent accounts on a daily basis. Collections treatment is determined based on the past due balance. Accounts with unpaid balances of less than \$50 are considered low risk and are not addressed. Accounts with unpaid balances between \$50 and \$100 receive notices on the next bill and courtesy calls. Accounts with unpaid balances greater than \$100 are given the most attention; these accounts are prioritized and worked accordingly.³⁶

VEDO's collections process begins on the fifteenth day after a customer's bill is generated. If payment is not received on this day, a penalty of 1.5 percent is automatically added by the billing system to the customer's next bill. Fifteen days later (at day thirty) the bill for the next billing cycle is generated. If payment is not received by the time this bill is generated, a disconnect notice is printed on all bills with a past due balance greater than \$50.³⁷ On the forty-fourth day, the second bill is due. If payment is not received the following occurs:

- In the non-winter months, an outbound courtesy call is placed for past due amounts greater than \$50 dollars. The calls are placed by Varolli, an independent call service.³⁸
- In the winter months, a door tag is placed on the premises on the forty-eighth day for balances over \$50 by a contractor, Field Star. If payment is not subsequently received, Varolli makes outbound calls for a period of seven days. Calls are made on Tuesdays through Fridays, three times per day or until positive contact occurs. On the last attempt, a message is left.³⁹

Approximately seventeen percent of all calls result in a live answer and nineteen percent result in a message on an answering machine.⁴⁰ If the customer does not contact VEDO to enter into a payment arrangement, accounts with balances over \$100 are eligible for disconnection, and are run through VEDO's risk segmentation process. The risk segmentation process is used solely to prioritize accounts for termination.

For commercial customers, VEDO issues a disconnect notice with the second bill, which is fifteen days past the due date. Upon issuance of the bill, VEDO places an outbound call and obtains payment promises. If a payment promise is not kept, the customer is disconnected.

³⁶ 1 Boling

³⁷ 1 Boling

³⁸ Ibid

³⁹ Initial presentation

⁴⁰ Binder from L. Friedeman (Goodge tab)



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Once an account is disconnected for non-payment, VEDO continues to attempt to reduce bad debt.

VEDO utilizes several means to reduce bad debt for active and disconnected customers, including:

- Using two outside collection agencies. The first agency attempts collection on accounts that have been disconnected for less than eighteen months. After eighteen months accounts are transferred to a second collections agency..
- Pursuing all available legal options for accounts in bankruptcy.
- Pursuing all available legal options for accounts in receivership.
- Tracking customers that have left the service territory with unpaid bills and customers with returned mail.
- Legally pursuing instances of tampering and theft of service.
- Minimizing the number of consecutively estimated bills.

Bad Debt Expense

VEDO has seen a steady increase in bad debt as measured in total dollars, percent of revenue, and number of accounts over the past three years. In 2009, 25,588 accounts were written off, an increase of 28 percent from 2008.⁴¹ During 2009, revenue decreased while net write-offs increased, as shown in **Exhibit III-17**. VEDO's 2009 target for net write-off as a percent of booked revenue is 1.27 percent.⁴² The target for 2010 is 1.85 percent.⁴³

Exhibit III-17
Net Write-Off Statistics
VEDO
(\$ million)

	2007	2008	2009
Number of Accounts	N/A	20,041	25,588
Net Write-off	\$ 3,380	\$ 4,974	\$ 6,002
Customer Billings	\$ 374,320	\$ 408,098	\$ 291,259
Bad Debt as a Percent of Billings	0.90%	1.22%	2.06%

Source: Email from R. Boling March 5, 2010.

Conclusions

16. VEDO effectively utilizes its three organizations and its customer information system to perform its customer collection activities.

- **Exhibit III-18** and **Exhibit III-19** provide matrices showing how customer service, revenue management, field operations, and VEDO's billing/customer information system support a full process from late bill to disconnection for nonpayment.

⁴¹ Binder from L. Friedeman (R Boling tab – Ohio Accounts Written Off)

⁴² Data Response 1-18.

⁴³ Binder from L. Friedeman (R Boling tab)



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- The process provides clear roles and responsibilities for each business function tied to a clear timeline.

Exhibit III-18 Organizational Responsibilities Non-Winter Months

Event	Customer Service	Revenue Management	Field Operations	Banner
Days 1 through 14 If payment is rendered	Telephone payments	Lockbox payments		Processes remote payment location files and account updates for all payment sources. Account remains in good standing
Day 15 If no payment received				Assesses penalty
Days 15 through 29 If payment is rendered	Telephone payments	Lockbox payments		Processes remote payment location files and account updates for all payment sources. Account returns to normal status
Day 30 If no payment				Prints next bill and disconnect notice on bills for balances over \$50
Day 30 to 44 If payment is made	Telephone payments	Lockbox payments		Updates account for all payment sources and account returns to normal status
Days 45 and 46 If no payment				Initiates courtesy call (file sent to Varolli) on balances over \$50 and penalty assessed on second bill.
Day 47 If no payment				Notifies revenue management of available DNP's
Day 47 If no payment		Prioritizes DNP's received from Banner	Receives DNP from revenue management	
Day 48 If no payment			Completes DNP	
Day 48 If payment received	Telephone payments		Handles cash payments made at the door	Processes remote payment location files and account updates from all payment sources. Account returns to normal status



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**Exhibit III-19
Organizational Responsibilities
Winter Months**

Event	Customer Service	Revenue Management	Field Operations	Banner
Days 1 through 14 If payment is rendered	Telephone payments	Lockbox payments		Processes remote payment location files and account updates for all payment sources. Account remains in good standing
Day 15 If no payment received				Assesses penalty
Days 15 through 29 If payment is rendered	Telephone payments	Lockbox payments		Processes remote payment location files and account updates for all payment sources. Account returns to normal status
Day 30 If no payment				Prints next bill and disconnect notice on bills for balances over \$50
Day 30 to 45 If payment is made	Telephone payments	Lockbox payments		Updates account for all payment sources and account returns to normal status
Day 45 If no payment				Assesses penalty on second bill
Day 47 If no payment				Notifies revenue management of available DNPs
Day 47 If no payment		Receives list of delinquent accounts	Receives list of accounts from revenue management	
Day 48 If no payment			Delivers door tag	
Days 49-53 If payment received	Telephone payments			Processes remote payment location files and account updates from all payment sources. Account returns to normal status
Days 54-61	Telephone payments	Lockbox payments		Outbound calls are made (file sent to Varolli) and accounts are updated as payments are made. Handles remote payment location files.
Day 63 If no payment				Notifies revenue management of available DNPs
Day 63 If no payment		Prioritizes DNPs received from Banner	Receives DNP from revenue management	
Day 64 If no payment			Completes DNP	
Day 64 If payment received	Telephone payments		Processes cash payments made at the door	Processes remote payment location files and account updates from all payment sources. Account returns to normal status.



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17. Over the past two years, VEDO has implemented a number of initiatives to reduce net write-offs, including:

- Contracting for a secondary collection agency. VEDO has traditionally used a single collection agency. In 2009, VEDO began using a secondary collections agency for accounts that were idle for eighteen months or longer. This achieves two objectives: the primary collection agency must perform or lose the account, and the secondary collection agency provides a new perspective on written-off accounts.⁴⁴
- Establishing new bankruptcy processes. VEDO actively pursues revenues associated with customer bankruptcies through a combination of internal resources and external legal support. External legal counsel is used for balances over \$50,000. The approach begins with a close monitoring of the bankruptcy calendar and the filing of the appropriate documentation before the court deadlines. VEDO has successfully received stipulation agreements, preferential payments, and assurance deposits.⁴⁵
- Establishing new receivership processes. VEDO developed an approach to managing accounts under receivership, which are relatively new to the VEDO service territory. Receivers represented 40 commercial real estate concerns in 2009. VEDO's approach to receivership involves obtaining court actions to reverse receivership settlements that include injunctions against DNPs and collection of deposits. VEDO has successfully lifted the utility injunctions and is currently working to prevent future injunctions.⁴⁶
- Increasing property management company deposits. To minimize the risk associated with property management groups, VEDO maintains an inventory of the accounts associated with each property management group. Property management groups are monitored as a single customer, regardless of the number of meters. Outstanding balances on one account translate to an outstanding balance for the entire group. Account deposits are evaluated based on the payment history of all meters.⁴⁷
- Optimizing terminations. Terminations are prioritized on a number of variables including number of disconnect notices, number of past due bills, total arrearages, months as a customer, and months since the last payment.⁴⁸
- Tracing returned mail and tracking customers that have skipped town. VEDO utilizes an independent "person finding" service to pursue former customers that have unpaid debts.
- Pursuing fraud and theft of service. VEDO utilizes all civil and criminal legal avenues available to recover revenues from theft and fraud. VEDO seeks triple damages in compensation when situations go to court.⁴⁹

⁴⁴ I Boling

⁴⁵ I Goodge

⁴⁶ Ibid.

⁴⁷ Binder from L. Friedeman (Goodge tab)

⁴⁸ Binder from L. Friedeman (Boling tab)

⁴⁹ I Boling



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18. VEDO has negotiated an innovative contract with its field collections contractor. FieldStar is compensated based solely on how many DNPs are completed or dollars are collected and how many assigned door tags are delivered.⁵⁰
19. While VEDO's collections timeline is reasonable, it has a three-day lag between issuing the ten-day notification and the time it begins terminations, which could be eliminated.
 - Bills are due at fourteen days.
 - VEDO customers are eligible for termination forty-eight days after the bill is issued in the summer and sixty-four days after the bill is issued in the winter.

Recommendations

8. Eliminate the three-day lag that occurs before non-pay disconnects are performed. (Refers to Conclusion No. III-19)

⁵⁰ I Rifle



CHAPTER IV: INITIAL SCREENING AND DEPOSITS

This Chapter provides a discussion of the Ohio gas utilities' processes for establishing customer credit worthiness and determining the need for deposits.

A. Summary of Regulatory Requirements

Ohio Administrative Code (OAC) Chapter 4901:1-17 sets forth requirements for the utilities to use in establishing credit worthiness and requesting deposits from residential customers. The utilities must establish and administer their credit procedures in a non-discriminatory manner and must base credit procedures upon the credit risk of the individual without regard to the collective credit reputation of the area in which the customer lives. Chapter 4901:1-13-08 similarly requires that the utilities establish equitable and non-discriminatory written procedures to determine creditworthiness of customers for small commercial gas service.

Deposits – Residential Customers

The utility may require an applicant for residential service to satisfactorily demonstrate financial responsibility, which is established if the applicant meets one of the following criteria:

- Is the owner of the premises or of other real estate within the territory and has demonstrated financial responsibility.
- Can demonstrate satisfactory credit risk by a means that can be quickly and inexpensively checked by the utility.
- Had the same class and a similar service within twenty-four consecutive months and was not disconnected for non-payment within the previous twelve months or received two consecutive past due bills during the previous twelve months.
- Makes a cash deposit.
- Furnishes a creditworthy guarantor.

Customers must be informed of all options available to them to establish credit. An applicant who owes an unpaid bill for previous residential service is not considered to have satisfactorily established or re-established his/her financial responsibility as long as the bill remains unpaid.

The utilities may require a customer to make a deposit or an additional deposit on an existing account to re-establish creditworthiness for tariff service based on the customer's credit history with the company. After considering the totality of the circumstances, the utility may require a customer whose service it has disconnected to pay a deposit, the delinquent bill, and the reconnection charges prior to restoring service. A deposit may also be required if the customer meets one of the following criteria:



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- The customer has not made full payment or payment arrangements by the due date for two consecutive bills during the preceding twelve months.
- The customer was issued a disconnection notice for non-payment two or more times in the previous twelve months.
- The customer had service with the utility in the previous twelve months and had service disconnected for nonpayment, fraud, tampering or unauthorized re-connection.

According to the Code, the utilities may not require a deposit of greater than 1/12 of the estimated charge for the previous twelve months plus thirty percent (or 130 percent) of the estimated monthly charge. Interest must be accrued at a rate of at least three per cent per annum. The interest accrued need not be applied to the deposit if held for less than 180 days. Interest does not accrue after discontinuance of service.

Deposits plus any interest are to be applied to the final bill with any remainder refunded to the customer. Service transfers within the service territory of the utility do not prompt a refund. The utilities must review each account with a deposit or guarantor every twelve months and refund or credit both deposit and interest if the account meets the following criteria:

- The customer has paid their bill for twelve consecutive months without disconnection for nonpayment.
- The customer has not paid their bill late on more than two occasions.
- The customer is not delinquent at the time of the review.

If the customer should request and they have otherwise established credit as defined in the regulations, the deposit plus interest will be refunded or credited.

Deposits – Small Commercial

The utilities may require deposits of commercial customers in order to establish or re-establish service, and small commercial customers can be refused service or have service terminated for failure to pay bills and any tariff charges, including deposits and amounts not in bona fide dispute. If the utility requires a deposit, it must communicate to the small commercial customer the reason for its decision and options available to establish credit. The small commercial customer may contest the utility's decision and show creditworthiness. The utilities are required to review each small commercial account for which it has held a deposit for twenty-four months and promptly refund the deposit or credit the small commercial customer's account, plus any interest accrued, if during the preceding twenty-four months all of the following conditions are satisfied:

- The small commercial customer's service was not disconnected for nonpayment, a fraudulent practice, tampering, or unauthorized reconnection.
- The small commercial customer had no more than three past due bills.



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- The small commercial customer is not then delinquent in payment of bills.

The utility must pay interest of not less than three per cent per annum on a deposit, provided the company has held the deposit for at least six consecutive months. When service is terminated or disconnected, the utility must promptly apply the deposit and interest accrued to the final bill, and refund any amount in excess of the final bill to the small commercial customer. A transfer of service from one premise to another premise within the service area shall not be considered a disconnection for this purpose.

B. Preferred Practices

The Ohio gas companies were evaluated against the following preferred practices:

- The utility has a process for verifying the customer's identity to minimize fraud and identity theft.
- The utility checks for past dues balances prior to initiating service. Past due balances are linked to the new account and paid before service is turned on.
- The utility establishes customer creditworthiness, and the customer creditworthiness/risk assessment is reflected in the collections strategy.
- The utilities require deposits where possible based on assessed risk for both new and existing customers, and in compliance with regulations.
- The utility has an appropriate system of quality controls to ensure deposits are taken where required.

C. Key Practice Comparison

Exhibit IV-1 provides a comparison of key collections practices. Additional details regarding each utility's activities are provided in later sections.

Exhibit IV-1
Key Practice Comparison – Initial Screening and Deposits

	Regulation	WCO	WDO	Duke	VEDCO
Customer Verification					
Identity Verified	NA	Yes	Yes	Yes	Yes
Search for Past Due Balances Performed	NA	Yes	Yes	Yes	Yes
Balances billed or must be paid before service turned on	NA	Yes, subject to WRO	Must be paid	Must be paid	Must be paid



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Scoring	Regulation	C&I	NPD	Duke	PIP
Credit scoring/ creditworthiness process exists		Yes. Differs from subsequent behavioral scoring for termination path determination	Creditworthiness only, no credit scoring done	Yes. Includes credit scoring. Red, Yellow, Green or no record drives further review	Yes
Timing	N/A	Before five creditworthiness options presented	Before five creditworthiness options presented	Before five creditworthiness options presented	Presented as choice with other creditworthiness options
Type of scoring	N/A	Equifax	Internal only	Experian	Equifax utility Score
Deposits					
Required for new residential customers	Allowed if unable to establish creditworthiness	If unable to establish creditworthiness	If unable to establish creditworthiness	If unable to establish creditworthiness	If unable to establish creditworthiness
Required for new commercial customers	Allowed	Yes, based on scoring	If unable to establish creditworthiness	All commercial customers required to pay a deposit ¹	Deposit or letter of credit
Required for delinquent residential customers	Allowed if two consecutive late, or two disconnects notices in twelve months	No	Yes, if two disconnection notices within twelve months	If customer has not made full bill payment for two consecutive months ²	No
Required for residential non-pay disconnect (NPD) reconnected customer	Allowed	Yes, except for PIPP.	Yes, except for PIPP. Billed in three installments, none required to be paid prior to reconnection	For two NPD orders in twelve months, has been disconnected for nonpayment or tampering or customer has filed for bankruptcy ³	Yes, except for PIPP ⁴
Required for delinquent C&I customers	Allowed	No	Yes	Yes	Occasionally for commercial and industrial (C&I). Always for property management groups
Required for C&I NPD reconnected customer	Allowed	Yes	Yes	Yes	Yes ⁵

¹ Commercial customers can also provide a bank letter of credit to satisfy the deposit

² PIPP excluded

³ Ibid. Duke policies are inconsistent in this regard

⁴ Data Response 1-11



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	Regular	CGO	DIS	DIS	DIS
Deposits billed or paid before service turned on		Billed	Billed three installments	Billed	Paid
Interest Rate paid	Min. three percent	Three percent	Three percent	Five percent ⁶	Three percent

D. Columbia Gas Ohio (CGO)

Background

When a new customer requests service, a Customer Service Representative (CSR) validates the customer's identity and CGO's DIS billing system automatically determines if a security deposit is required based on the customer's credit history with CGO (existing or prior customer) or by an external national credit network score (new customer), and the amount of the deposit.⁷ This score differs from the behavioral risk score used to determine the delinquency/termination notification process. Security deposit requirements are determined first; however, in lieu of paying the security deposit, customers may satisfy the financial responsibility requirement by one of the other methods defined by the OAC.⁸ As part of CGO's rate case settlement in 2008, security deposits for new customers are billed in three installments and service is turned on before the deposit is received.

Conclusions

1. CGO uses an appropriate process to verify customer identity and determine security deposit requirements for new service requests.
 - In accordance with Federal regulations, CGO has established a Red Flag Program to combat identity theft. Examples of "red flags" include: an applicant for service presents a suspicious identification document; fraudulent activity related to a customer account; or, suspicious behavior regarding access, use or loss of customer information.⁹ CGO has developed red flag procedures and training materials for its CSRs.
 - CGO uses Equifax Pos-ID to verify customer identity and detect red flags, as the first step in the service request process. Pos-ID authenticates the customer's social security number, verifies that the information provided by the customer matches and that there are not any identity theft security alerts.¹⁰
 - If Equifax returns a fraud alert, or the CSR suspects fraud, gas is not turned on for three days while an investigation is performed to determine if fraud exists.¹¹

⁵ Data Response 1-11

⁶ Document Response 1-25. This is now reduced to three percent

⁷ Document Response 1-10

⁸ Document Response 1-10, Customer Security Deposits – Ohio and December 16, 2009 10 am interview

⁹ Document Response 1-12

¹⁰ Document Response 1-25

¹¹ Document Response 1-25



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- Equifax is also used to determine the need for a security deposit for new customers. If the utility credit score determines that the applicant is a credit risk, a security deposit is required, unless the applicant can establish creditworthiness through the other means allowed by the regulation.¹²
 - CGO requires deposits of all new commercial customers that do not meet the creditworthiness criteria, and prior commercial customers based on the customer's payment history.¹³ In lieu of paying a deposit, commercial customers have the option of providing a utility letter of credit, an insurer bond, or an irrevocable letter of credit from a financial institution.¹⁴
 - CGO requires deposits of new and prior residential customers that do not meet creditworthiness criteria as determined by PUCO requirements and the initial credit check or prior credit history.
 - Current and prior customers are assessed a security deposit if the customer has an outstanding balance or if the customer has a poor or limited payment history with CGO.
2. Security deposits are collected on about forty percent of accounts turned on (either new service or non-pay disconnect reconnects).
- CGO maintains a security deposit override report, which tracks the number of accounts eligible for security deposits and the number taken, for each call center employee. The results are reviewed by the call center team leads as well as revenue recovery.¹⁵
 - During the period January through November 2009, CGO had 296,520 service requests; 126,175 (or forty-three percent) of these customers failed either the Equifax or internal credit checks. CGO charged a deposit on ninety-seven percent of these accounts, as shown in Exhibit IV-2.

Exhibit IV-2
Security Deposits – Residential and Commercial Customers
January – November 2009
CGO

	Number	Percent
All turn-on orders (no service with existing meter; old set; new set; termination/reconnect)	296,520	
Number of failed credit checks		
Equifax (new customers)	48,521	
Internal (termination/reconnect)	77,654	
Total	126,175	42.6
Number of Security Deposits Requested	122,564	97.1

Source: "Security Deposit Reports" provided during the December 16, 2009 interviews.

¹² December 16, 2009 10 am interview

¹³ December 16, 2009 10 am interview

¹⁴ Document Response 1-25

¹⁵ Sec Dep Override Report – Sample, "Security Deposits Reports" provided during December 16, 2009 interviews

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- The amount of deposits collected has increased each year from 2007 to 2009. CGO collected \$11.1 million in deposits between January and October 2009.¹⁶
3. Although allowed by regulation, CGO does not require deposits of delinquent, non-terminated customers (residential or commercial).
- CGO does not require deposits from delinquent residential customers or customers that were sent termination notices but were not disconnected.
 - According to the OAC, a deposit may be required of delinquent customers if the customer meets one of the following criteria: the customer has not made full payment or payment arrangements by the due date for two consecutive bills in the previous twelve months or if the customer has been issued a disconnection notice for nonpayment two or more times in the previous twelve months.
 - CGO's billing system is not set up to require deposits strictly for delinquencies; however, CGO has requested that its information technology department (IT) price the cost of modifications to allow mid-stream deposits.¹⁷
 - CGO does not require deposits from delinquent commercial customers.
 - No deposits are required of PIPP customers.¹⁸
 - For non-PIPP customers using the \$175 winter reconnection order, the \$175 is first applied to the initial one-third deposit installment payment.
4. CGO appropriately requires deposits from residential customers and commercial customers that it has disconnected for nonpayment.
5. CGO holds, applies, and returns deposits as specified by PUCO regulations.
- Deposit rules are programmed into the DIS billing system, and deposits are automatically released based on the parameters coded into the system.¹⁹
 - Deposits are generally billed in three installments and are set at the maximum allowed by the OAC (130 percent of the estimated monthly charge).²⁰
 - Deposits are applied to the account after twelve months of timely consecutive payments. Refund checks are not issued unless the customer specifically requests a refund or the account has a credit balance.²¹

¹⁶ C&C Tracker (with Graphs) – COH Deposits Collected, "Security Deposits Reports" provided during December 16, 2009 interviews

¹⁷ December 16, 2009 10 am interview

¹⁸ December 16, 2009 10 am interview

¹⁹ December 16, 2009 10 am interview

²⁰ Document Response 1-10

²¹ December 16, 2009 10 am interview



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- Interest at three percent is added to deposits held more than 180 days. No interest is paid for deposits held less than 180 days.

Recommendations

1. Evaluate the cost-effectiveness of the system modifications necessary to charge deposits for delinquent, non-terminated customers (residential and commercial) as allowed by the OAC. (Refers to Conclusion IV-3)

E. Dominion East Ohio (DEO)

DEO's CSRs handle all requests for new service, working with the same CCS customer information system used for billing and service requests. DEO procedures require that only the individual who will be responsible for the bills can establish service. The applicant's identity is confirmed using Experian. The CCS enables the CSR to identify prior accounts and link bill payment history and any past due amounts to the current applicant and new account. Applicants must resolve any prior past due amounts by either paying the balance due or entering into a payment arrangement prior to new service being turned on.

DEO does not require service deposits from any customer with a good prior credit history with the company, and does not obtain an outside credit score for new customers. Deposits are required from customers who cannot establish their identity through the third-party vendor; when the customer has a prior past due balance, bankruptcy, energy diversion charge or disconnection for non-pay on the DEO system. Customers with active service who have had more than one disconnect notice in the prior twelve months, or have had a returned payment (e.g., NSF or account closed), even if the service was never disconnected, are assessed a deposit through the deposit warning and request process. A security deposit warning letter is sent when the customer receives the first disconnection notice or payment is returned. If a second disconnection notice or returned item occurs within twelve months, a deposit is added to the account.²²

Where a deposit is required, the CIS automatically sets the deposit requirements at 130 percent of the prior average monthly bill at the premises. DEO has a minimum deposit of \$20 for residential customers and \$200 for commercial accounts. In keeping with PUCO regulations, an applicant can establish credit in lieu of paying the deposit by showing ownership of the premises or some other piece of real estate within the service territory (OAC 4901:1-17-03). DEO bills the deposit over three months in accordance with a settlement reached in DEO's 2007 rate case.²³ No portion of the deposit has to be paid prior to initiating service.

²² DEO Orientation Presentation and Verification Response

²³ Company presentation, p. 42



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Conclusions

6. DEO has appropriate systems to verify the identity of individuals and businesses desiring to initiate service and to ensure that any past due balances are linked to new accounts.
 - Individuals calling to initiate or transfer service are identified using name, prior addresses, and social security number. Customer identity is verified through a third-party vendor (Experian) that checks against similar names and addresses.
 - CSRs are able to identify past due balances associated with prior accounts (linked by social security number), and transfer them to the new account. The customer must pay the past due balance and a deposit to re-establish service.
 - A batch process program checks social security numbers of new account holders against past due accounts each night. Accounts that are not matched by the batch process are reviewed and balances may be manually transferred (for example, if the batch process rejected the transfer because the last name did not match due to marriage). CSRs perform manual checks to ensure that prior past due balances are correctly linked to individuals opening new accounts.²⁴
7. While DEO does not currently perform credit scoring, it is in the process of adding a credit scoring system.
8. DEO has an appropriate process for assessing security deposits for delinquent customers.
 - DEO collected deposits from 70,000 new customers over the past three years.²⁵ As of January 1, 2010, DEO had 1.1 million deposits on hand, totaling \$17.2 million.²⁶
 - PIPP customers are not charged a deposit, regardless of their past history with the company, except that if the PIPP customer has an energy diversion charge, that charge must be paid prior to re-starting service.²⁷
 - Residential customers with two termination notices or returned checks within a twelve-month period are assessed deposits.²⁸
 - The system used by the CSRs to set up service automatically determines whether a deposit is required from a service applicant.
 - Customer service supervisors, internal controls and audit oversight ensure that CSRs do not waive deposits inappropriately.
 - DEO is in the process of adding credit scores to their deposit assessment process.²⁹ This may increase the number of customers from whom deposits are required.

²⁴ IDR 27

²⁵ DR EOG-3-7

²⁶ PCSRP390 Summary List of Security Deposits by Local Office, provided 4/29/10.

²⁷ Company presentation, p. 42

^{28,29} DEO Orientation Presentation and Verification Response



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9. DEO holds, applies and returns deposits as specified by PUCO regulations.

- Deposits are applied to the account after twelve months of timely consecutive payments. Refund checks are not issued to customers with open accounts.
- Commercial deposits are not automatically applied to accounts. Instead, commercial accounts are reviewed after two years, and the deposit may be applied based on payment history and financial stability of the company.³⁰
- Interest at three percent is added to deposits held more than 180 days.³¹
- An average of 65,750 deposits were applied against past due balances in each of the past three years.³²

Recommendations

2. Incorporate third-party credit scores into the deposit assessment process to obtain deposits from more customers. (Refers to Conclusions No. IV-7)

F. Duke Energy Ohio (Duke)

Prior to providing service to both residential and non-residential customers, Duke performs a check to determine if a security deposit is required and the amount of the deposit. For residential customers, credit is validated based on the customer's prior history with Duke or using the Experian TEC Risk Model for residential credit checks. A credit reference letter from another utility or other means, as allowed by regulation, may also be provided for consideration in determining creditworthiness. For non-residential customers, an internal assessment is performed to determine if the customer has previously established credit. If the customer has not established credit, Duke requires a deposit for all new non-residential customers.

When a customer requests new service at an existing location the previous usage is used to determine usage patterns and deposit requirements. The customer also provides information which can be used to determine usage. This includes square footage, type of heat, type of water heater, and type of appliances. Duke calculates an estimated gas consumption which is then used to determine the deposit amount. The deposit is calculated as 130 percent of estimated monthly usage. A minimum deposit threshold of \$25 is established for residential accounts. Deposits are waived for those customers participating in the PIPP and WRO. A similar process is used for non-residential accounts although the information collected differs. A minimum deposit threshold of \$100 is established for non-residential accounts.

For existing residential customers who are re-establishing service or who have specific delinquent payment patterns, the customer's payment history is the trigger for requiring a deposit to reestablish or continue service. Specifically, a residential customer who has had two non-pay

²⁹ On-site interviews

³⁰ Company presentation, p. 43

³¹ Ibid

³² DR EOG-3-8



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disconnect notices in the prior twelve months or who has filed for bankruptcy will be required to make a deposit using the deposit guidelines described above.³³

Conclusions

10. Duke verifies customer identity and checks for past due balances when initiating service.

- All requests for new service are routed to the Duke Credit Call Center where an initial assessment takes place to determine if the customer has previously established credit with Duke. The first step in the process is identity verification.
- Agents check names and addresses to determine if the applicant has previously had service with Duke, but has not provided the information. This check is performed to identify and collect past due balances from customers attempting to initiate new service with outstanding balances still owed on a previous account.

11. While Duke has a formal process for determining credit worthiness, its threshold for credit worthiness may not be appropriate.

- If the customer has previously established good credit with Duke then no deposit is required. If the customer has not previously established credit, the agent will ask permission to perform a credit check. If a customer scores greater than 600 then the security deposit is waived. If the score is less than 600, a deposit is required. The credit check is also used as a first step in identifying fraud. If the customer denies the request for a credit check, a deposit is required.³⁴
- There has been no recent analysis to validate that the score of 600 is appropriate under the current economic conditions and directly provides the desired results of reducing bad debt exposure while maintaining customer goodwill. While the economy has changed drastically, the credit score threshold has not changed. The scoring is also not part of any overall strategy which specifically assigns a bad debt reduction or control target to the score level.

12. Duke has an aggressive policy for pursuing deposits.

- Duke's strategy is to ensure adequate security coverage by identifying potential bad debt risk and mitigating that risk to the extent possible.
- Duke requires deposits of existing, delinquent residential customers. According to Duke's written policies and procedures, deposits are required on accounts that have received two non-pay disconnect-eligible orders within twelve months and accounts that it has disconnected for tampering or non-payment.³⁵ Deposits are automatically applied

³³ Duke written policies and training material are inconsistent in this regard. See DR 01-001 page 22 of 27 and DR 01-010 page 1 of 11

³⁴ Initial presentation handout, DR 025

³⁵ DR 01-010, page 1 of 11



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to the customer's next bill.³⁶ Deposit eligibility is determined by parameters built into the system and requires no manual intervention.³⁷

- For commercial accounts, all new accounts and existing commercial accounts that have been non-pay disconnect-eligible twice in a twelve month period are required to pay deposits.
 - New residential customers that do not meet the credit scoring criteria are required to pay a deposit. Customers that refuse to provide a social security number, or do not have or do not remember their social security number are also required to pay a deposit.
 - Customers that have filed bankruptcy, engaged in tampering, fraud or theft of service are required to pay deposits.
 - Customers with accounts that have charged off are required to pay deposits.
 - Customers that have had service terminated for nonpayment must pay a deposit in order to have service reconnected.
13. Despite the existence of procedures designed to check for past due balances, a number of customers with outstanding balances have been allowed to establish new service without paying past arrearages.
- Despite the screening process and credit reporting, a number of Duke customers are being provided new service without being identified as owing past due balances.
 - Duke has an accounts receivable group that is dedicated to researching new service applications and identifying those which should have had deposits applied.
14. Duke's policies regarding screening and the collection and refund of customer deposits follow regulatory guidelines.
- Duke's policies regarding credit worthiness and deposits adhere to the regulatory guidelines set forth in the OAC Chapter 4901.
 - Interest paid on deposits (five percent) is actually higher than required by the OAC (three percent).
 - Deposits for residential accounts in good standing will be credited to the customer's account after twelve months. Non-residential customer deposits are eligible for return after twenty-four months.

Recommendations

3. Perform an analysis to determine if the TEC Risk Model Score threshold used to determine residential deposit is appropriate. (Refers to Conclusion No. IV-10)

³⁶ Duke Verification Response and discussion

³⁷ Midlife Security Deposits document received April 7, 2010



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- At a minimum, Duke should stratify its residential bad debt accounts based on a range of TEC Risk Model Scores.
 - Duke should also have an overall strategy for why thresholds are set at a certain level and what benefits would be expected from changing the scoring threshold (i.e., raising the score to 625 will reduce bad debt by x percent).
4. Rigorously examine the initial screening process to determine where weaknesses exist that allows customers to receive new service without clearing previous balances. (Refers to Conclusion No. IV-12)
- As a result of efforts already underway Duke has identified a sample set of customers who have continued to receive service when Duke should have required them to clear arrearages.
 - Using this sample as a starting point, Duke should identify specific improvement opportunities, establish procedures and controls to ensure prior balances are identified and linked to the new account, and develop and track metrics to ensure controls are functioning properly.

G. Vectren Energy Delivery of Ohio (VEDO)

Initial customer screening and risk assessment is conducted by VEDO's call center in Evansville, Indiana. Customer records along with billing and payments are contained within VEDO's Banner Billing System. Customers can request service via telephone, facsimile, web interface, and written letter. Regardless of the method used to request service, all potential customers undergo a screening interview.

For residential customers, VEDO first requests a phone number and determines whether that number is associated with any accounts currently in the Banner system. This information allows VEDO to determine whether the name on the account matches the person calling, and assess the customer's payment history, including unpaid balances. After the telephone number is reviewed, the formal interview begins. Existing customers are asked to validate the social security number on the account and new customers are asked if they would provide a social security number. This information is used to validate the customer's identity.

The customer is then required to establish credit worthiness. Only after the customer meets the credit worthiness requirement, can a service connection be processed. For new customers, the following five options are presented to the customer as means to satisfy the creditworthiness requirement:

- Credit reference from another utility
- Passing of a credit inquiry via Equifax, passing score is 700
- Guarantor letter
- Own property
- Deposit



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For existing and previous customers, the CSR reviews the customer's credit history. If the payment history is good, no deposit is required; otherwise, one is assessed based on the expected monthly average bill plus any unpaid balances. A good payment history is defined as one where the customer does not owe VEDO a debt and:

- Customer has made full payment or payment arrangements by the due date at minimum every other month for the preceding twelve months.
- Customer had one or less disconnect notices
- Customer was not disconnected for nonpayment, fraud, tampering, or unauthorized reconnection.³⁸

All new commercial customers are required to pay a deposit prior to initiating service. A new customer is defined as one that has not had active service in the previous thirty days. The deposit is 130 percent of the average expected or actual bill for the facility. Existing commercial customers transferring service must pass VEDO's credit requirements or provide a deposit for the new premises:

- The customer did not receive two or more consecutive disconnect notices in the last twenty-four months.³⁹
- The customer did not receive three or more disconnect notices in the past twenty-four months.⁴⁰

Property management companies are viewed as a single customer with multiple meters. Poor payment performance at any location requires a deposit on all accounts.⁴¹

Conclusions

15. VEDO has appropriate systems to verify the identity of individuals and businesses requesting service and ensure that any past due balances are linked to new accounts.

- Individuals calling to initiate or transfer service are identified using name, prior addresses, and social security number. Customer identity is verified through Equifax. If the customer-provided name matches the name provided by Equifax, positive identification is established. If an interviewee refuses to provide a social security number, VEDO requires that a form be submitted with a copy of a government-issued identification card.⁴²
- Any past due balances associated with prior accounts are transferred to the new account, and the customer must pay the past due balance and a deposit to re-establish service.

³⁸ VEDO Verification Response

³⁹ DR 11

⁴⁰ DR 11

⁴¹ I Goodge

⁴² Ibid.



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16. VEDO has established process for determining new customer creditworthiness in accordance with PUCO regulations.

- CSRs offer customers all five options to establish credit worthiness. Most customers opt for passing a credit inquiry.⁴³ VEDO utilizes a passing score of 700 per Equifax's recommendation. The score is calculated only on payment of 'utility like' bills. VEDO has determined that fifty percent of customers fail at this level and thus would be assessed a utility deposit unless they met one of the other credit worthy conditions.⁴⁴
- Using the information provided by the Banner customer information system, the CSRs determine whether a deposit is required from a residential service applicant. The system contains customer payment history including whether the applicant was a previous customer that owed a debt, received two or more disconnect notices in the previous twelve months, or was disconnected for non-payment or fraud, and requires the payment of a deposit prior to establishing service. VEDO procedures require the CSR to input the method of credit worthiness chosen prior to scheduling the service order. If none of the four non-deposit options are selected, a deposit is required. The system automatically calculates the deposit based on historical usage of the facility.⁴⁵
- New commercial customers are required to render a deposit prior to establishing service. A letter of credit from a bank may be used in lieu of a deposit. A new commercial customer is a customer that has not had service with VEDO in the previous thirty days.⁴⁶
- During 2009, VEDO held \$5.9 million in deposits on 43,950 accounts - approximately fourteen percent of all accounts. PIPP customers are no longer assessed deposits.⁴⁷

17. VEDO does not utilize mid-stream deposits to minimize risk.

- Residential customers are not assessed mid-stream deposits based on delinquency or number of disconnect notices issued. Residential and commercial customers are assessed deposits to re-connect service after disconnection for non-payment.⁴⁸
- Commercial customers are occasionally assessed mid-stream deposits due to perceived risk.⁴⁹

18. VEDO holds, applies, and returns deposits as specified by PUCO regulations

- Deposits are applied to accounts when the customer has made timely, consecutive payment nine of the previous twelve months; the deposit is applied at month twelve. Refund checks are not issued to customers with open accounts but the deposit is credited to the account.

⁴³ I Brann

⁴⁴ Email from R. Boling April 2, 2010 to D. Francis

⁴⁵ VEDO Verification Response

⁴⁶ DR 11

⁴⁷ Email from R. Boling April 2, 2010 to D. Francis

⁴⁸ DR 11

⁴⁹ Ibid.



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- Commercial accounts are reviewed after two years, and the deposit may be refunded based on the payment history.
- Interest at three percent is added to deposits held more than 180 days.⁵⁰

Recommendations

5. Evaluate the cost-effectiveness of assessing mid-stream deposits for the following: (Refers to Conclusion IV-16)
 - Residential customers that have received two or more disconnect notices within the past twelve months.
 - Commercial customers that have received a disconnect notice.

⁵⁰ Ibid



CHAPTER V: TERMINATIONS AND PAYMENT ARRANGEMENTS

This Chapter provides a discussion of the Ohio gas utilities' practices related to termination and reconnection of service. It also addresses the extended payment plans and bill assistance programs offered by the Ohio gas utilities, including those mandated by state regulations and those offered by the utilities on a voluntary basis.

A. Summary of Regulatory Requirements

Terminations

According to Ohio Administrative Code (OAC) Chapter 4901:1-13-11, bills issued by the utilities are to be accurate and rendered at regular intervals, and shall be due not less than fourteen days from the date of the postmark on the bill. When a customer pays a bill at the utility's office or authorized payment agent, the payment must be immediately credited to the customer's account where feasible, but no later than the date received at the office or payment agent. With proper notification, the Ohio utilities are able to terminate service to residential and non-residential customers for reasons of non-payment. The utilities cannot disconnect service if the customer pays the total amount due or the agreed upon payment amount by the close of business on the date listed on the disconnection notice.

Commercial Customers

A utility may deny or disconnect service to commercial customers when the customer does not meet the utility's creditworthiness standards. A utility may also deny service when a former small commercial customer, whose account is still in arrears for service previously furnished at a premise has again requested service for that premise. The utilities must provide the commercial customer with five business days (after post-mark date) written notice of intent to disconnect. The disconnect notice must specify the account number, past due amount, deposit owed and any reconnection charges, the earliest date disconnection may occur, as well as other required notifications. In accordance with Chapters 4901:1-13-08 of the Code, commercial customers can be terminated for failure to pay bills and any tariff charges, including deposits; however, service may not be terminated for disputed amounts.

Residential Customers

Residential customers can be terminated for nonpayment, including nonpayment of security deposits applied to delinquent bills as a condition for continued service, upon compliance with the provisions and procedures set forth in the OAC. An individually metered residential account is considered delinquent when the customer has not made the full payment or arrangements for payment by the due date, for any given bill containing a previous balance for regulated services, or when the customer is in default on or fails to make the initial payment on an extended payment plan. The minimum payment necessary to avoid disconnection cannot be greater than the delinquent amount.



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The utilities are required to provide individually-metered residential customers with fourteen-day notification prior to disconnection during the non-winter period (April 16 – October 31) and an additional ten-day notification during the winter moratorium period (November 1 – April 15). For the winter periods prior to November 1, 2010, for Duke, DEO and VEDO, the additional ten-day notice had to be made by personal contact, telephone, or hand-delivered written notice. The November 1, 2010 rule changes allow all gas companies to provide the additional ten day notification via mail. This change was implemented early for CGO as part of a settlement agreement. On the day of disconnection, the utilities must provide the customer with a personal notice. A written notice can be posted on the premise if an adult is not at home. The utility cannot disconnect a residential customer after 12:30 pm, if reconnect and payment arrangement services are not provided by the utility on the following day.

The utilities are not able to disconnect residential customers for nonpayment if the customer has a certified health condition. A medical certificate will prevent disconnection for thirty days, and can be used to restore service. Medical certificates may be used or renewed two additional times, not to exceed a total of ninety days per household in any twelve-month period. Customers using a medical certificate must enter into an extended payment arrangement, with the initial installment due not prior to the end of the certification period.

The utilities can disconnect the service of individuals whose utility services are included in their rent and of tenants with master-metered service for which the customer is the landlord upon providing an appropriate fourteen-day notification and an additional ten-day notification (year round).

In addition to the termination notification requirements outlined in the Code, in past years the PUCO issued a moratorium on the termination of residential customers for various periods during the winter at the request of the Governor. For example, on December 17, 2007, a ninety-day moratorium which applied to residential customers whose household income was at or below 175 percent of the federal poverty guidelines was issued.¹ The moratorium was valid as long as the customer was on an extended payment plan or agreed to enroll in PIPP or another PUCO-ordered payment arrangement. A similar moratorium was also in effect for the 2008-09 winter period; however, the 2008-09 moratorium did not have income as a qualifier. The utilities were asked to not turn off any service regardless of income level. The Governor did not issue a moratorium for the 2009-10 winter period.

In addition to the special winter moratoria, a Winter Reconnect Order (WRO) is in effect each year. The WRO allows residential customers who are disconnected or threatened with disconnection the opportunity to pay \$175 and enter into a payment arrangement in order to maintain or reestablish service, regardless of the past due balance on the account. The WOR applies to all residential customers regardless of income level.

Reconnection

Under current regulations, unless otherwise agreed to, upon payment of the full amount or any agreed-upon payment arrangement amount and required deposits, the utility must reconnect

¹ December 19, 2007 News Release



the service by the close of the following regular working day after payment. The amount owed is either the delinquent amount for which the customer was disconnected or the payment arrangement amount. The utilities cannot require that the customer pay any amounts owed but not currently past due, or any amounts owed or past due on other accounts. Customers can have service reconnected the same day if they provide proof of payment and notify the company no later than 12:30 pm of the request for same day reconnection. OAC rule changes to be implemented on November 1, 2010 eliminate the same/next day reconnection requirement for customers whose service has been terminated for greater than ten days. For CGO this change is already in effect.

Payment Arrangements

Extended payment plans are covered in Chapters 4901:1-18 of the OAC. Utilities are required to inform customers who are delinquent, or wish to avoid a delinquency, that it will make extensions or other extended payment plans appropriate for both the customer and the company. If the customer proposes payment terms, the company has the option to accept or reject the customer's proposed terms, based on the account balance, the length of time of the outstanding balance, the customer's recent payment history, the reasons why the customer has not made payment, and any other relevant factors concerning the circumstance of the customer. If the customer does not propose payment terms, the company is to offer customers the following payment plans:²

- **Current plus One-Sixth plan:** Six equal monthly payments on arrearages plus the full payment of current bills.
- **One-Third plan:** One-third of the balance due each month (arrearage plus current bill), available during the winter heating season only.
- **Percentage of Income Payment Program (PIPP) and the Post-PIPP Arrearage Crediting program.**
- **Uniform Payment Plan (Budget Plan):** Monthly payments equal to average of prior year's bills, adjusted for known changes. Arrearages do not have to be included in the uniform payment plan. Uniform plans are available only to customers who are not in default on a previous extended payment plan.

If the customer informs the company of a medical problem, the company is to inform the customer of the medical certification program. The medical certification does not itself constitute a payment plan, but customers invoking a medical certification to avoid disconnection are required to enter into a payment plan or go on PIPP, effective at the expiration of the medical certification hold.

In addition to these required payment plans, the utilities have the option of offering other payment plans (e.g., spreading arrearages over different time periods), or short term extensions where a customer is granted a limited additional time in which to pay their full bill amount.

² (OAC) Chapter 4901:1-18-04



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The Code also sets forth procedures for handling payments for undercharges that arise due to metering issues or other factors under the utility's control. In these situations, the amount of undercharge is to be billed to the customer equally over a twelve-month period (residential) or over the same period that the undercharge occurred (small commercial).³

Under all the payment plans, failure to either make the initial payment, or to pay the billed payment plan amount when due, is deemed a default of the payment plan, and customers may be subject to termination. To avoid disconnection, customers must pay the amount of the payment plan arrearage, not the total account arrearage.

PIPP

OAC Chapter 4901:1-18-03(B) specifies that any customer whose household income is equal to or less than 150 percent of the federal poverty level on an annualized basis is eligible for PIPP. Under current PIPP guidelines, customers pay ten percent of their monthly household income to the jurisdictional company that provides the primary source of heat, and five percent to the jurisdictional company that provides the secondary source of heat. During the summer period, these customers are to pay the greater of the percent of income or the actual bill.⁴ PIPP customers are required to recertify their annual household income at least once every twelve months.⁵ PIPP customers must also apply for the Federal Home Energy Assistance Program (HEAP) and for weatherization programs offered in their area. The utilities are required to apply any funds received on behalf of a PIPP customer from HEAP to the current bill of that customer.

The Ohio Department of Development (ODOD) is responsible for the initial income certification and all re-verification. ODOD also sets the amount of the PIPP payment for each customer. Under current implementation guidelines, ODOD has to contact all PIPP recipients once a year to obtain current income information, recertify the recipient, and set any changes in their PIPP payment amount. Customers who do not re-certify their eligibility, or whose income exceeds the 150 percent cut off, are dropped from the program. ODOD provides the utilities with electronic files with re-certification and dropped PIPP recipients. The ODOD is authorized to charge the utilities for the income verification on a per applicant basis. The utilities can recover these costs through the PIPP rider.⁶

Low income customers participating in PIPP remain responsible for their entire utility bill, even though they are only paying a portion of the actual bill. To address the issue of PIPP arrearages when customers come off PIPP, the PUCO instituted an "arrearage crediting program".⁷

- During his first twelve months off the PIPP plan, the customer continues to pay the same amount as during the last month as a qualified PIPP customer.

³ Chapter 4901:1-13-04(D)(5)(3) and (G).

⁴ Gas customers are required to make the monthly PIPP payment even though the actual bill may be less.

⁵ Zero income PIPP customers must recertify that status every 90 days.

⁶ DR-EOG-3-14

⁷ Finding and Order in Case Nos. 88-1115-GE-PIP, 90-705-GE-PIP, and 90-879-GE-ORD, December 2, 1993.

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- During the second twelve months off the PIPP plan, the customer is required to pay either the current bill or a traditional budget billing amount.
- During the third twelve months off the PIPP plan, the customer is required to pay either the current bill or a traditional budget billing amount plus up to \$20 extra towards their arrearage. The utilities are required to match the additional payments up to \$20 as a credit toward the arrearage, and are authorized to recover these credits in the PIPP rider.

Program Changes

Effective November 1, 2010, the payment plans discussed above are modified as follow:⁸

- Add a One-Ninth Plan: A nine-month budget amount that includes one-ninth of their account arrearages.
- Modify the One-Third Plan to require that the customer be given the option of paying any arrearage balance at the end of the one-third period, entering into another payment plan, or going on PIPP (if qualified).
- Clarifies that, if requested by a customer having trouble complying with any payment plan, the utility may agree to modify the payment plan to meet both the customers' and the utility's needs.

The new regulations also make changes to PIPP. In particular, beginning in November 2010:⁹

- The required PIPP payment will be reduced to six percent of household income.
- PIPP customers are given a sixty-day grace period after their anniversary date to re-verify eligibility.
- PIPP customers must be current on their income-based PIPP payments at their anniversary date to be able to remain on PIPP for the next year. Customers are given one billing cycle after the anniversary date to pay any missed PIPP payments before being removed. Missed PIPP payments are defined to include any delayed payments resulting from invoking any medical certificate and any payments missed while the customer was disconnected from gas service.
- PIPP customers may only re-enroll in the program after they have made up all missed PIPP payments, including payments for months when the customer was disconnected from service.

The new regulations define a "graduate" PIPP customer as a PIPP customer who elected to end participation in PIPP or is no longer income eligible for PIPP. The regulations establish the graduate PIPP payments as the average of the customer's last PIPP payment and what would be

⁸ New 4901:1-18-05

⁹ New 4901:1-18-12



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their budget bill amount. During the first twelve months as a graduate PIPP customer, the customer is eligible for the arrearage crediting program, described below. After twelve months, the graduate PIPP customer is responsible for any remaining arrearage on their account.¹⁰

The new regulations also establish a PIPP arrearage crediting program, as follows¹¹:

- Every time a PIPP customer makes an on-time payment, the utility is to reduce the customer's arrearage by the difference between the current bill amount and the customer's required PIPP payment plus 1/24th of the balance at the time of enrollment or reenrollment.
- Graduate PIPP customers are credited with the difference between the amount of the actual bill and the required payment (as specified above), plus 1/12th of the arrearages as of the time of enrollment in graduate PIPP.
- Neither PIPP nor graduate PIPP customers are eligible for a refund of any credit balance on their account. Any credit balance at the time a PIPP or graduate PIPP customer is rendered a final bill is to be credited to the PIPP rider.

The new regulations clarify that neither PIPP nor graduate PIPP customers are to be charged either a deposit to initiate service, or late fees on their bills.¹²

Winter Reconnect Order (WRO)

Each fall for the past twenty-five years, the PUCO has instituted special reconnection/bill payment procedures, which are offered to any Ohio utility customer to forestall disconnection of service for non-payment or to reconnect service during the winter season. These procedures are handled annually through a PUCO procedural order.¹³

Under the WRO policies, a utility must suspend any disconnect order, or must reconnect service already disconnected, so long as the customer pays \$175. The payment can come from the Emergency Home Energy Assistance Program (E-HEAP) or from any other funds. There is no income requirement associated with the WRO. If the utility uses the \$175 payment to have service reconnected, the utility is allowed to add its approved reconnection charge, up to \$36, plus any security deposit the utility would normally require, and credit the \$175 payment against these charges, with the remainder of the WRO payment being applied to past due arrearages. Customers using the WRO must also enter into a payment arrangement.

Exhibit V-1 shows the utilization of WROs for the 2008-2009 winter for each of the utilities.¹⁴ Based on this data, the majority of the customers using the WRO (seventy-one percent) used it to avoid to being disconnected. Of the twenty-nine percent of customers using the WRO to reconnect service, almost half (forty-six percent) were customers who had not had service for less than seven days, invoking the WRO immediately after disconnection. Thirty

¹⁰ New 4901:1-18-16

¹¹ New 4901:1-18-14

¹² New 4901:1-18-15

¹³ Order in Case No. 09-782-CE-UNC, for the 2009-2010 winter season

¹⁴ Data provided to NorthStar by the PUCO staff, Feb. 18, 2010



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percent used the WRO to restart service after they were disconnected for over ninety days. These customers most likely had had their service disconnected in the spring, felt they did not require gas service during the summer, and waited to re-start service until the WRO was implemented.

Exhibit V-1 also shows that, in aggregate, the average amount required to reconnect or avoid termination without the WRO was approximately \$400, so payment of the \$175 under the WRO recovered about 40 percent of the amount owed to the utilities by these customers (without consideration of any reconnection fees and deposits that might be charged to these accounts by the utilities).

Under the WRO procedures, utilities are required to place customers invoking the WRO onto an extended payment plan at the time the WRO is invoked. Exhibit V-2 shows that 43 percent of DEO, VEDO and Duke customers using the WRO were already either on PIPP or some other payment plan. The numbers CGO has been providing to staff in compliance with the WRO have been determined by CGO to be not valid. As a result, CGO's numbers are not included in the table. Of the 57 percent of DEO, Duke and VEDO customers using the WRO that were not already on PIPP or another plan, 21 percent were reported as not being placed on a plan after using the WRO.



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Exhibit V-1
Application of WROs
all Utilities 2008-2009

	Number of WROs Used	Of WROs Used		Of WROs used to Restart Service, length of time service had been off			Dollars due on Accounts using the WROs (\$ million)	Average Dollars Due per Account	Dollars received under the WRO (est) (\$ million)	Percent dollars received
		# used to Avoid Disconnect	# used to Restart Service	<1 wk	7 to 30 days	30 to 90 days				
CGO Percent	60,082	32,086 53%	27,996 47%	12,467 45%	2,896	3,727	\$21.1	\$350	\$10.5	50%
DEO Percent	60,427	53,573 89%	6,854 11%	1,395 20%	490	1,742	\$25.6	\$424	\$10.6	41%
VEDO Percent	8,303	5,528 67%	2,775 33%	354 13%	204	650	\$4.7	\$566	\$1.4	31%
Duke Percent	32,881	24,302 74%	8,579 26%	6,928 81%	716	871	\$13.9	\$423	\$5.7	41%
All Utilities Percent	161,693	115,489 71%	46,204 29%	21,144 46%	4,306	6,990	\$65.3	\$404	\$28.3	43%

Note: CGO has identified problems with the reporting of its data, which may affect the accuracy of the information reported above.

Source: PUCO data provided Feb. 18, 2010; dollars received under WRO estimated by NorthStar as number of accounts invoking WRO times \$175.

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Exhibit V-2
WROs and Payment Plans
all Utilities except CGO (2008 – 2009)

	Number of WROs Used	Of WROs Used			Of Those not on PIPP or Plan		
		# on PIPP	# on 1/3 or 1/6 plan	# not on a plan	new on PIPP	new on plan	not put on PIPP or plan
CGO (see note) Percent							
DEO Percent	60,427	28,519 47%	27 0%	31,881 53%	6,350 20%	19,985 63%	5,546 17%
VEDO Percent	8,303	2,446 29%	1,118 13%	4,739 57%	114 2%	3,365 71%	1,260 27%
Duke Percent	32,881	11,126 34%	637 2%	21,118 64%	298 1%	15,385 73%	5,435 26%
Total DEO, VEDO and Duke Percent	101,611	42,091 41%	1,782 2%	57,738 57%	6,762 12%	38,735 67%	12,241 21%

Note: CGO has identified problems with the reporting of its data, which affect its accuracy. As a result, CGO's numbers were not included above.
Source: PUCO data provided Feb. 18, 2010.

B. Preferred Practices

The Ohio gas companies were evaluated against the following preferred practices:

- The billing cycle does not drive collections activity (e.g., termination notices do not expire with a new bill).
- Collections thresholds are appropriately set and balance collections costs while ensuring the timeliness and appropriate level of collections activities.
- The utility's ability to disconnect service for non-payment is not adversely affected by other work activities.
- The utility offers each of the extended payment plans called for by the regulations, and the programs are offered on a consistent basis to all customers.
- The utility attempts to obtain full payment from delinquent customers before offering extended payment plans, including having an appropriate policy regarding short-term payment extensions.
- The utility signs customers up for extended payment plans when they use the WRO.

C. Key Practice Comparison

Exhibit V-3 provides a comparison of key collections practices. Additional details regarding each utility's activities are provided in Section D.

Exhibit V-3
Key Practice Comparison – Terminations and Payment Arrangements

	Regulation	CGO	DEO	Duke	VEDO
Factors Affecting Terminations					
Internal moratorium	NA	20 degrees within twenty-four hours	20 degrees within forty-eight hours	25 degrees	20 degrees within twenty-four hours
Terminations workforce	N/A	Primarily dedicated collectors. Some service techs	Exclusively Internal staff, also do collections and other fieldwork	Primarily dedicated internal collectors	Dedicated external collectors in Dayton area. Internal service techs elsewhere
Timeline					
Bill due	No sooner than fourteen days after postmark	Fourteen days	Fourteen days	Twenty-one days	Fourteen days



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	Regulation	CGO	DEO	Duke	VEDO
Termination notice date commercial and industrial	Five days	Fourteen days after due for small commercial (same as residential), five for industrial	One day after due, which is fourteen days after notice on bill	Five days after due	Fourteen days after due (same as residential)
Earliest Termination Date (residential)	Forty-four days	Forty-five days non-winter Fifty-eight days winter	Forty-five days non-winter; fifty-eight days winter	Eighty-four days	Forty-eight days non-winter Sixty-three days winter
Collections Thresholds					
Disconnect notice threshold	NA	Medium to ultra high-risk delinquent customers only. Threshold decreases at high risk levels	Past due balance >\$100. Others get reminder notice	Depends upon credit status. Thresholds used within each status are \$100 due or deposit past due of \$25 or greater	Past due balance ≥\$50
Minimum dollar scheduled for disconnection		Varies by risk segment. \$100 ultra high risk, \$150 high, \$200 medium	Past due balance >\$250	Past due balance >\$100 all customers	Past due balance >\$100
Payment Arrangements					
Offers short-term extensions	Allowed	Yes	If requested, on case-by-case basis	On case-by-case basis	Yes
Offer One-Sixth Payment Plan	Yes	Yes	Yes	Yes ¹⁵	Yes
Offer One-Third Payment Plan in Winter	Yes	Yes	Yes	Yes	Yes
Offer PIPP to qualified customers	Yes	Yes	Yes	Yes	Yes
Offer Budget Billing to qualified customers	Yes	Yes	Yes	Yes	Yes
Participate in \$175 Winter Reconnect Program	Yes	Yes	Yes	Yes	Yes
Offer additional payment plans	Allowed	Utility fuel fund and utility crisis fuel fund, Income Ineligible Payment Plan	PIPP and post PIPP repayment crediting program	Consumer Credit Counseling Service Separation ¹⁶	No longer offers additional programs

¹⁵ Only one six month agreement in a 12-month period if the customer defaults

¹⁶ Customers can have one service left on (gas or electric)



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	Regulation	CGO	DEO	Duke	VEDO
Offer additional assistance programs	Allowed	HeatShare, WarmChoice®	EnergyShare Energy Assistance	HeatShare ¹⁷	None

D. Columbia Gas of Ohio (CGO)

Background

A delinquent CGO customer will receive a reminder notice or a termination notice based on their assessed risk level and the dollar amount of the delinquent balance. Customers perceived to be higher risk receive a termination notice for a lower balance.

CGO provides all residential customers scheduled for termination with the required fourteen-day notification and the additional ten-day notification during the winter period. Although commercial customers can be terminated with five-days notice, CGO uses the fourteen-day notification process for small commercial customers as well as residential, as the meters are read on the same routes. Large industrial customers are provided five-day notice. During the non-heating season, shut-off orders are generated between days forty-four and forty-seven (from the date the original delinquent bill was issued), and service is terminated (or amounts are collected) between days forty-five and sixty-one. During the heating season, the required ten-day notification is provided and service is terminated between days fifty-eight and sixty. On day sixty-one a new bill is generated and the collections cycle resets. CGO does not continue to collect on past due balances once a new bill is issued.

Once a field collector is at a customer's premise, the collector will attempt to collect payment, and then terminate service if payment is not received. CGO does not accept cash in the field; however, customers can pay by electronic check or credit card while the collector is at the premise to avoid termination. If the customer wishes to pay using cash, they are directed to an authorized payment location and the field collector will return to the premise to confirm payment or terminate service if the customer does not call in a payment receipt which will pull the shutoff order.

During moratorium periods (either internal weather moratoriums or state-mandated winter season moratoriums) the field collectors continue to perform premise visits in an attempt to collect delinquent balances, hang door tags (where appropriate), and perform more non-gas work (e.g., meter change outs), but are unable to perform non-pay disconnects. CGO uses an automated dialer to deliver the ten-day notification, but in the event it is unable to deliver the verbal notice or does not receive confirmation that the customer received it, CGO mails the notice. CGO does not terminate customers if the temperature in the customer's district is projected to fall below 20 degrees Fahrenheit within the next twenty-four hours.

Non-pay disconnects are handled by both a dedicated collections work force (internal and contract collectors) and by CGO's service technicians. The service technicians supplement the activities of the dedicated collectors in the urban areas and perform the collections activities in

¹⁷ This is a Duke funded program that supplements bill payments



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the rural areas. Exhibit V-4 provides a breakdown for CGO's 28 area office locations. In 2009, service technicians handled about 16 percent of the NPD volume.¹⁸ CGO has 25 contract and 12 internal collectors serving Ohio.¹⁹

Exhibit V-4
Collections Workforce Distribution
CGO

NPD Workforce	Number of Districts
Dedicated collectors only (Company and Contract)	5
Service technicians only	12
Combination	11

Source: Dedicated collectors versus Service Technicians by Location, provided during December 18, 2009 interview with Manager, Meter Reading & Collections.

CGO's Integration Center (IC) schedules the non-pay disconnect work based on pre-determined job times, workload and resource availability. Job time estimates were last reviewed in 2009, and will be updated now, that CGO no longer hangs door tags.²⁰ Current job time estimates are 12 minutes for urban areas (including travel time) and 17 minutes for rural areas.²¹ For the dedicated collectors (internal and contractors) the active collection orders are automatically dropped by the system into the collectors' schedules. In the event the workload exceeds the available resources, the system automatically prioritizes based on days-to-live (i.e., days remaining before the account cycles out of the termination queue due to the generation of a new bill); accounts are not prioritized based on balance due or other factors. If it appears a collector will complete his/her scheduled work early, the IC will drop additional accounts into his/her schedule during the course of the day. Turn-ons are handled by service technicians who also perform non-pay disconnects in the more rural areas. For the service technicians, customer requested services are automatically scheduled by the system and then non-pay disconnects are added based on remaining resource capacity.

If the field collectors are not able to locate or clean the curb box, the job is coded so follow-up can take place. Field collectors submit a request to have a crew locate/clean a curb box on accounts with balances over \$500.²² If they need to dig or blow out a curb box, it automatically generates a field order. Field personnel are given guidelines of about ten minutes to try to clean a curb box and ten minutes to try to locate.²³

Payment Arrangements

For its customers that become delinquent, CGO offers all PUCO-mandated payment plans: PIPP, the one-third payment plan (heating season only), the one-sixth plan, and the \$175 heating season WRO plan. As part of its settlement agreement, CGO also began providing customers with the one-ninth plan option in October 2009. CGO also offers a basic extended payment plan

¹⁸ December 18, 2009 interview with Manager, Meter Reading & Collections

¹⁹ March 3, 2010 phone interview and document response 2-12

²⁰ December 18, 2009 interview with Manager, Meter Reading & Collections

²¹ March 3, 2010 phone interview with IC scheduling, et al

²² Document response 2-15

²³ March 3, 2010 phone interview with IC scheduling, et al

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which is used for back billing adjustments and offered as a last resort for delinquent customers. Under the basic extended payment plan, the customer pays the current bill each month, plus the arrears divided over three to twelve months.²⁴

Customers that are no longer income eligible for PIPP may enroll in the Income Ineligible Payment Plan (IIPP). Customers pay the previous PIPP payment plan amount during months 1 through 12. During months 13 through 23 they pay the current monthly bill amount. From month 24 until the arrearage is paid, the customer pays the current bill plus an extra amount not to exceed \$20, and receives an additional arrearage credit equal to the extra amount.²⁵

CGO offers two additional assistance programs for limited income customers whose income exceeds the PIPP guidelines:

- The Utility Fuel Fund is a \$2.1 million emergency fund created through a refund from interstate pipeline suppliers. This fund is administered by community action agencies and is available to customers with income between 175 and 200 percent of the federal poverty guidelines.
- The Utility Crisis Fuel Fund comprises \$1.85 million in shareholder dollars. It is the fund of last resort and is available for customers with incomes up to 175 percent of the federal poverty guidelines. This fund is also administered by the community action agencies and is available to customers over five heating seasons.

Non-delinquent customers are able to sign up for budget billing, which levels the customer's bills over the course of the year. Budget billing amounts are adjusted at least once per year (mid-year) and may be adjusted more frequently if circumstances warrant (e.g., rate change, significant change in gas prices). Customers are able to miss a payment and remain on budget billing.²⁶ Customers may sign up for budget billing at any time during the year if there are no arrearages on the account. Twenty nine-percent of CGO's customers are on budget billing. CGO believes budget billing reduces arrearages.²⁷

Conclusions

1. CGO field collectors and service techs ultimately work a small percentage of the accounts to whom it sends termination notices (about twenty-five percent). Most notices are ultimately not eligible for termination in accordance with CGO guidelines.
 - As shown in **Exhibit V-5**, termination notices are printed on about five percent of CGO's bills. CGO does not track the number of customers that are delinquent but only receive reminder notices. According to CGO's data, about 25 percent of the notices are ultimately eligible for and scheduled for disconnection. Customers who pay or enter into a payment arrangement upon receipt of a disconnect notice are not eligible for or scheduled for disconnection.

²⁴ November 18, 2009 Presentation

²⁵ Document Response 1-10

²⁶ December 17, 2009 interview Manager, Revenue Recovery

²⁷ December 17, 2009 interview Manager, Revenue Recovery



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**Exhibit V-5
Termination Notices and Scheduling
CGO**

Metric	2007	2008	Jan-Sep 2009
Total number of bills sent to customers (estimate)	17,500,000	17,500,000	13,125,000
Number of termination notices sent	892,999	917,526	745,609
Termination notices as a percent of total bills (Note 1)	5.1%	5.2%	5.7%
Number of bills eligible and scheduled for termination for non-payment after application of CGO thresholds	262,350	230,456	187,410
Terminations scheduled as a percent of notices	29.4%	25.1%	25.1%

Note 1: Numbers of termination notices do not represent unique customers. An individual customer may receive multiple notices.

Source: Data Responses 1-14, 1-6 and 1-5.

- CGO reports indicate that seventy-five percent of customers receiving termination notices either paid all or a portion of their bill or entered into a payment arrangement with CGO. CGO's Information Technology department (IT) reviewed and validated the queries used to select the accounts available for termination.²⁸ IT also performed an ad hoc query in March 2010, to further validate the results. According to the results of IT's analysis:
 - In January 2010, CGO sent 62,543 termination notices to customer.
 - CGO received a payment on 44,698 of these accounts (seventy-one percent) prior to the customer being issued a February bill. Payments received were sufficient to avoid termination.
 - IT did not determine what portion of the remaining accounts may have had a LIHEAP pledge, credit delay, or new pay plan, which would have also prevented termination on a further portion of the accounts.²⁹
- In the fourth quarter of 2009, Internal Audit (IA) reviewed the behavioral scoring process and the shutoff orders to ensure orders were properly generated and executed in the field. The audit found that termination notices and shutoff orders are properly generated by the billing system.³⁰
 - IA randomly sampled twenty-five accounts ranked as high or ultra-high risk, sixteen of which were Ohio accounts.
 - Of the twenty-five selected, eleven met the parameters for termination notices and notices were issued.

²⁸ December 16, 2009 interview with Manager, Revenue Recovery, Manager, Meter Reading & Collections, and Director, Meter to Cash

²⁹ March 10, 2010 follow-up response to the March 3, 2010 phone interview

³⁰ MTC Audit Report F_022410 Redacted, provided in the March 10, 2010 follow-up response to the March 3, 2010 phone interview



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- Shut-off orders were properly generated and sent to be worked in the field for the six accounts which failed to pay.
2. CGO appropriately measures the performance of its field collectors, who successfully complete about 60 percent of scheduled trips.
- Field collectors are measured based on positive contacts - the number of accounts shut off plus the number of accounts collected on premise divided by the total number of shutoff orders printed.³¹
 - As shown in **Exhibit V-6**, CGO's positive contact ratio was 61 percent in 2009 (i.e., the termination was executed or the customer paid in response to the trip).

Exhibit V-6
Termination Activities and Results
CGO

	2008	2009
Shutoff Orders Generated	230,456	210,217
Shutoffs Executed	107,747	106,094
Collected on Premise	22,025	22,866
Total Positive Contacts	129,772	128,960
Percent	56%	61%

Source: Unsuccessful Trip and Aged Off Data.xls provided in the March 10, 2010 follow-up to the March 3, 2010 phone interview.

3. CGO is not able to terminate all eligible or scheduled customers for termination for non-payment, due to workload, lack of resources and the fact that the life of a disconnect order ends when a new bill is issued.
- CGO does not terminate residential customers if the temperature is projected to fall below 20 degrees Fahrenheit within the next twenty-four hours. The temperature threshold is determined by region (29 regions). **Exhibit V-7** provides details of the effect of the temperature moratorium during the month of January 2010. Moratoriums were in effect for some regions on eleven out of twenty days.

Exhibit V-7
Internal Weather Moratorium – January 2010
CGO

Number of Regions Affected	Number of Days of Moratorium
All 29 Regions	5
28 of 29 Regions	1
27 of 29 Regions	1
19 of 29 Regions	1
18 of 29 Regions	1
7 out of 29 Regions	1

³¹ Document Response 1-7



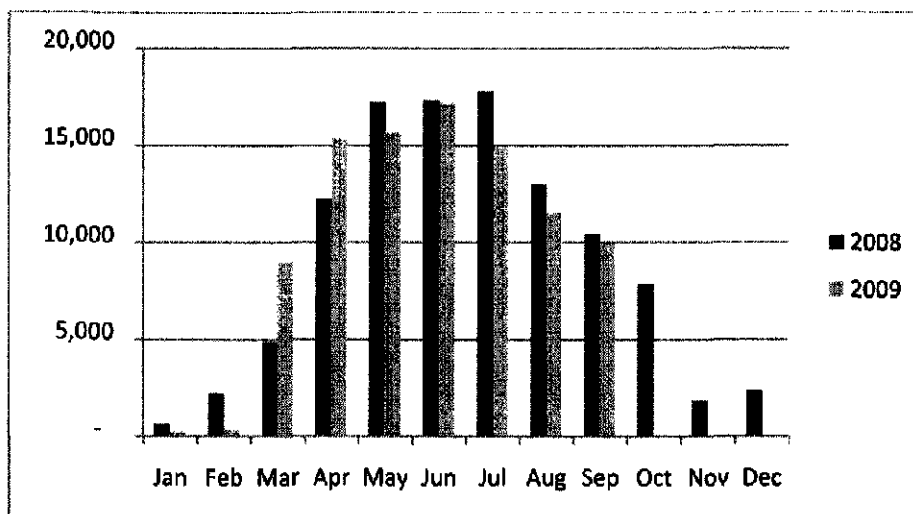
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Number of Regions Affected	Number of Days of Moratorium
One Region	1

Source: Data Response 2-14.

- The number of terminations by month varies seasonally as a result of weather restrictions and regulatory moratoriums, as shown in Exhibit V-8.

Exhibit V-8
Completed Residential Disconnect Orders
CGO



Source: Data Response 1-31

- As shown in Exhibit V-9, CGO was unsuccessful in terminating service or obtaining payment in 21 percent of the cases and an additional 18 percent aged off the system before they could be worked. The 18 percent includes accounts that were not assigned, as well as accounts that were assigned but the field resource was not able to get to.³² The number of accounts which aged-off the system was down from 2008.

Exhibit V-9
Termination Activities and Results
CGO

	2008	2009
Shutoff Orders Generated	230,456	210,217
Successful Trips	129,772	128,960
Percent	56%	61%
Unsuccessful Trips	32,223	43,744
Percent	14%	21%
Aged Off before Execution	68,461	37,513
Percent	30%	18%

³² March 3, 2010 conference call.

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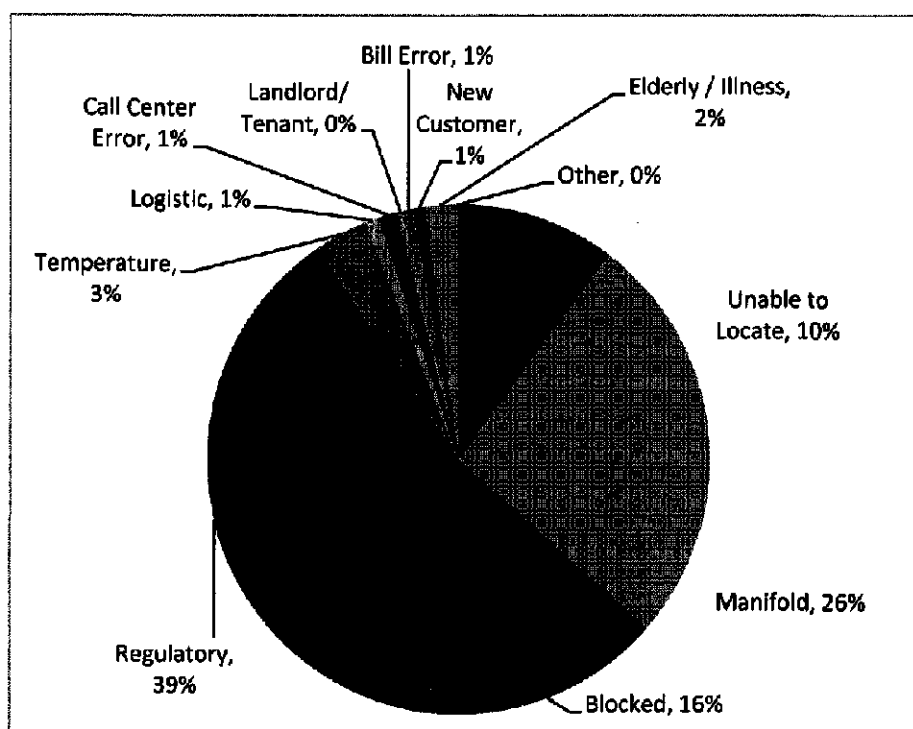
	2008	2009
Total Unsuccessful	100,684	81,257
Percent	44%	39%

Source: Unsuccessful Trip and Aged Off Data.xls provided in the March 10, 2010 follow-up to the March 3, 2010 phone interview.

The numbers of unsuccessful trips is somewhat overstated, as in the winter, accounts are scheduled for termination even if terminations cannot be performed due to internal temperature restrictions or regulatory-imposed winter moratoriums. On these trips, the collector attempts to obtain payment.

- In 2009, 16,849 of the 43,744 unsuccessful trips (thirty-nine percent) were due to regulatory constraints. Manifold meters accounted for twenty-six percent as shown in Exhibit V-10.

Exhibit V-10
Unsuccessful Trip Reasons - 2009
CGO



Source: Unsuccessful Trip and Aged Off Data.xls provided in the March 10, 2010 follow-up to the March 3, 2010 phone interview.

4. As a result of CGO's behavioral scoring parameters, PIPP customers may be delinquent for a number of months before termination.
 - Based on delinquency patterns, a PIPP customer may be placed in a higher risk category which would lower the threshold for termination. As the amount for which the customer may be terminated is the agreed-upon payment arrangement, which for a PIPP customer

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might be relatively low, a PIPP customer may not be scheduled for termination for a number of months.

5. CGO appropriately attempts to collect the full payment before offering the customers extended payment options.
 - If the customer is not able to make the full payment, CGO may offer the customer a short-term credit delay in an attempt to obtain full payment.
 - CGO utilizes three types of credit delays: automatic credit delay, first trip delay and the one-month delay. Automatic credit delays are generated by the billing system and are used for emergency assistance approval, medical certificates, billing adjustments and dispute investigations, and when a payment plan is in place. First trip delays are used when the customer needs a few extra days to make a payment. One month delays are used when there are extenuating circumstances and the customer has kept previous arrangements or when a payment receipt is manually entered into the system.
 - In the non-winter period, the first trip delay delays the termination until later in the monthly cycle. In the winter, the first trip delay effectively delays the termination for a month. This occurs because of the winter ten-day notification requirement and the compression of the time available to terminate customers as CGO resets the clock on the collections cycle when new bills are generated.
- PIPP eligibility is determined early in the call, and if customers are not-PIPP eligible or IIPP eligible, payment plans are offered in the following order: standard budget billing (depending on timing relative to the budget billing cycle and whether customers are current), WRO (winter only with termination notice), one-sixth plan, one-ninth plan and the one-third plan (in the winter), and the extended payment plan (with extenuating circumstances).³³
- CGO's call center script outlines the payment options in the order they are to be offered, and CSRs are encouraged to not deviate from the script.³⁴
- CGO generates a number of monthly reports tracking payment arrangements and credit delays.³⁵
6. CGO calls delinquent customers who have received termination notices to attempt to obtain payment or enroll the customer in an extended payment plan prior to terminating service.
7. The majority of CGO's customers are not on an extended payment plan.
 - Less than 200,000 of CGO's 1.4 million customers (residential and commercial) were on payment plans during 2009, including the basic extended payment plan used for metering

³³ December 17, 2009 Interview and Call Aid, Document Response 1-11

³⁴ Call Aid, Document Response 1-11

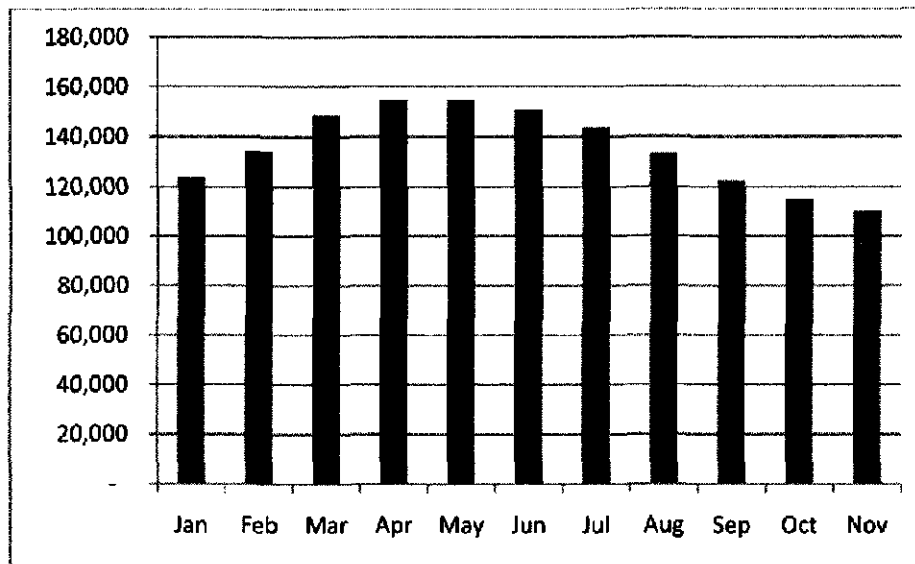
³⁵ Document Response 1-10



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and billing adjustments. Exhibit V-11 provides the monthly counts for the period January through November 2009.

Exhibit V-11
Number of Payment Plans – Residential and Commercial Customers
January-November 2009
CGO



Source: Extended Payment Plan Report provided during the December 16, 2009 interviews.

- The majority of CGO's customers that are on an extended payment plan (not including budget billing) are either on PIPP or the one-sixth plan, as shown in Exhibit V-12, which provides the breakdown at January 2009 and July 2009.

Exhibit V-12
Payment Plan Distribution – Residential and Commercial Customers
January and July 2009
CGO

Plan Type	January		July	
	Number	Percent	Number	Percent
Basic Extended Payment Plan	883	1%	3,276	2%
One-Ninth Plan	5	0%	14	0%
PIPP	100,706	82%	89,551	62%
One-Third Plan	1,534	1%	1,459	1%
One-Sixth Plan	20,344	16%	49,277	34%
Generic Type Plan	3	0%	3	0%
Total Payment Plans	123,475		143,580	
Total Customers (November 2009)	1,401,600			

Source: Extended Payment Plan Report provided during the December 16, 2009 interviews.



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- Less than six to eight percent of CGO's customers are on PIPP at any point during a year.³⁶
8. CGO may not sign customers up for an extended payment plan when the customer uses the WRO to reconnect service or avoid termination.
- Under the terms of the WRO, customers wishing to have their service reconnected or avoid disconnection using the WRO must enter into a payment plan.³⁷
 - The majority of CGO's customers using the WRO to avoid termination or to reconnect during the winter heat season, were not reported as being placed on a payment plan. CGO indicates that it has reporting problems in this area.
 - As reported, for the 2008/09 winter heat season, only eleven percent of CGO's customers that used the WRO were already on a plan or placed on a plan, as shown in Exhibit V-13.

**Exhibit V-13
2008-09 Winter Heat Season WRO Data
CGO**

	To Avoid Termination	To Reconnect	Total Using WRO	Percent
Number of Customers using WRO	32,086	27,996	60,082	
Percent	53%	47%		
Number already on PIPP			71	
Number already on 1/3 or 1/6 plan			2,769	
Total already on plan			2,840	5%
Number not already on plan			57,242	95%
New PIPP sign-ups			52	
New 1/3 or 1/6 plan sign-ups			3,587	
Total new sign-ups			3,639	6%
Number not on or signed up for a plan			53,603	89%

Source: 2008-09 WRO PUCO special data request.

- CGO reports that it will provide updated information once the reporting problems are resolved.
9. Depending on the timing of the request, it is possible for a CGO customer to delay the termination process for two months with each medical certificate.
- The potential effect of this is mitigated by the relatively small number of customers using medical certificates. According to the utility, from January to November 2009, CGO customers used 8,300 medical certificates.³⁸

³⁶ Data Response 1-37

³⁷ Entry dated September 23, 2009, in Case No.: 09-782-GE-UNC



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- Given CGO's current collections timeline, during the winter period CGO has only a few days to terminate customers.
 - A seven-day delay is automatically placed on a customer's account when the customer calls to request a medical certificate and the forms are sent to a doctor's office. If the signed certificate is not received back in seven days, the delay expires and the account is placed back in collections. This delay is sufficient to prevent termination during a winter month and roll the account into the following month.³⁹
 - When account is coded that the signed certificate is received, the billing system automatically places a thirty day delay on the account.
10. It is possible for a CGO customer to delay the termination process for a month by scheduling a PIPP appointment with a Community Action Agency (CAA).⁴⁰
- Once a customer schedules an appointment with a CAA to sign-up for PIPP, CGO places a five-day collections delay on the account. A five-day hold is required by the WRO.
 - If the customer fails to make the scheduled appointment, the collection delay will be removed. In the winter CGO will not be able to terminate the customer until the next month, as the account has fallen out of the cycle.
11. Since CGO does not drop customers from PIPP eligibility until it receives the file from the ODOD, customers that are no longer income-eligible may remain on PIPP for an extended period of time.⁴¹
- PIPP customers are required to verify income eligibility annually through ODOD, on the anniversary date of their enrollment. ODOD notifies CGO customers at ten months and eleven months of the need to re-verify income eligibility.
 - Once per year CGO receives a "drop" file from ODOD. While the file is scheduled for June, the actual transmittal date varies.
 - CGO's billing system maintains the date the customer signed up for PIPP, but CGO does not automatically drop customers from the PIPP program on their anniversary date if they have not re-verified. CGO waits until it receives the annual drop file which could be a number of months after the customer's annual eligibility re-verification date.
 - Modifications to the PIPP program to be implemented in November 2010 should result in daily drop files and the removal of customers from the program if they do not verify income eligibility in a timely manner.

³⁸ December 17, 2009 interview with Manager, Revenue Recovery special query follow-up

³⁹ Document Response 2-13

⁴⁰ December 18, 2009 Interview Customer Complaints and PIPP

⁴¹ December 18, 2009 Interview Customer Complaints and PIPP



Recommendations

1. Evaluate modification of CGO practices so that termination orders do not expire with the issuance of a new bill. This should also help prevent customers from using medical certificates and PIPP appointments to delay collections activities for multiple months. (Refers to Conclusions No. V-3, V-10 and V-11)
2. Correct the WRO data provided to the PUCO staff, and ensure that all customers using the WRO are placed on a payment plan. (Refers to Conclusion No. V-9)
3. Remove PIPP customers from the program in a timely manner if the customer fails to re-verify his income. (Refers to Conclusion No. V-12)

E. Dominion East Ohio Gas (DEO)

Background

At the time that bills are prepared, the DEO billing system forecasts a "credit schedule" that projects collections actions in the event a bill is not paid on time. As part of that credit schedule any account with a past due amount between zero and \$100 receives a reminder notice on their bill. All accounts with past due balances greater than \$100 receive a notice of intent to disconnect service on the bill if payment is not received by the bill's due date. On the bill due date, the billing system updates the credit schedule to reflect whether or not the customer has paid the past due balance, and determines the credit actions that will be scheduled depending on the customer's payment history and behavioral score. Generally, only accounts with arrearages greater than \$250 and behavioral scores less than 700 are scheduled for actual disconnection. Exceptions to this general rule are PIPP accounts with arrearages greater than \$100 and that are more than 120 past due, which are scheduled for disconnection. In the winter, all accounts are first scheduled for the ten-day disconnect notice call before being sent to the field for disconnection. The billing system re-evaluates the status of the account at the end of the ten-day notice period to determine which accounts were "Paid" or marked "Exempt" and therefore require no further disconnection action.⁴²

Accounts that meet the internally developed termination threshold are sent to the field daily to be scheduled for disconnection on the first day for which they are eligible for action. DEO allocates twenty minutes per disconnection, including travel time between locations. The number of disconnections that can be schedule daily depends on personnel availability, the forecasted weather, other work to be done by the crews, and the type of meter (outside/inside/multi). DEO uses internal personnel for disconnections who also work on other field activities, including meter maintenance, AMR installations, and gas emergency calls. The company has approximately 340 field service representatives, and will assign forty to fifty of those personnel to disconnection activities during the summer. Winter staffing is considerably less, due to problems accessing meters and weather moratoriums on disconnections. Workforce rules specify that representatives assigned to disconnections cannot be moved to other work if,

⁴² Credit forecasting and scoring discussed in numerous data responses and during the on-site interviews

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for example, the weather deteriorates during the day, nor can other field service reps be moved to disconnections in the middle of the day.

DEO has a three-tiered process to select accounts for actual field action. First, the supervisor reviews the "Top Offender" list, which for DEO including all accounts available for disconnection, selects the ones he/she wants to schedule, and manually schedules the orders.⁴³ Supervisors then select the number of orders to be worked by various categories (e.g., residential inside meters single meter manifold, residential inside meter multi-meter manifold) for each work area.⁴⁴ If the supervisor does not fill all available time slots, the system will automatically fill remaining time slots starting with the largest arrearages. The supervisors also leave time each day for reconnections, which require approximately forty minutes each. The field crews do their own routing, based on the disconnect orders assigned to them each day.⁴⁵

The field crews do not work disconnections when the weather is forecast to be below 20 degrees over the next forty-eight hours.⁴⁶ In January 2010, weather considerations precluded disconnection activities on eight to ten days (out of nineteen available work days), depending on field office.⁴⁷

If the field services representatives are unable to locate or clean out a curb box, the order is marked as "DNX" for appropriate follow-up. Because termination orders expire at the next bill date, these orders are not always able to be processed prior to expiration. The DEO system tracks these "DNX" orders so that the next month they start as orders requiring additional work.

Payment Arrangements

DEO offers its customers all PUCO-mandated payment plans: one third (winter) plan, one-sixth, PIPP, WRO, and short term extensions. DEO will begin offering the one-ninth plan no later than November 1, 2010, per the new PUCO requirements.

DEO has developed its own PIPP arrearage crediting program, which also applies to customers who are no longer eligible for, or who elect to come off the PIPP program (currently referred to as PIPP Repayment Plan (PRP) and will be termed "Graduate PIPP" after November 1, 2010. The program consists of the following three steps:

- Any PIPP customer who pays his billed PIPP payments on time and in full for twelve consecutive months is credited with one-third (thirty-three percent) of the arrearage balance at the beginning of the twelve-month period.
- If the customer makes all his billed PIPP payments on time and in full for a second twelve months, DEO credits the customer with fifty percent of his arrearage balance at the end of that period.

⁴³ IDR-7

⁴⁴ DEO Verification Response

⁴⁵ Credit forecasting and scoring discussed in numerous data responses including, IDR-4, IDR-29&30 and DR-EOG-2-5, and during the on-site interviews

⁴⁶ On-site interviews

⁴⁷ DR-EOG-2-7



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- If the customer makes all his billed PIPP payments on time and in full for a third twelve months, DEO will credit the customer the balance arrearages on his account, setting their arrearage balance to zero.

If at any time the PIPP customer misses a payment, the twelve-month clock resets and the customer is placed back at Step 1, but the amounts previously credited are not reversed. DEO developed the program as an incentive for PIPP customers to remain on the system (e.g., not be disconnected) and pay their billed amounts throughout the year, rather than going off the program in the summer and returning in the winter.

DEO's PRP follows the guidelines established by the PUCO's post PIPP arrearage program where customers who are no longer eligible for PIPP (or who have requested to be removed from the plan) may pay off their accumulated arrearages over a three-year period. During year one the customer pays their PIPP amount. During year two the customer pays either the current month bill or a budget amount. During year three the customer pays the current bill (or budget amount) plus an additional payment amount (not to exceed \$20) which is matched by DEO. PRP customers who make their payments on time and in full are eligible for the arrearage crediting program described above.⁴⁸

DEO also provides annual funding to the Salvation Army's EnergyShare program. EnergyShare is a fuel assistance program of last resort for anyone who faces financial hardships from unemployment or family crisis. Payments go directly to energy vendors and every cent donated goes to benefit those in need because DEO pays for the program's administrative expenses. Funds come from tax-deductible donations from customers, stockholders, employees, EnergyShare Partners and DEO.⁴⁹ In 2009, in accordance with the rate case stipulation, DEO provided \$917,000 in energy assistance to qualified customers. The fund was administered by the ODOJ.

Winter Reconnection Order

Over 60,000, or approximately five percent, of DEO's customers utilized the WRO in 2008-2009. Almost fifty percent of those customers were PIPP customers at the time they used the WRO. DEO believes that a significant number of its customers allow DEO to disconnect their service in the spring due to excessive past due amounts, and then use the WRO to restart service in the fall. Monthly WRO utilization data, shown in **Exhibit V-14**, provides some support for this position. According to this data, almost half of customers using WRO in October, and 20 percent in November are using WRO to restart service that was disconnected. For those two months (October and November), fifty-three percent of customers using the WRO to restart service were disconnected for more than ninety days, and another thirty-three percent were disconnected between thirty and ninety days. As shown in **Exhibit V-14**, DEO placed eighty-three percent of the customers using the WRO who were not already on PIPP or a payment plan, onto a plan.

DEO experienced a significant increase in the number of customers using the WRO in February 2009. The 12,000 WROs used in that month exceed the number used in any other

⁴⁸ On-site interviews, DR-EOG-2-8, pages 12-13

⁴⁹ DEO Verification Response and Dominion website



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month that winter. The few WROs that were used to reconnect were customers whose service was off for less than seven days, indicating they were using the WRO quickly upon determining their service was off.

Exhibit V-14
WRO Utilization - Winter 2008-2009
DEO

	Number of WROs used	Of WROs Used			Of WROs used to Restart Service, length of time service had been off				
		# Used to Avoid Disconnect	% used to Avoid Disconnect	# Used to Restart Service	<1 wk	7 to 30 days	30 to 90 days	90+	% >90 days off
Oct 08	5,411	2,800	52%	2,611	223	322	828	1,238	47%
Nov 08	11,383	9,203	81%	2,180	78	65	732	1,305	60%
Dec 08	9,680	9,036	93%	644	107	18	117	402	62%
Jan 09	7,729	7,523	97%	206	5	3	25	173	84%
Feb 09	12,074	11,460	95%	614	522	36	9	47	8%
Mar 09	9,049	8,973	99%	76	1	0	21	54	71%
Apr 09	5,101	4,578	90%	523	459	46	10	8	2%
Total	60,427	53,573	89%	6,854	1,395	490	1,742	3,227	47%
					20%			47%	

Source: PUCO Staff data, provided to NorthStar Feb 18, 2010.

Conclusions

12. DEO's \$250 threshold for active terminations is high and unduly delays termination activity for customers with past due balances.

- The company indicates that it would be unable to terminate all accounts above that level, so lowering the threshold would not change the termination pattern or increase recoveries.
- DEO's cost to terminate a customer is about \$21.

13. DEO sends termination notices to customers it knows it will not terminate, thereby creating the potential that customers learn they will not likely be terminated if they have received a notice.

- Termination notices are sent to all customers with past due balances \$100 or greater; however, only customers with behavioral scores less than 700 and a past due balance of \$250 or more will be placed in the termination queue.
- Of the 1.9 million bills that were past due in 2009, 1.1 million were sent disconnect notices (their balance due was greater than \$100). Of the 1.1 million delinquent notices sent, only 404,000 were actually eligible for termination, after application of the \$250



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minimum, GOOD credit rating, and other factors, such as WRO and medical certificates, as shown in Exhibit V-15.⁵⁰

Exhibit V-15
Termination Notices Sent and Terminations Scheduled
DEO

Metric	2008	2009
Number of total bills sent to customers	148,300,000	148,300,000
Number of bills which become delinquent	1,789,034	1,874,027
Number of termination notices sent	1,066,916	1,122,736
Number of bills eligible for termination for non-payment after application of company criteria	389,848	404,228
Percent of notices eligible for termination	37%	36%
Number of bills scheduled for termination	172,977	177,217
Percent of eligible bills scheduled for termination	44%	44%
Percent of notices actually scheduled	16%	16%

Source: DR-EOG-4-3.

- Only 177,000 accounts (sixteen percent of the termination notices) were scheduled for termination.
 - DEO was unable to determine the percent of those notices that resulted in payment or were marked exempt due to medical certificates, application for PIPP, or enrollment in a payment plan, nor how many fell between the \$100 threshold that generates a termination notice and the \$250 threshold that makes a bill eligible for field action. The WRO option was used by 60,000 DEO customers in the 2008-09 winter, and between 16,000 and 19,000 medical certifications are processed by DEO annually.⁵¹
14. The termination goals that DEO has established are arbitrary, not particularly aggressive, and do not relate to the number of accounts eligible for termination.
- In 2009, DEO had an annual termination goal of 85,000 orders worked, including 4,200 DNX/Z orders.⁵² These goals are set based on prior year activity and incorporate staff constraints.
 - The goals reflect only twenty-one percent of the about 400,000 DNP orders created annually, and only seven percent of the termination notices sent to customers.
 - Of the 400,000 bills sent to the field for scheduling, only about forty-four percent were actually place in a field service representative's schedule to be terminated, as shown in Exhibit V-15.

⁵⁰ DR-EOG-4-3

⁵¹ On-site interviews

⁵² DNX orders are DNP orders that require additional crew time such as cleanout or repair of curb boxes. DNZ orders require dispatch of a work crew to actually dig to locate the disconnection valve

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- The field crews have exceeded their goal of 85,000 disconnection orders each of the past two years, recording 87,347 and 89,313 DNP “successes” in 2008 and 2009, respectively.⁵³
 - Assuming twenty minutes per termination, and a seven-hour work day, achieving the full 400,000 terminations would require over seventy-five FTEs year round assuming the resources perform terminations/collections only and the utility was not subject to temperature restrictions or other moratoria.
 - The company has 340 Field Service representatives, but only assigns between forty and fifty of them to terminations during the non-winter months, with the rest of the field service resources being assigned to other work.
 - DEO’s field collections work is performed by in-house staff that also perform other field work. These personnel are not specifically measured on how well they execute field terminations. DEO does not utilize outside contractors to perform field collections.
15. Only about fifty percent of accounts that are scheduled for termination are successfully completed - either terminated or paid day of.
- Only approximately seventy percent of the 177,000 bills scheduled for termination are worked by the crews, because they run out of time to do all orders assigned to them.
 - As shown in **Exhibit V-16**, of the orders that are worked, about seventy-one percent (87,000-89,000) are deemed “successes”, where either the gas is disconnected or the customer provides proof of payment or exempt status.⁵⁴

**Exhibit V-16
Termination Results
DEO**

Metric	2008	2009
Number of bills scheduled for termination.	172,977	177,217
Number worked	121,788	125,610
Number of bills terminated	78,320	78,796
Number of bills field collected (or paid day-of)	9,027	10,517
Number of bills terminated or collected	87,347	89,313
Percent of eligible accounts (per internal criteria) terminated or collected	50%	50%
Percent of scheduled accounts (per internal criteria) terminated or collected	72%	71%

Source: DR-EOG-4-3.

⁵³ The Company defines “success” on a DNP order as either an actual disconnect or where the order was cancelled at the door due to proof of payment or other suspension event, such as invoking a medical certificate; DR EOG-2-10 and on-site interviews

⁵⁴ DR-EOG-2-10



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- The orders that are worked but not successful are typically the result of not being able to gain access to the turn off valve, either due to the meter location (inside) or not being able to find the curb box due to ground cover (e.g., snow) or other factors.
16. DEO has more success with disconnections of outside meters than with inside meters, and has a particular problem with disconnecting multi-manifold meters located inside the service premises.
- As shown in Exhibit V-17, only twenty-four percent of DNPs created on inside multi-manifold meters are successfully closed, compared to fifty percent for all meters.

Exhibit V-17
Disconnections by Meter Location - 2009
DEO

	Total Residential and Commercial	Outside	Inside Single	Inside Multi
DNPs Created	404,228	102,005	140,104	116,267
DNPs Selected	177,217	64,362	73,700	39,155
Successes	89,313	46,957	32,867	9,486
Success Percent	50%	73%	45%	24%

Source: EOG-2-10.

- DEO is relying on the possibility of remote shutoff valve meter capability to address the problem of multi-manifold and internal meter disconnections. DEO has participated in some equipment trials and believes it will be able to begin installations within the next two to three years.
 - In the meantime, DEO relies on creative efforts by its field service personnel and supervisors to monitor when other accounts on a multi-manifold are open for disconnect, but perhaps not above the normal disconnect threshold, or have become inactive.
17. DEO PIPP customers are not treated less stringently than non-PIPP customers relative to disconnect notices and terminations.
- PIPP customers whose plan payment is more than 120 days in arrears are scheduled for termination even if the amount in arrears is less than \$100.⁵⁵
 - PIPP customers constituted 11.4 percent and 14.9 percent of terminations achieved in 2008 and 2009, respectively.⁵⁶
18. Depending on the timing of the request, it is possible for a DEO customer to delay the termination process for two months with each medical certificate or by scheduling a PIPP appointment with a CAA.

⁵⁵ DR EOG-2-5

⁵⁶ DR EOG-3-6



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19. While DEO makes some outbound calls to attempt to obtain payment prior to termination, it has not reviewed success of the calls relative to behavioral scores or internal credit ratings, nor has it experimented with making courtesy calls to customers with lower scores to see if those accounts could be encouraged to pay without an actual disconnect order being placed.
- DEO uses an internal customer scoring system that appropriately incorporates past customer behavior into its scoring. Termination decisions are strongly driven by this system, but pre-termination collection activity is less integrated.
 - While accounts with "better" behavioral scores or credit ratings are scheduled to receive a courtesy call reminder to pay before the account is sent to the field for disconnection, it is unclear how DEO selects these accounts for courtesy calls, and there has been no systematic evaluation of the success of this effort.
20. DEO offers each of the extended payment plans called for by regulations, and the plans are offered on a consistent basis to all customers.
- DEO offers the one-sixth payment plan, the one-third payment option and balanced (budget) billing to all customers requesting assistance with their bills. DEO also offers a one-twelfth plan for any customer faced with a large bill due to meter malfunction or a no-read situation.
 - As shown in **Exhibit V-18**, only about thirteen percent of DEO's customers are on a payment plan. The majority of those are on PIPP.

Exhibit V-18
Payment Plan Distribution – Residential Customers
As of year-end 2009
DEO

Plan Type	Number of Customers	Percent of Total Customers
PIPP	114,000	9.5%
One-Sixth Plan	31,220	2.6%
Budget + Plan	7,586	0.6%
One-Third Winter Heating	2,264	0.2%
One-twelfth (equipment malfunction)	26	0%
Total Payment Plans	155,096	12.9%
Total Customers (November 2009) - Approximate	1,200,000	

Source: DR-EOG-3-22.

- The billing system calculates the amounts owed under each payment plan automatically, enabling the CSRs to quote accurate amounts to customers on the phone.
- DEO is able to quickly check income eligibility for PIPP and refers customers who appear to be qualified to CAAs for formal qualification and enrollment.



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- The available payment plans are listed in the same order on each customer's screen, so the plans are offered in the same order for all customers.
21. DEO does not take all opportunities to obtain full payment from delinquent customers prior to offering extended payment plans.
- CSRs have the flexibility to offer short term extensions up to, but not beyond, the next scheduled meter read date.⁵⁷
 - On the listing of payment plan options shown on the CIS screen, short term extensions are the last option shown.⁵⁸ Options are offered based on customer request and need.⁵⁹
 - Offering short-term extensions earlier in discussions with customers might increase the number of customers from whom full payment is obtained.
22. DEO automatically enrolls customers in the current plus one-sixth payment plan when they use the WRO.
- DEO's CIS automatically places customers using the WRO into their current plus one-sixth payment plan.⁶⁰
 - Eligibility for PIPP is determined separately as part of completing the program enrollment process.
 - PUCO data shows that eighty-three percent of DEO customers not on a plan when invoking the WRO are placed on a payment plan as part of the WRO process.
23. DEO has developed creative programs to encourage customers to pay their arrearages.
- The DEO PIPP and post-PIPP arrearage crediting programs have reduced PIPP customer arrearages by over \$85 million over the past three years, and by \$112 million since the programs began.⁶¹
 - Exhibit V-19 shows the number of customers participating in the two PIPP arrearage crediting programs and the credits received by those customers for the past three years. The credits under both these programs are recovered through the PIPP rider.

⁵⁷ On-site interviews

⁵⁸ IDR 011&012, sheet 4 of 65 "Add a Payment Agreement -Active"

⁵⁹ DEO Verification Response

⁶⁰ Ibid., sheet 42 of 65 "Process \$175 Turn On/Avoidance or Split"

⁶¹ DR-EOG-3-4, and Company Presentation, p. 18



Exhibit V-19
PIPP Arrearage Crediting Program Participation and Credits Earned
DEO

Year	Participating Accounts	Amounts Credited (\$ million)
2007	22,228	\$31.8
2008	22,370	\$26.6
2009	23,577	\$28.1

Source: DR EOG-3-4; DEO was not able to break out the PIPP and post-PIPP programs, or distinguish what year/step of the program customers were in.

- Since these programs require customers to pay their current billed amounts on time and in full over considerable lengths of time, they are ensuring that participating customers contribute appropriately to the cost of their gas service.

Recommendations

4. Evaluate and implement a broad range of activities to increase termination activities, and increase the aggressiveness of its program, including: (Refers to Conclusions No. V-12, V-13, V-14, and V-15)
 - Lowering the threshold for actual terminations from its current \$250.
 - Increasing the number of field service representatives assigned to termination activity, or retaining outside contractors to increase the number of termination successes.
 - Validating the job time estimates used in termination scheduling.
 - Setting the goals for termination activity at higher levels, or basing the goals on percent of accounts eligible for termination that are successfully handled.
 - Ensuring that termination notices are sent to customers who will be terminated, thereby resetting customers' expectations that a termination notice means you will have service disconnected.
 - Tying collector performance to successful accounts worked.
5. Develop a more automatic process to link multi-manifold meter accounts that have past due balances to maximize the ability to disconnect them. (Refers to Conclusion No. V-16)
6. Evaluate the effectiveness of the existing courtesy call program and explore placing courtesy calls to customers with lower behavioral scores to increase the number of customers who either pay or are placed on a payment plan before sending termination orders to the field. (Refers to Conclusion No. V-18)



7. Modify the collections timeline such that termination orders do not expire when a new bill is issued, and instruct CSRs to ensure that customers are first offered short-term extensions to pay their full bill, before being told about extended payment plans. (Refers to Conclusion No. V-21)
 - DEO should track the results of this change to see if it results in increased dollars collected.
 - Ideally, a “champion/challenger” test should be performed to evaluate the results of the modification.

F. Duke Energy of Ohio (Duke)

Background

At sixty days past due, Duke customers' with past due balances greater than \$100 receive a fourteen-day disconnect notice on their bill. If payment is not received or the customer does not enter into a payment arrangement during the fourteen-day period (at day seventy-four), a ten-day disconnect notice is generated. Residential customers become eligible for disconnection at day eighty-four, and commercial customers at day eighty-one. Duke sent out 363,000 termination notices in 2008.⁶²

As required by regulation, Duke customers with delinquent balances are able to avoid disconnection by paying the field collectors, presenting a valid medical certificate, entering into a payment arrangement, or during internal and regulatory moratorium periods. It is Duke's policy not to disconnect customers if the temperature is expected to fall below 25 degrees Fahrenheit in the next 24 hours.⁶³ In January 2009, Duke did not work non-pay disconnects for fourteen days due to cold weather.⁶⁴ Customers are reconnected if they pay either the full amount in default (or the default amount of a payment agreement) plus a reconnect fee plus an applicable security deposit.

Residential customers in Duke's Ohio and Kentucky service areas which have combination gas and electric service have another option available to avoid disconnection termed “Separation of Service”. Under this program, a residential customer who is disconnect-eligible may elect to have one service (gas or electric) disconnected while maintaining the other. The arrearage on the disconnected service will be deferred until the service is restored. The customer must pay the required past due balance on the restored service before separation of service is allowed.

Payment Arrangements

Duke offers its customers all PUCO-mandated payment plans: PIPP, the one-third payment plan (from Nov. 1 through April 15), the one-sixth plan, and the \$175 heating season WRO plan.

⁶² Data Response 1-34

⁶³ Duke field collectors do not actually take payments. They confirm that payments have been made and will withhold disconnection at that point

⁶⁴ Data Response 1-7 Attachment D



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Residential customers are given one six-month agreement per year, with the exception of the winter rule. Duke offers several other payment plans and assistance programs. These include:

- Twelve month extended payment plans (for customers who have lived at the same location for one year and who have made three payments in the last four months).
- Combination Agreement and Budget Bill Plan (CAB) which combines an extended payment plan for any arrears and a budget billing plan for the current charges.

Duke confirms payment plans via phone or in person. A customer can also request that a letter acknowledging an agreement be sent. Duke offers additional assistance programs for limited income customers whose income exceeds the PIPP guidelines:

- The Military Deferred Payment Plan is only available to households with a family member absent due to active military obligations. These cases are processed on a case by case basis by the Revenue Collections department.
- HeatShare is a program sponsored by Duke designed to assist those in need with heating bills during the winter season. Individuals also contribute to the program. HeatShare is administered by the Salvation Army. Eligibility is based upon need and does not necessarily follow government assistance guidelines. An individual must be subject to disconnection of service in order to qualify. Eligible customers may apply for a one-time annual assistance beginning mid-January through May or until funds are depleted.
- Duke has begun a new program involving a partnership with Consumer Credit Counseling Services (CCCS) to offer budget counseling to qualified customers. As part of this program, customers must go on a budget billing program.

Customers are also able to sign-up for budget billing, which levels the customer's bills over the course of the year. Duke offers both annual and quarterly plans. Budget billing amounts are adjusted at least once per year (annual plan) or quarterly (quarterly plan) and may also be adjusted if circumstances warrant (e.g., rate change, significant change in gas prices). Customers may sign up for budget billing at any time during the year if there are no arrearages on the account.

Conclusions

24. Duke provides customers with proper disconnect notices, and more than ample opportunity to avoid disconnection.

- In summer months customers with a separate mailing address receive letters at the mailing address and the service address.
- In winter, for customers with a home phone on file, Duke sends a list to a third-party who calls the customer. When contact is made or after two days, a disconnect notice is generated and hand delivered.



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- The earliest date a Duke customer might be disconnected is day eighty-four. Regulations allow for disconnection at day forty-four.
25. DNP work is scheduled and performed by a dedicated internal workforce, and disconnections are not generally limited by manpower or scheduling conflicts.
- Disconnects are performed by a workforce in the Power Delivery organization.
 - Disconnections are primarily limited by weather, moratoriums, and a lack of access to the meter.
 - Duke schedules repeat trips if it is unable to execute a termination order. In 2009, 130,715 account bills were eligible for termination based on Duke's criteria. Duke schedule 272,195 trips – an average of 2.1 trips per eligible account bill.⁶⁵
26. DNP work is scheduled based on customer dollars outstanding.
- Risk differentiation determines the process of notification but not the actual disconnection.
 - Customers with over a \$100 past due bill are scheduled for disconnection.
27. In 2009, Duke disconnected fifty-seven percent of its eligible accounts, compared to a target of 60 percent.⁶⁶
- As shown in Exhibit V-20, in 2009, 130,715 account bills were eligible for termination. Duke terminated 74,950 of these, or fifty seven percent.⁶⁷ Field collector contact resulted in payment on an additional 11,595 account bills, or 9 percent.

Exhibit V-20
Termination Notices and Scheduling
Duke

Metric	2009
Number of bills scheduled for termination	130,715
Number of bills terminated	74,950
Percent terminated	57.3%
Number of bills field collected	11,595
Percent field collected	8.9%
Number of bills terminated or field collected	86,545
Percent "positive contacts"	66.2%

Source: Data Response NSC-DR-03-061.

⁶⁵ Data Response NSC-DR-01-061 and follow-up phone calls

⁶⁶ Data Response 1-5

⁶⁷ Data Response NSC-DR-03-061



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- Certain of Duke's disconnection performance is related to winter moratoriums (internal and mandated), and a portion of these customers may have avoided disconnection by paying the required portion of their bill but Duke's performance in spring and summer months is relatively low.
 - Duke Ohio/Kentucky performed below the Duke-Midwest total which includes Indiana, Ohio and Kentucky. Duke-Midwest disconnected 68 percent of eligible residential disconnects for the first nine months of 2009. This compares to only 55 percent for Ohio/Kentucky. Duke has only a small number of customers in Kentucky; Ohio/Kentucky results are predominately Ohio.⁶⁸
 - 2009 targets for Ohio/Kentucky were 60 percent. The Midwest target was 63 percent.
 - Duke does not track the dollar amounts associated with payments made at the time of "field contact" but does track the number of payments made as a result of "field contact" with the understanding that the payment needs to be the amount required to stop the non-pay disconnect to qualify as part of this count.⁶⁹
28. The majority of Duke's delinquent customers pay all or a portion of their bills or enter into payment arrangements, during the termination notification process. A small portion of delinquencies are ultimately scheduled for termination.
- As shown in **Exhibit V-21**, eighteen percent of the bills with termination notices are ultimately scheduled for disconnection. Eighty-two percent paid all or an adequate portion of the bill during the notification period, or entered into a payment arrangement with Duke. Duke's threshold for all residential notices is 60 days past due, and either \$100 past due balance and/or \$25 deposit balance. As an example, a customer with a past due balance of \$120 who pays \$25 will not receive a subsequent termination notice as their past due balance has fallen below Duke's \$100 threshold.

Exhibit V-21
Termination Notices and Scheduling
Duke

Line Item	Metric	2009
a	Total number of bills sent to customers	9,006,612
b	Number of bills which became delinquent	2,336,231
	Percent bills delinquent	26%
c	Number of 14-day termination notices sent	740,966
	14-day termination notices as a percent of total bills	8%
	14-day termination notices as a percent of delinquent bills	32%
	Percent that pay enough to avoid 14-day notice	68%
d	Number of 10-day termination notices delivered (year-round)	357,447

⁶⁸ Data Response 1-7 Attachment D

⁶⁹ Data Response 2-50



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Line Item	Metric	2009
c-d	Number of customers at entered into a payment arrangement, paid the full amount of the delinquency or paid enough to avoid termination during the 14-day notice period	383,519
	Percent	52%
e	Number of bills eligible for termination for non-payment after the 10 day notice expires	130,715
	Percent of 10-day notices	37%
	Percent of original termination notices	18%

Source: Data Response NSC-DR-03-061 and follow-up phone calls.

- Twenty-six percent of Duke's bills become delinquent.
- Duke receives payment or the customer makes an arrangement on sixty-eight percent of the delinquent accounts before a 14-day disconnection notice is issued. In 2009, 740,966 bills were issued 14-day termination notices.
- About half of the customers respond to the 14-day notice (52 percent), and an additional 34 percent respond to the 10-day notice.

29. Duke appropriately attempts to collect the full payment before offering customers extended payment options.

- If the customer is not able to make the full payment, Duke may offer the customer a short-term credit delay in an attempt to obtain full payment.
- Duke customers can enroll in the PIPP program at any time during the year. Less than three percent or (10,000-11,000) of Duke's customers are on PIPP at any point during a year.⁷⁰ Customers who are on PIPP are not eligible for other payment plans. Customers who are no longer eligible for PIPP for income reasons are offered the Arrears Crediting Program and other programs available to all customers. Duke has call center procedures outlining the payment options in order, and CSRs are encouraged to not deviate from the plan options.⁷¹
- Duke generates a number of monthly reports tracking payment arrangements and credit delays.⁷² These include:
 - A report on all non-residential agreements made during the month.
 - A report that averages the length of all agreements made for a jurisdiction.
 - A report providing all deposit accounts that had an agreement made after the deposit was billed.⁷³

⁷⁰ Data Response 1-37.

⁷¹ Group Interviews January 21 and 21, 2010

⁷² Document Response 2-052.



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- A report listing all residential agreements made for a month. One hundred of these accounts are reviewed in detail each month for compliance.
30. In the 2008-2009 winter season, seventy-four percent of Duke customers using the WRO to avoid termination or reconnect service and who were not already on a payment plan were subsequently placed on a payment plan.⁷⁴
31. Depending on the timing of the request, it is possible for a Duke customer to delay the disconnection process for thirty days with each medical certificate.⁷⁵
- Residential customers are eligible for three medical certificates in a twelve-month period; thereafter they are not eligible for a twelve-month period.
 - The number of customer using certificates is small but increasing as shown in **Exhibit V-22**.

Exhibit V-22
Duke Customers Using a Medical Certificate

	Customers Using Medical Certificates
2007	4,074
2008	3,500
2009	10,100

Source: Document Response 2-55.

- In 2009, only seventy-one customers used all three certificates in one twelve month period.⁷⁶
- The medical certificate is used in lieu of a payment and can only be used if the account is in a non-pay disconnect status. The certificate cannot be used if there is a returned check on the account. The certificate cannot be used if service has been off for more than 21 days.
- Customers have several options for picking up a medical form. Forms can be picked up at several Duke locations, a physician or other medical personnel can call in for the form or the form can be mailed to a physician at the customer's request.
- If a physician calls, the CSR will update the file for seven days and sends a work file to 'Medical Cert' with customer and medical personnel information.

⁷³ Duke policy is that agreements for deposits should not exceed three months

⁷⁴ WRO data submitted to the PUCO

⁷⁵ Document response 1-011, page 34

⁷⁶ Document Response 2-56

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32. It is also possible for a Duke customer to delay the disconnection process for ten days if they are a new PIPP customer in order to allow a CAA time to gather the information necessary to set the customer up on PIPP.⁷⁷

- If a customer is already on PIPP and eligible for disconnection for nonpayment, the customer is referred to the CAA for assistance.
- The CAA representative will call Duke and set the customer on the Arrearage Crediting Program provided they meet eligibility criteria.

Recommendations

8. Increase the aggressiveness of the disconnection program. (Refers to Conclusion No. V-27)

- At a minimum, Duke Ohio should strive to achieve the Midwest overall performance.
- A study should be undertaken to determine exactly why Ohio disconnects lag Duke's other states and determine appropriate steps to improve performance. These could include:
 - Increased manpower (including seasonal contractor use)
 - More aggressive pre-collection activities
 - More aggressive collections timeline
 - A systematic program to address problem inside meters

G. Vectren Energy Delivery of Ohio (VEDO)

Background

VEDO bills are due fourteen days after they are issued. If payment is not received by the time the next bill is generated, a disconnect notice is printed on the bill for any balance over \$50.⁷⁸ Accounts with balances over \$100 are eligible for disconnection for non-payment (DNP). In non-winter months, VEDO can disconnect between day forty-eight through day seventy-six. On day seventy-six, the disconnect order expires as VEDO's system cannot accommodate two field orders at the same time. In winter months, VEDO can generally disconnect anytime after day sixty-four through day seventy-eight. On day seventy-eight, a new door tag is delivered.⁷⁹

DNP work is scheduled and performed by a dedicated workforce. VEDO utilizes four full-time contract employees (FieldStar) to perform DNPs in the metropolitan Dayton area. FieldStar's primary responsibilities include hanging door tags and working DNPs. VEDO uses district field crews to process DNPs in outlying geographical areas.

DNP work is prioritized based on a customer risk assessment. Customer risk is evaluated by the revenue management organization. Customers with over a \$100 past due bill are placed into

⁷⁷ Document response 1-010, page 3 of 11

⁷⁸ I Boling

⁷⁹ I Boling



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a queue on a daily basis and evaluated based on six parameters. Each account starts with a score of 500. The customer's profile either adds or subtracts to the base score of 500. The lowest scores are the highest priority to be disconnected the next day. The parameters include:

- Number of times the account has been past due in the prior twelve months. Scores vary from +100 for no past due bills to -100 for eight or more past due bills.
- Prior DNP eligibility. If the customer has ever been eligible for DNP, 90 points are subtracted.
- Number of aging categories with a balance. Scores vary from +80 for aging of less than thirty days to -20 points for aging of over ninety-one days.
- Sum of arrears. Scores range from +70 for less than \$100 to -70 for more than \$700.
- Number of months as a customer. Scores range from +60 for more than nine years of service to -60 for less than one year of service.
- Months since last payment. Scores vary from +50 for less than one month to -50 for eleven or more months.⁸⁰

Work is then schedule by field operations based on the priority and geographic efficiency.⁸¹

Payment Arrangements

VEDO offers a number of payment plans and options which are available to customers based on their particular situation. Prior to August 5, 2004, VEDO offered customers payment plans that were designed by VEDO. The PUCO stipulated that VEDO may offer customers custom payment plans but the stipulated one-third or one-sixth plans must still be offered prior to disconnecting a customer for non-payment.⁸² VEDO discontinued its offering of individual payment plans and now adheres to the PUC- stipulated plans.⁸³ Very few customers complete payment arrangements. In 2009, VEDO extended 57,867 payment arrangements to customers. Sixty-eight percent (or 39,104) of the arrangements were broken. In addition to the required PUCO payment plans, VEDO offers:

A PIPP arrearage crediting program (Fresh Start), available to customers who no longer qualified for the PIPP program. The Fresh Start Program has the following features:

- Upon exiting the PIPP program, the customer's arrearage is frozen for thirty-six months.
- If the customer makes twelve months of payments on time, the PIPP arrearages are forgiven.

⁸⁰ Binder provided by L. Friedeman

⁸¹ I Riffle

⁸² Letter dated August 5, 2004 from Peter Baker (PUCO) to Jerry Ulrey (VEDO)

⁸³ I Rebecca Brann

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- If the customer fails to make a payment on time, the twelve-month counter resets with the first on-time payment. The customer has 36 months to make twelve payments on time.⁸⁴

Very few customers actually graduate to the Fresh Start program.

WRO Utilization

As shown in Exhibit V-23, over 8,000 or approximately two percent, of VEDO's customers used the WRO in 2008-2009. Almost thirty percent of those customers were PIPP customers at the time they used the WRO. A significant number of its customers allow VEDO to disconnect service in the spring due to excessive past due amounts, and then use the WRO to restart service in the fall. During the first and second winter months, eighty-five and fifty percent respectively of those utilizing the WRO were re-starting service.⁸⁵ Customers utilizing the WRO are required to agree upon a payment arrangement for arrearages. Typically, the customer is enrolled in the one-third payment plan and then rolls the balance over to the one-sixth payment plan.⁸⁶

Exhibit V-23
WRO Utilization - Winter 2008-2009
VEDO

	Number of WROs used	WROs Used				WROs used to Restart Service, length of time service had been off				
		Avoid Disconnect		Restart Service		<1 week	7 to 30 days	30 to 90 days	90+	Percent >90 days off
		Number	Percent	Number	Percent					
Oct. 08	783	117	15%	666	85%	15	78	239	334	50%
Nov. 08	1,978	998	50%	980	50%	44	41	282	613	63%
Dec. 08	1,373	917	67%	456	33%	87	26	74	269	59%
Jan. 09	974	791	81%	183	19%	19	16	14	134	73%
Feb. 09	1,254	1085	87%	169	13%	26	8	18	117	69%
Mar. 09	1,437	1254	87%	183	13%	84	13	20	66	36%
Apr. 09	504	366	73%	138	27%	79	22	3	34	25%
Total	8,303	5528	67%	2775	33%	354	204	650	1,567	56%

Source: PUCO Staff data, provided to NorthStar Feb 18, 2010

Conclusions

33. VEDO's disconnect timelines are generally reasonable.

- VEDO provides written notice in the form of a disconnect notice on the second bill issued fifteen days after the initial bill is past due. VEDO disconnects eighteen days after

⁸⁴ Ibid

⁸⁵ PUCO Staff data provided to NorthStar

⁸⁶ I Rebecca Brann



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written notice is provided. In winter months, an additional ten days are required prior to disconnection. VEDO disconnects six days after the ten-day waiting period.⁸⁷

- VEDO issues a disconnect notice with the second bill, which is fifteen days past the due date. Upon issuance of the bill, VEDO places an outbound call and obtains payment promises. If the payment promise is not kept, the customer is disconnected. Commercial disconnections are handled on the same cycle as residential disconnects.⁸⁸
34. While VEDO has a low disconnect threshold, termination notices and disconnect scheduling do not have the same thresholds.
- While residential customers with balances over \$50 are sent disconnect notices, only those with balances over \$100 will be included in the queue for potential disconnection. The queue is prioritized on a daily basis for disconnection the next day based on assessed risk.
 - Courtesy calls and disconnect notices are issued to customers with balances over \$50.
 - Door tags are delivered to customers with balances over \$50.
 - Customers with balances over \$100 are eligible for disconnection.
35. While VEDO manages its field collection activities through the use of dedicated contract services, it only completed forty-one percent of its scheduled disconnects in 2009.
- For the greater Dayton area, VEDO utilizes contract services for the following activities:
 - Delivery of disconnect for non-payment notices (door tags)
 - Disconnects for non-payment
 - Cash payment collection at the door
 - Field collection work is conducted by four full-time contract employees that have no other VEDO responsibilities.
 - The field collection contractor is compensated based solely on completions.
 - Meters that are scheduled to be disconnected and are not due to accessibility issues are audited by VEDO to ensure that all DNPs are worked and not just the easily accessible ones.⁸⁹
 - VEDO tracks two DNP metrics: number completed relative to number available and the completed average dollars relative to available average dollars. The data is collected daily, monthly, and annually.

⁸⁷ DR 4

⁸⁸ Initial presentation

⁸⁹ I Boling and Riffle



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- As shown in **Exhibit V-24**, VEDO completed only 41 percent of scheduled terminations in 2009.

Exhibit V-24
Completed Disconnect Orders
VEDO

Month	Available DNP's	Completed DNP's	Percent Completed
January	1,181	67	5.7%
February	228	105	46.1%
March	1,466	764	52.1%
April	8,265	1,470	17.8%
May	10,253	2,733	26.7%
June	9,639	4,055	42.1%
July	6,085	4,214	69.3%
August	3,355	2,862	85.3%
September	2,052	1,879	91.6%
October	828	109	13.2%
November	1,112	60	5.4%
December	1,153	233	20.2%
Total	45,617	18,551	40.7%

Source: DR 7 and Binder.

- Through September 2009, the average dollar per DNP completed (\$698) was comparable to the available (\$707).⁹⁰
 - Winter DNP's are limited by weather moratoriums, inability to access meters, \$175 winter reconnect rule, and frozen ground conditions to dig meters. Completed DNP's are those where the technician has either turned the meter off or otherwise disconnected the flow of natural gas from the curb.
36. VEDO places courtesy calls to delinquent customers to attempt to obtain payment prior to terminating service.
37. VEDO offers each of the extended payment plans called for by regulations, and the plans are offered on a consistent basis to all customers.
- VEDO offers the one-sixth payment plan, the one-third payment option and balanced (budget) billing to all customers requesting payment terms on their bills.
 - VEDO requires a down payment of ten percent plus six equal installments for customers electing the one-sixth payment plan. The customer is also responsible for paying current charges. A letter is sent to the customer outlining the payment plan details. Monthly bills to the customer display the entire arrearage, the monthly payment due including the payment plan amount and current charges, and a disconnect notice.⁹¹

⁹⁰ Data Response 1-5

⁹¹ I Brann



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- VEDO proactively promotes programs such as PIPP, HEAP, and LIHEAP to customers that may qualify. VEDO provides enrollment information and for potential PIPP customers refers the callers to the ODOD.⁹²
38. VEDO appropriately communicates with customers on available payment options.
- Starting at the beginning and throughout the winter, VEDO provides a Special Notice bill insert with every disconnect notice. The Special Notice provides customers information concerning low income programs, budget billing, and the one-third and one-sixth payment plans.⁹³
 - VEDO provides new customers a letter upon establishment of service explaining payment options including low income programs, budget billing, and the one-third and one-sixth payment plans.⁹⁴
39. VEDO attempts to obtain full payment from delinquent customers prior to offering extended payment plans.
- CSRs attempt to obtain full payment as the first option.
 - The second option allows CSRs the flexibility to offer short-term extensions up to the next scheduled meter read date.⁹⁵
 - VEDO waits for customers to ask about payment options rather than offering.⁹⁶ Then the CSRs explains the one-third and one-sixth payment plans.
40. VEDO requires customers to agree to payment terms or a payment plan when they invoke the WRO option.⁹⁷
- Most customers elect the one-third payment plan for the winter months and then roll the balance into a one-sixth payment plan.⁹⁸
 - Eligibility for PIPP is determined separately by ODOD as part of completing the program enrollment process.
 - Seventy-three percent of customers not already on a payment plan that used the WRO during the 2008-09 winter heating season, were reported as being placed on a plan.

⁹² Ibid

⁹³ DR 35

⁹⁴ Ibid.

⁹⁵ On-site interviews

⁹⁶ Initial presentation

⁹⁷ Initial presentation

⁹⁸ I Brann



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41. VEDO tracks enrollments and expirations of medical certificate and PIPP plans.

- The system automatically removes customers from the PIPP program the month after the certificate expires.
- Customers are notified on their bills when their certificate expires.
- The system tracks the number of medical certificates utilized in a year. Consistent with PUCO regulations, VEDO policies allow a maximum of three medical certificates per year.⁹⁹

Recommendations

9. Evaluate changing the disconnect notice threshold to \$100 to coincide to with the threshold for actual disconnects. Determine effect on payments. (Refers to Conclusion No. V-34)
10. Increase termination performance. (Refers to Conclusion No. V-35)

⁹⁹ I Brann



VI. RECOVERY ACTIVITIES

This Chapter provides a discussion of the Ohio gas utilities recovery activities after the utility has deemed an account uncollectible, has issued a final bill, and the account is assigned to an outside collection agency (OCA). The OCA pursues the account, with any collected proceeds (minus a collection fee) refunded to the utility.

A. Summary of Regulatory Requirements

PUCO regulations do not specifically provide rules for post write-off activities conducted by the utility. All utilities must comply with relevant state and federal regulations regarding collection activities. PUCO regulations do provide rules for reconnection of service and these rules apply to all customers who are required to establish or re-establish service.

B. Preferred Practices

The Ohio gas companies were evaluated against the following preferred practices:

- OCA incentives or fees are paid based on recoveries. Incentives should reflect the increased difficulty in collecting accounts as they age.
- Accounts are transferred to an OCA in a timely manner to maximize collection opportunities. Accounts should be transferred as soon as possible after they are no longer being worked internally.
- The utility encourages competition among OCAs to ensure aggressive performance.
- The utility oversees OCA performance and performs routine audits to ensure compliance with utility standards and requirements and the effectiveness of collections activities.
- A secondary OCA (or alternative treatment methodology) is used for older accounts to ensure continued focus.

C. Key Practice Comparison

Exhibit VI-1 provides a comparison of key collections practices. Additional details regarding each utility's activities are provided later in this Chapter.

**Exhibit VI-1
Key Practice Comparison – Post Write-Off Activities**

Use of OCAs/Process	CGO	DEO	Duke	WABU
Number of days after final bill before accounts sent to outside agency	33 days	Five days – “fast path”, 36 days regular	14 days	19 days
Early Out	Yes One agency	No, but accounts on “fast path” are transferred to primary OCA in five days	Yes	No
Days Kept with Early Out Agency	Thirty-three days after final bill until day sixty-three	N/A	Days thirty to sixty	N/A
Number of Primary OCAs	More than one	More than one	More than one ¹	One
Days Kept with Primary OCAs	Twelve months, review pending	Forever	Seven months and 31 days	Eighteen months
Number of Secondary OCAs	One currently, review pending	None	More than one ¹	One
Days Kept with Secondary OCAs	Indefinite	N/A	Sixteen months (month eight through twenty-four from charge-off date). Duke then uses a “tertiary” agency to continue pursuit up to seven years.	Up to three years
Credit Reporting	Yes, once accounts transferred to primary OCAs	Yes, once accounts transferred to the primary OCAs	Yes, once accounts transferred to primary OCAs	Yes, by the primary OCA on day forty-five
Earliest write-off date	77 to 100 days after final bill	All write-offs done at end of calendar year Could be as early as 60 days after final bill due or as long as one year.	119 days after final bill	90 days after final bill
Incentives				
OCAs paid based on recoveries	Yes	Yes	Yes	Yes
OCA competition exists	Yes	OCA performance compared but no rewards for better performance	Yes	Some

Oversight				
Audits are conducted	Yes	Processes are reviewed with agencies. Site visits have been conducted. Regular performance meetings are held.	No	Yes
Account assignment process	Accounts are assigned using an alpha split	Accounts are randomly assigned	Accounts are randomly assigned	Only one agency

¹ The number of Duke primary, secondary and tertiary OCAs changed during the audit.

D. Columbia Gas Ohio (CGO)

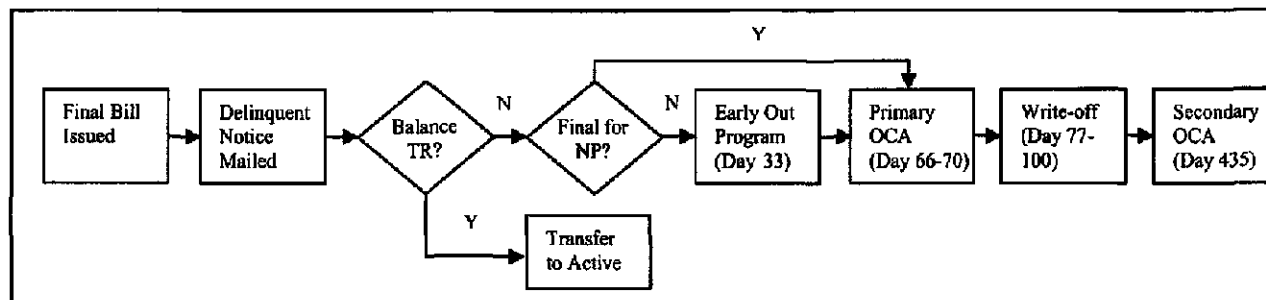
Background

CGO uses a three-stage process once an account is written off as part of its recovery process. Upon termination of service, accounts are initially sent to an "early out" agency, where they are worked for thirty days. CGO pays a lower commission and a delinquency record is not placed on the customer's credit report during this stage. The early-out program is handled by one agency. After thirty days, the accounts are transferred to one of three OCAs which handle skip tracing, collections calls, and dunning letters. Accounts remain with the primary OCAs for twelve months. After twelve months, accounts are removed from the primary OCAs and placed with a secondary OCA at higher commission rates.

Conclusions

- Although CGO has implemented an early-out program to encourage customers to pay a final bill before it affects their credit report, accounts are not transferred to the early-out agency until 33 days after the final bill is issued.
 - The early-out program is handled by one agency.
 - Accounts are worked by the early out agency for 30 days.
- CGO uses a tiered-approach and multiple OCAs to ensure competition and appropriate attention to the accounts.
 - The timing of account transfers and the optimal number of secondary OCAs is currently under review.
 - CGO uses three primary OCAs. Accounts are transferred to the primary OCAs at day sixty-six to seventy, where they are worked for twelve months and then transferred to a secondary OCA. Exhibit VI-2 provides a timeline.

Exhibit VI-2
Final Bill Collections Timeline
CGO



Source: Document Response 1-4

- Prior to April 2009, CGO used four secondary OCAs. In April 2009, CGO suspended placement of new accounts with the secondary OCAs due to concerns regarding administrative performance. Accounts were withdrawn from three of the agencies and placed with one agency, pending review of the timing of placement and the optimal number of secondary OCAs.¹
 - OCAs are paid based on recoveries and are paid different commission rates based on the age of the account. Commission rates are lowest for the early out accounts and are highest for the secondary OCAs (accounts greater than thirteen months).
3. CGO appropriately monitors and measures the performance of its OCAs, and the OCAs are compensated based on their performance.
- CGO measures the performance of its OCAs using “net-back”. Net-back is measured by dividing the CGO return (i.e., the total amount collected less any commissions paid) by the total amount submitted to the agency for collections.² Exhibit VI-3 provides the primary OCA netback results for 2007 through 2009.

Exhibit VI-3
CGO - Primary OCA Netback

	2007	2008	2009
Agency 1	7.8%	7.3%	6.2%
Agency 2	6.8%	6.2%	5.8%
Agency 3	7.7%	7.3%	5.8%

Source: Document Response 1-36, CGO Verification Response.

¹ December 16, 2009 interview with Manager, Revenue Recovery, Manager, Meter Reading & Collections, and Director, Meter to Cash.

² Document response 1-7

- CGO performs on-site and remote audits of the OCAs which include an evaluation of the level of service provided by the agencies as determined by CGO.
- CGO implemented a monthly scorecard that measures each primary OCA's performance and is used to rank the agencies. The scorecard provides each agency's performance relative to the leader. The scorecard measures the OCA performance in four areas: twelve-month rolling net-back, results of the second quarter (on-site) audit, results of the customer service survey (internal) and the ninety-day net-back. CGO has advised the agencies that it plans to make adjustments to referral levels based on the scores.³

Recommendations

1. Transfer accounts to the early out agency more promptly. (Refers to Conclusion No. VI-1)
2. Complete the OCA review. Multiple agencies should be used to ensure competition and maximize performance. The review should also consider the optimal timing of transfers to the secondary OCA. (Refers to Conclusion No. VI-2)
3. Encourage competition among the OCAs through an appropriate performance monitoring/reward system. (Refers to Conclusion No. VI-3)

E. Dominion East Ohio Gas (DEO)

Background

DEO uses two timelines for moving accounts to an outside collection agency. For a typical account that has gone to final bill with a past due amount, the customer is not sent a dunning letter until twelve days after the final bill is due. The bill is transferred to an OCA twenty-four days after the dunning letter is sent, thirty-six days after the final bill was due. DEO believes this allows customers who were typically good payers in the past, appropriate time to pay the final bill before it is turned over to collection. For accounts that were terminated for non-payment, or that were disconnected per customer request and have an outstanding balance of more than \$400, DEO uses a "fast path." Under the "fast path", the final bill includes the official dunning notice, and the accounts are transferred to an OCA five days after the final bill date.⁴ PIPP accounts and accounts that have gone through bankruptcy are not typically referred to an OCA.⁵ PIPP accounts that have non-gas charges associated with it (reconnection charges, investigation fees) will be sent to collection for the entire amount of the arrearage.⁶

³ Document Response 1-7

⁴ IDR-4

⁵ IDR-27

⁶ Only thirty-two and twenty-nine PIPP accounts were sent to an OCA in 2008 and 2009, respectively

DEO uses three OCAs to handle recoveries. DEO relies on the collection agencies to take whatever measures they deem appropriate to collect the debt. Once an account is referred to an OCA, credit reporting occurs. The OCAs actively work the accounts for six months (called the primary period). After this primary period, the accounts are not actively worked by the OCAs, but are still held by the OCAs. DEO does not use a secondary OCA. Accounts sent to OCA will be recalled if the customer applies to re-start service, and the past due balance will be transferred to the new account.

Conclusions:

4. Although DEO promptly transfers high balance final accounts to an OCA (five days after the final bill), it is not otherwise aggressive in pursuing recovery, and its fee structure is counter to standard practice.
 - Approximately 78,000 accounts are assigned to the OCAs each year, representing over \$80 million in delinquent bills, or an average of \$1,026 per account.⁷
 - Accounts are not actively worked after six months, so that if a customer does not respond to collection efforts for that period, they are unlikely to ever pay. The OCAs are paid a higher fee during the primary period, with fees after the primary period declining by approximately fifty percent from those on accounts still in the primary period.⁸ DEO acknowledges that not a lot of action is taken on accounts after the first six months.
 - DEO does not utilize a secondary OCA for older accounts.
5. DEO is not aggressive at managing its existing OCAs.
 - DEO's three OCAs each have different fees and different recovery experiences.⁹ The agencies are assigned accounts daily on a random basis, with one-third of each day's accounts going to each collection agency. OCAs with particularly strong performance are not rewarded for their efforts.
 - DEO monitors and reports each agency's recoveries on a score card that is shared with all three agencies.
 - An agency that consistently is at the bottom will be evaluated closely when their contract is up for renewal. However, DEO indicates that the cost of changing agencies may preclude terminating even a consistent low-performing agency.¹⁰
 - DEO does not work with its OCAs to apply creative approaches or otherwise monitor the level of effort put forth by the agencies.

⁷ DR EOG-3-9

⁸ On-site interviews

⁹ IDR-5, DR-EOG-2-6

¹⁰ On-site interviews

- DEO does track recovery by “campaigns” (month assigned), but does not perform other assessments by type of account assigned.
6. DEO’s practice of executing charge-offs once a year does not appear to have either a positive or negative impact on the UEX rider or the collections effort.
- DEO executes charges-offs once a year in December. DEO believes that a once a year charge off is more efficient and avoids a lot of reversals when customers disconnected in the summer come back on the system in the fall.
 - The once a year charge-off does not affect when accounts are transferred to OCAs for collection activity.¹¹

Recommendations

4. Begin using a secondary OCA for accounts past the initial primary recovery period. (Refers to Conclusion No. VI-4)
5. Eliminate the practice of paying a reduced OCA commission on older accounts. (Refers to Conclusion No. VI-4)
6. Institute a performance monitoring system for the OCAs with monthly or annual rewards for the top performing OCA. (Refers to Conclusion No. VI-5)

F. Duke Energy of Ohio (Duke)

Background

Duke uses a four tiered-approach to collect unpaid final bills, beginning fourteen days after it has designated an account PAST DUE FINAL and continuing up to as much as seven years:

- Pre-collection
- Primary Collection
- Secondary Collection
- Tertiary Collection

Pre-collection (early-out) begins fourteen days after an account becomes PAST DUE FINAL. The account is assigned to an outside agency, which sends letters to customers with the amount past due and the account number. The letter provides a toll free number to call for making payment arrangements and also a stub which can be mailed with payment. Payments can be made with credit card, check or by using SpeedPay. There is no outbound

¹¹ IDR-27, on-site interviews

calling at this point. At this stage Duke has not reported the customer to a credit agency, and the customer has a last chance to make payment before it affects their credit.¹²

If the account balance remains unpaid after thirty days, the system automatically assigns the account to the primary collection agency. The primary collection agency will attempt to collect on all first placement charged-off accounts from day one of charge-off (after the thirty day pre-collection period) up to seven months and thirty-one days. If partial payments are made, the account remains with the primary agency after the seven month, thirty-one day cutoff.

At the eighth month, accounts are recalled by Duke and placed with a secondary collection agency. The secondary collection agency attempts to collect for sixteen months (months eight to twenty-four from the charge-off date). At month twenty-four, accounts which have no payments and are not in active litigation are recalled from the secondary collection agency and assigned to the tertiary collection agency.

The third tier collection agency, or tertiary collection agency, receives accounts that are twenty-four months old from the original charge-off date. Accounts remain with the tertiary collection agency until seven years from the date of the charge-off.

Accounts can be recalled from collection agencies if a customer with an outstanding balance desires new service. In order to establish new service, the customer must pay all outstanding balances. The collection agency is notified and the account recalled. The collection agency is responsible for notifying credit bureaus of the zero balance.

Conclusions

7. Duke's recovery activities reduce the uncollectible debt rider.

- Duke quickly assigns the account to a pre-collection agency thereby maximizing opportunity for recovery (recovery opportunity diminishes with time). Accounts are assigned fourteen days after the final bill is issued.
- The pre-collection activity may help encourage customers to pay by offering the customer an opportunity to avoid credit reporting.
- Duke's four-tiered approach recognizes the different challenges and skill sets required to collect debt at different stages of account aging.
- **Exhibit VI-4** shows the collection efficiency of the various tiers used by Duke.

¹² Technically, AllianceOne is a collection agency but the process still records the customer as past due at this point.

Exhibit VI-4
Collection Agency Performance
Duke

Stage	Net Recovery (Percent)
Primary	6.4%
Secondary	5.3%
Tertiary	3.1%

Source: Initial presentation material, page 35.

8. Duke's addition of OCAs in 2010 could increase competition and potentially improve performance.
- In 2010, Duke added an additional OCA at each of the primary, secondary and tertiary levels of collection.
 - Properly implemented, the addition should allow for increased competition within each of the tiers.

Recommendations

7. Encourage competition among the OCAs at each collections stage through an appropriate performance and reward monitoring system. (Refers to Conclusion No. VI-8)

G. Vectren Energy Delivery Ohio (CGO)

Background

VEDO uses the services of OCAs to minimize the bad debt recovered through the rider. Debts collected through the OCAs are reduced by a commission and then credited to the UEX rider account, if the bad debt is associated with a non-PIPP receivable.¹³ VEDO writes accounts off ninety days after they are disconnected for non-payment.¹⁴ During 2009, VEDO wrote off 25,588 accounts.¹⁵ At that point, bad debt is recovered through the UEX rider if the bad debt is associated with a non-PIPP receivable.

Beginning in November 2009, VEDO began using both primary and secondary OCAs. Prior to November 2009, one OCA was used. Accounts are transferred to the primary OCA nineteen days after the final bill. The primary OCA begins a telephone campaign using an automated dialer on the next business day. For the first thirty days, the customer is called at least once a day. For the following sixty days, calls are made every other day and at ninety days the calls are reduced to twice per week. After 120 days, the calls are made on an ad hoc

¹³ I Barrett and Initial Presentation

¹⁴ Initial presentation

¹⁵ Binder from L. Friedeman (R. Boling Tab) – Ohio Accounts Written Off

basis.¹⁶ For accounts greater than \$100, a letter is sent the next business day after start of the telephone campaign. After positive contact is established, one of four outcomes occurs:

- Full payment is collected
- Payment terms are negotiated
- Debt is disputed
- Customer is unable to commit to payment.

After eighteen months, if there is no resolution on an account, the account is transferred to a secondary OCA.¹⁷ The secondary collection agency begins a campaign of telephone calls and letters. Prior to December 2009, the accounts remained indefinitely with the primary OCA.

Conclusions

9. While VEDO's primary collection agency reduces the uncollectible debt rider, the use of only one primary OCA does not promote competition.
 - Accounts are transferred nineteen days after the final bill is issued.
 - The OCA is compensated based on a commission basis. Competition might reduce fees and improve performance.
 - VEDO monitors OCA performance. During 2009, the primary OCA attempted to collect debt against 21,881 accounts representing seventy-five percent of the total number of accounts written off. Exhibit VI-5 provides the performance results of the primary OCA for the past three years.

Exhibit VI-5
Primary Collection Agency Performance
VEDO

Year	Net Recovery (Percent)
2007	12%
2008	9%
2009	8%

Source: Binder from L. Friedeman (R. Goodge Tab)
– Netback report

10. VEDO appropriately added a secondary OCA in November 2009.

- The transfer of accounts to the secondary agency after a pre-specified period of time may pressure the primary OCA to improve performance.

¹⁶ Email R. Boling to D. Francis 3-19-10

¹⁷ J Boling

- The first month of revenue collection by the secondary OCA has shown some promise. In fourteen days, the secondary agency collected debt from fourteen accounts for a total of approximately \$2,300.¹⁸

Recommendations

8. Consider adding a second, primary OCA and encourage competition among the OCAs at each collections stage through an appropriate performance and reward monitoring system. (Refers to Conclusion No. 9)

¹⁸ Binder from L. Friedeman (R. Goodge Tab) - Spreadsheet

CHAPTER VII: METER READING, BILLING AND PAYMENTS

This Chapter provides a discussion of the Ohio gas utilities' meter reading, billing, and payment channels. The primary interface between the customer and the natural gas company is the meter. The meter serves as the equivalent to a retail cash register. Providing the customer with accurate, timely bills and a variety of options to facilitate payment are key first steps in ensuring payment.

A. Summary of Regulatory Requirements

Metering

Ohio Administrative Code (OAC) 4901:1-13-04 provides the framework defining when and how a customer's meter is read and maintained. With a few exceptions such as temporary or special installations, the Code mandates that all natural gas service be metered, and requires that all meters be of a commercially acceptable standard. Natural gas utilities are required to install meters for all service locations as practical and perform meter reads at the following times:

- Termination of service if the meter has not been read in the preceding 70 days,
- Initiation of service, and
- Attempt meter reads at least every other month.

According to the Code, the utility must obtain an actual meter read at least once every twelve months. The natural gas utilities are required to file a meter reading plan with the PUCO every three years that outlines how all meters will be read at least once every twelve months.

The natural gas utilities are also responsible for the overall maintenance and accuracy of the meters. As such, the utility is responsible for maintaining appropriate records as to the location and identification of all meters, and the results of meter testing. The utility is required to test a meter at customer request and replace or repair a meter at no cost to the customer if the meter is defective.

Billing and Payments

OAC Chapter 4901:1-13-11 describes the requirements and stipulates the standards concerning bills and payments for natural gas utility service. Utilities are required to issue accurate bills at regular intervals, and must make several payment options available to customers. Those options may include, but are not limited to: cash, check or money order payments made in person to the company or a payment agent; check or money order through the mail; check over the telephone; credit card; or electronic money transfers. Each natural gas company must, upon request, provide customers with an updated list of available

payment options and descriptions. The list must include the name and street address/location of the nearest payment center and/or local authorized agent, and all applicable fees for utilizing the various methods available for payment of customer bills. The natural gas utility may not deny a customer the use of one or more of the payment options solely because the customer's account is in arrears.

Payments made in person must be credited immediately to the customer's account, where feasible, and, at a minimum, as of the date received. Payment made through other means must be credited within two days from receipt (immediately where feasible). In accordance with the Code, partial payments, excluding those related to disputes and payment plans, are to be credited as follows:

- First, credit past due distribution and sales service charges.
- Second, credit current distribution and sales service charges.
- Third, credit past due and current non-regulated charges.

Customers cannot be disconnected for non-payment if payment is received on the disconnection date, assuming payment is received prior to actual disconnect action.

B. Preferred Practices

The Ohio gas companies were evaluated against the following preferred practices:

- Customers are issued timely and accurate bills, and in accordance with regulations.
- Bills are not held by the utility for an extended period of time as a result of meter reading and billing exceptions.
- Customers are offered a variety of payment channels.

C. Key Practice Comparison

Exhibit VII-1 provides a comparison of key practices and procedures. Additional details regarding each utility's activities are provided in subsequent sections.

Exhibit VII-1
Key Practice Comparison – Meter Reading, Billing and Payments

	Regulation	CGO	DEO	Duke	VEDO
Meter Reading					
Read frequency	Bi-monthly minimum	Bi-monthly	Bi-monthly	Monthly	Monthly
Percent actual read within twelve months	One actual read per twelve months	99.6 percent	99.75 percent	99.8 percent	99.99 percent
Reads inactive meters	NA	Yes	Yes	Yes	Yes

	Regulation	CGO	BEO	Duke	VEDO
Routes read	NA	Manually <10 percent AMR	33 percent manual 13 percent remote 53 percent AMR	95 percent Manual <10 percent AMR	About 67 percent manually, 33 percent AMR
Billing					
Performs standard checks to ensure bill accuracy	NA	Yes	Yes	Yes	Yes
Meter to bill duration	NA	Three-day read window	Three-day read window	Next Day	Two days
Payments					
Payment channels	Several required	Mail, in-person, authorized agent, phone, online	Mail, in-person, authorized agent, phone, online	Mail, in-person, phone, online	Mail, in-person, authorized agent, phone, online
Payment methods	Several required	Cash, check, credit or debit card, e-check	Cash, check, credit or debit card, e-check, gift certificates	Cash, check, credit or debit card, e-check	Cash, check, credit or debit card, e-check
Can pay on day of disconnect to avoid disconnection	Required	Yes	Yes	Yes	Yes

D. Columbia Gas of Ohio, Inc. (CGO)

Background

CGO reads approximately 1.48 million meters on a bi-monthly basis, using a 21-day cycle. Routes are currently read manually. Of the 1.48 million meters (1.40 million active) 348,000 (or 24 percent) are inside meters.¹ About 85,000 of the inside meters are equipped with mechanical remote indexes.² Customers are billed monthly based on actual reads in the read month and estimated reads in the non-read months. CGO is in the first year of a five-year plan to implement automated meter reading (AMR). As of October 2009, CGO had installed AMRs on 122,000 meters. As AMR installations reach saturation in an area, CGO switches to monthly reads.

Meter reading is primarily performed by an outside contractor with a workforce of about 100 meter readers. For its bi-monthly performance measurement, CGO considers a read by a meter reader, a customer, or a remote device to be an actual read. The OAC requires one actual read every twelve months; for purposes of compliance with the Code requirement, the meter must be read by the company.

CGO maintains three billing systems: the Distribution Information System (DIS), Gas Measurement Billing System (GMB/GAS) and a Gas Transportation System (GTS). Most of CGO's customers are billed out of DIS. GMB/GAS and GTS are used for about 6,000

¹ Data Response 13

² Data Response 9

accounts. Gas transportation customers are not included in the utility's bad debt tracker. Exceptions are reviewed by a combination of CGO and IBM contract employees. Prior to January 2008, this function was performed entirely by IBM. Re-reads requested by billing are performed by the same meter reader that performed the initial read. A service technician becomes involved if the request is outside the reading window or if billing is still uncomfortable with the read, and customers are notified of the scheduled re-read date. The responsiveness of the service department has improved recently, and about 80-85 percent of re-read appointments are made within the scheduled window.³

Conclusions

1. CGO has appropriate processes to ensure meters and reads are accurate.

- During the period January through October 2009, over 90 percent of scheduled reads were obtained each month. The meter reading Service Level Agreement (SLA) and internal targets requires a read rate of 75 percent for inside meters and 99 percent for outside meters. Through mid-December 2009, year-to-date results were 80.3 percent for inside reads and 99.8 percent outside reads.⁴
- CGO has a testing program for new and existing meters. Ten percent of each new meter shipment is tested, and existing meters are tested on a sample basis. Existing meters are selected randomly, with the percent tested based on the type and size of the meter. Meters are also tested at the request of the customer.⁵
- Handheld meter reading devices have built-in checks that require re-entry of reads that fall outside certain parameters. The device will accept a re-key of the same entry; however, this might generate a billing exception.⁶
- Meter reading performance is reviewed monthly both in aggregate and by individual meter reader. CGO reviews the percent inside reads, percent outside reads, failed reads, and billing errors per 1,000 reads.⁷ Billing exceptions are reviewed with meter readers as part of the monthly review process.
- Through October 2009, CGO's reading accuracy was 99.7 percent. Accurate reads are defined as reads for which no billing exceptions are generated.
- CGO attempts to read inactive meters during the bimonthly reads.⁸
- Remote meter indexes are verified annually. Remotes with variances greater than 10ccf are replaced.⁹ CGO fully implemented its Meter Reading Plan in 2009.

³ December 17, 2009 interview with Meter Reading and Billing

⁴ Meter Reading Performance Summary

⁵ December 17, 2009 interview with Meter Testing

⁶ December 17, 2009 interview with Meter Reading and Billing

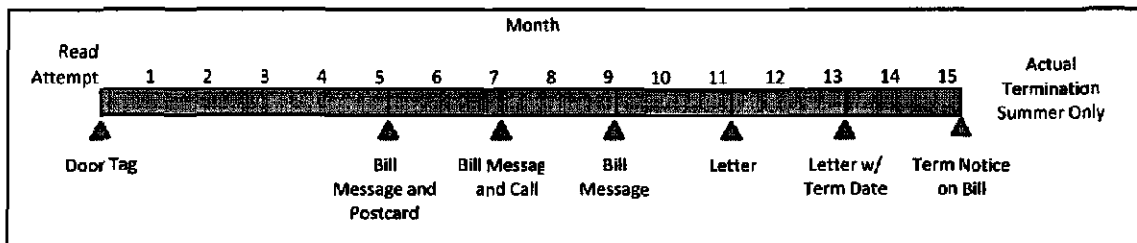
⁷ Meter Reading Performance Summary and Meter Reading Performance Report

⁸ December 17, 2009 interview with Meter Reading and Billing

⁹ December 17, 2009 interview with Meter Reading and Billing

2. Less than one percent of the CGO meters had not had an actual read within the last twelve months as required by the OAC.
 - As of October 2009, meter readers had read 99.6 percent of CGO's active meters within the past twelve months. Fewer than 6,000 had not been read within the required time frame.¹⁰
 - **Exhibit VII-2** provides an overview of the customer notification process in the event CGO is unable to obtain an actual read. Termination notices are included on the bill after fifteen months; however, terminations are not scheduled during the winter.

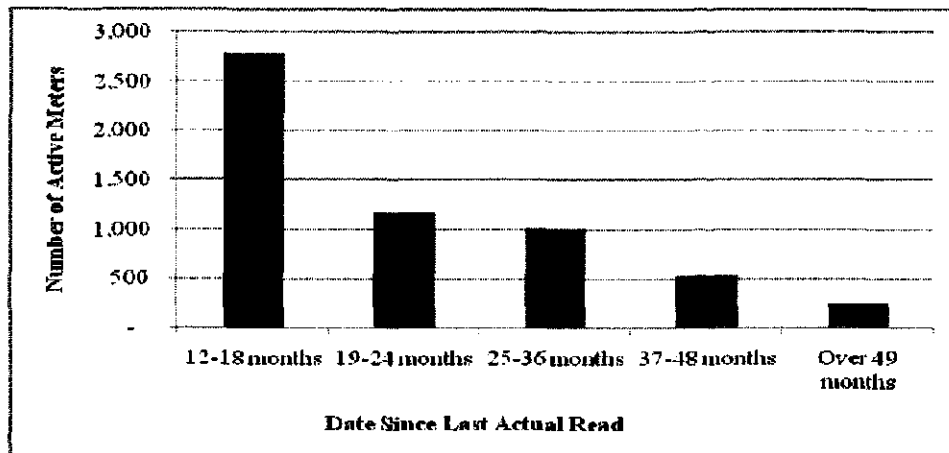
Exhibit VII-2
Meter Reading Customer Notification Process
CGO



Source: December 17, 2009 interview with Meter Reading and Billing, Data Response 9 and meter access letters, postcards, and bill messages.

- **Exhibit VII-3** provides a distribution showing the age since the last actual read. Only 3,000 accounts had not had an actual read in over eighteen months.

Exhibit VII-3
Distribution of Meters without an Actual Read in Twelve Months
CGO



Source: Data Response 2-2.

¹⁰ November 18, 2009 presentation. As of October 1, 2009, less than 6,000 of CGO's 1.4 million active meters had not had an actual read in over twelve consecutive months (0.4 percent).

- The backlog of meters without an actual read in twelve consecutive months has declined. In August 2004, the number was 21,495 active meters; as of October 1, 2009, the count had dropped to 5,786 active meters.¹¹
3. CGO uses an industry standard system of checks to ensure the accuracy of customer bills, and bills are rendered timely.
- The billing systems generate standard exception reports including high/low, negative use, 90 percent prior consumption, zero use, and revenue class limit checks.¹² The high/low parameters consider prior month's reads and prior year's reads.¹³ Accounts are reviewed to determine if consumption is in line with expected usage or can be explained by information noted in the account. Where necessary, billing will request a re-read. Through November 2009, the system generated 368,000 exceptions for the 2009 year. Less than ten percent of those necessitated a re-read.
 - The bill print batch is not held up while exceptions are investigated, and the bill exception backlog levels are reasonable. CGO provides service to 1.4 million customers and the billing exception backlog in December 2009 was less than 1,000.
 - System tests and bill recalculations are performed when new rates are put into the system.¹⁴
 - On a monthly basis, CGO pulls and checks random bills, and internal audit performs Sarbanes- Oxley (SOX) testing.¹⁵
4. CGO offers its customers an appropriate array of payment options.
- Customers can pay via physical check, cash, credit card, and recurring or one-time debits from the customer's checking account.
 - Payments can be made in-person at authorized payment locations, over the phone using a checking account or credit card, by mail, or online. About half of CGO's payments are received by mail. The remaining are made at authorized payment locations administered by Western Union (eight percent), and online or over the phone using a credit card, debit card, or electronic check. "E" channels account for 22 percent of the payments.
 - If a field collector arrives at the customer premises to disconnect service the customer can make an immediate payment over the phone or make a payment the same day at an authorized payment location to avoid disconnection.

¹¹ Data Response 2-2

¹² December 17, 2009 interview with Meter Reading and Billing and High/Low Revenue Class Limit Checks

¹³ High/Low Revenue Class Limit Checks

¹⁴ December 18, 2009 interview with Rates

¹⁵ December 18, 2009 interview with Rates

Recommendations

None

E. Dominion East Ohio, Inc (DEO)

Background

DEO reads the majority of its 1.29 million meters on a bi-monthly schedule, estimating bills in the "off" months. Some large industrial and commercial meters are read monthly. DEO is in the third year of a four-year plan to install AMR for all its customers. As of October 2009, DEO had installed 686,508 AMRs (53 percent of all meters). AMR installations take place on an area by area basis. As most of a geographic area is converted to AMRs, DEO consolidates meter reading routes and converts that area to monthly reads.¹⁶ As of October 2009, only approximately seven percent of DEO's meters are located inside a structure without any type of remote read options (either Hexagram (HEX) or AMR).¹⁷

All DEO meters are read by DEO employees. DEO has a three-day meter read window for each route. The optimum read date is the first day of the window. Meter reads are uploaded to the billing system at the close of the three-day read window. Any meters that have not been read by the end of the three-day window, for whatever reason, are estimated for that month. Bills are mailed the day after the close day (day 3).¹⁸ Meters that are not read within the three-day window will not be scheduled for another read until the next cycle for that route, two months out.

In July 2007, DEO and the PUCO agreed on a plan to improve communication with customers regarding the need for access to read meters.¹⁹ An actual read is any meter read by a DEO employee, either visually or through HEX or AMR remote devices. Customer reads do not count as an actual read for purposes of OAC compliance. Exhibit VII-4 provides an overview of the customer notification process relative to the meter access requirement.

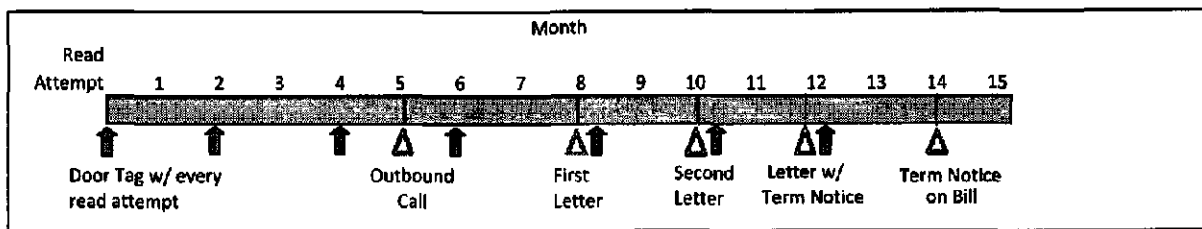
Exhibit VII-4 Meter Access Customer Notification Process DEO

¹⁶ On-site interviews

¹⁷ Company presentation, p. 22

¹⁸ DR-8

¹⁹ IDR-8, attachment (July 31, 2007 letter from Doris McCarter to Jeff Murphy, plus attachments)



Source: IDR 8, DEO Meter Reading Plan, Revised July 20, 2007.

DEO maintains two billing systems: the Customer Care System (CCS) which is used for most customers, and the Special Billing System (SBS) which is used primarily for customers taking service at high pressure and those using electronic gas measurement (hourly) meters. Only 0.3 percent of DEO's accounts, constituting 40 percent of gas throughput, are processed through the SBS.²⁰

Conclusions

1. DEO has appropriate systems in place to ensure accurate and timely meter reading.

- In 2009, DEO read 93.1 percent of its meters as scheduled, compared to a goal of 92.0 percent.²¹
- DEO's error rate on meter reading was 0.12 percent in 2009, well below the goal of 0.29 percent. In the past (2007 and 2008), the meter reading error rate was as high as 0.35 percent of all reads.²²
- Handheld meter reading devices are programmed to alert the meter reader in the event of an entered read that is either higher or lower than expected. The meter reader must then confirm or correct the read.²³
- Meter exception reports are generated daily for any uploaded meter read that shows negative consumption (where the meter reading is less than the prior actual read). These bills are put on hold so the meters can be re-read by a supervisor to ascertain the correct reading. Supervisors also use the reports to identify if there are any recurring problems with a specific meter reader. If a particular reader has several errors, they will be called in for additional training.²⁴
- The processes used to estimate bills on "off" months (when meters are not read), for meters with access issues, and for error situations where re-reads cannot be made within the three-day read window, use an appropriate combination of historic consumption data and actual weather.

²⁰ Company presentation, p. 25

²¹ DR-EOG-2-1a, on-site interviews and DEO Verification Response

²² DR-EOG-2-1a

²³ DR-EOG-2-4

²⁴ On-site interviews

2. The meter reading and billing processes are part of SOX compliance audits and are audited on an annual basis by DEO's internal audit group.²⁵ DEO has appropriate mechanisms in place to ensure that all meters have an actual read at least once every twelve months, as required by the OAC.
- As of December 31, 2009, DEO had read 99.75 percent of its meters within the twelve-month window, as required by the OAC.²⁶
 - Termination notices are included on the bills after fourteen months, and customers are terminated for lack of access. In accordance with the agreement with the PUCO, DEO will exercise restraint relative to terminating customers for lack of access during extremely cold weather.²⁷
 - As of the end of 2009, fewer than 3,000 meters of the 1.29 million meters on DEO's system had not had an actual read in over twelve months. **Exhibit VII-5** shows the distribution of meters not read in both 2008 and 2009. Fewer than 650 meters had not been read in more than 24 months.²⁸
 - DEO has reduced the backlog of meters not read within the required twelve-month period. At the end of 2008, DEO had almost 10,000 meters that it had not read in more than ten months, as opposed to only 3,400 meters not read at the end of 2009. The number of meters that had not been read in more than 36 months was reduced from 265 to 65 between the end of 2008 and the end of 2009.²⁹
 - DEO offers its customers the option of morning or afternoon scheduled appointments to read inside meters, and many of their districts offer Saturday appointments as well.³⁰

Exhibit VII-5
Distribution of Meters without an Actual Read in Twelve Months
DEO

²⁵ Company presentation p. 24

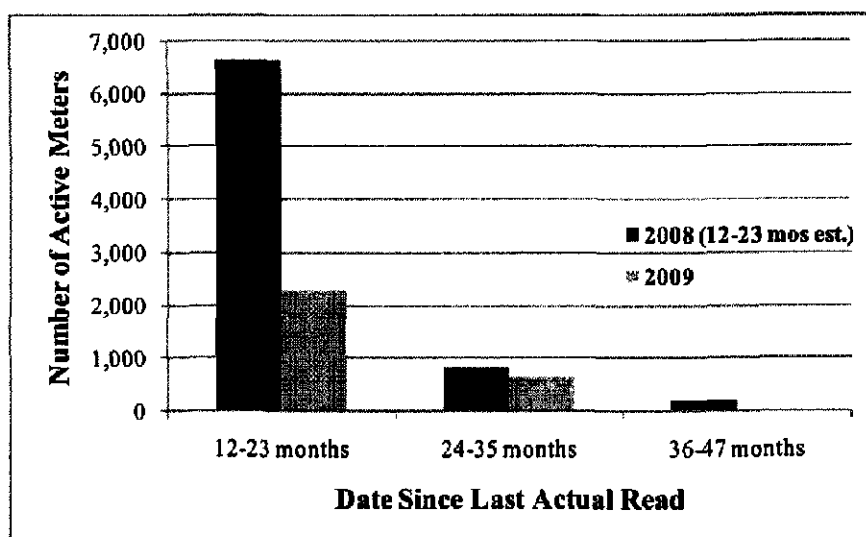
²⁶ DR-EOG-2-1a

²⁷ IDR-8

²⁸ DR-EOG-2-1a

²⁹ DR-EOG-2-1a and DR EOG-3-17

³⁰ IDR-16, PUCO Staff Customer Services Audit, March 2009, p. 14 of data response



Source: 2008 from DR EOG-3-17, 12-23 months data estimated from 10-23 month data provided, 2009 from DR EOG-2-1.

3. DEO has appropriate mechanisms embedded in the meter reading and billing systems to identify and evaluate high/low, negative use, and zero reads.
 - Bills can be held for negative reads (errors), zero reads on active meters, or for unusually high reads. (Zero and very high reads are not included in the meter read error rate mentioned previously.) The average number of months a customer was back billed is not available. However, DEO will not back bill more than 12 months for any defective equipment or consecutive estimate situation.³¹
 - Held bills are subject to investigation to determine if the exceptions can be explained by information noted in the account. If necessary, billing will request a meter re-read.
 - DEO has a goal to not hold bills for more than seven days. Bills that cannot be resolved within that period of time are cancelled and an estimated bill is generated and mailed to the customers.³² Exhibit VII-6 provides the number of bills not worked (cancelled) per month in 2009.

Exhibit VII-6
Bills Held Greater than Ten Days - 2009
DEO

Month	Number of Bills
January	9
February	27
March	27
April	44
May	20
June	23

³¹ DEO Verification Response

³² On-site interviews

July	23
August	22
September	13
October	10
November	8
December	9
Total	235

Source: DEO Verification Response.

4. DEO offers its customers an appropriate range of payment options.

- Customers can pay via physical check, cash, credit card and recurring or one-time debits from the customer's checking account.³³
- Payments may be made in-person at authorized payment locations, over the phone using a checking account or credit card, by mail, or online.³⁴
- If a field service representative arrives at a customer location to disconnect service, the customer can make a payment over the phone immediately to avoid disconnection. Typically, field service representatives will allow a customer showing cash to travel to an authorized payment location to pay the bill, with the field service representative returning later in the day to view proof of payment (to have the order cancelled).
- DEO's Customer Referral Guide indicates that customers can also pay using gift certificates, which can be purchased online or by calling CertifiChecks. Gift certificates are available in specific denominations and are treated like any other payment option when received by DEO.³⁵ Discussions with DEO did not include this option.

Recommendations

None

F. Duke Energy Ohio, Inc. (Duke)

Background

Duke reads approximately 420,000 gas meters and 680,000 electric meters on a monthly basis, using a 21-day cycle. Routes are primarily read manually using hand held Data Cap devices with less than 24,000 gas meters read using AMR. Of the 420,000 gas meters, 182,000 (or 42 percent) are inside meters.³⁶ Access to inside meters represents a challenge to all utility meter reading. Approximately 65,000 of Duke's customers (gas and electric) have

³³ Company presentation, p. 46

³⁴ Company presentation p. 46, EOG-3-8, pp. 24-27

³⁵ DR EOG-3-8, p. 24

³⁶ Initial presentation and handout November 19, 2010

provided Duke with keys to their premises allowing Duke access to read the meters. Duke maintains a "key room" with all 65,000 keys that are checked out in advance by meter readers who enter the premises with the keys and read the inside meters. Duke also has an EZRead program by which customers read their own meters each month with Duke requiring a read by Duke personnel once during a twelve-month period. AMR meters are read via either a handheld device (without entering the premises) or via a van equipped with AMR equipment.³⁷ Duke also has a small number (10,000) of SmartGrid meters where data is collected through the communications infrastructure.³⁸

Meter reading is performed by an in-house workforce of about 180 full-time and part-time meter readers of which approximately 155 generally read in Ohio.³⁹ Unlike the other utilities, Duke meter readers read both gas and electric meters. Duke's meter reading goal is to safely, accurately, and with great customer stewardship read all assigned meters.⁴⁰ However, due to access issues, Duke estimated about fifteen percent of the bills between September 2008 and August 2009.⁴¹

Duke meter readings are processed and passed to the Customer Management System (CMS) where the billings rates are applied to usage. CMS is an older, mainframe system, originally implemented in 1993 with major updates in 2001 and 2003. CMS is a Midwest only system and is not used by Duke's Carolina operations. Bills are checked at this point for abnormalities and those passing the quality check are sent via electronic files to the outsourced vendor for printing, inserting and mailing to customers.

Conclusions

1. Duke has appropriate processes to ensure meters and reads are accurate.
 - Duke has a testing program for new and existing meters by the meter shop in the power delivery organization. Both new and existing meters are tested on a sample basis. Meters are also tested at the request of the customer or when abnormalities such as zero reads are detected.⁴²
 - Duke handheld meter reading devices have built-in checks that require re-entry of reads that fall outside certain parameters. The second entry requires entry of the last four digits of the meter number prior to rekeying. The device will accept a re-key of the same entry and is designed to eliminate key punch errors.
 - Meter reading performance is reviewed monthly both in aggregate and by individual meter reader including productivity and accuracy.

³⁷ Itron Mobile Collections software

³⁸ Document request 008

³⁹ Some operations and personnel work in both Ohio and Kentucky for efficiency purposes

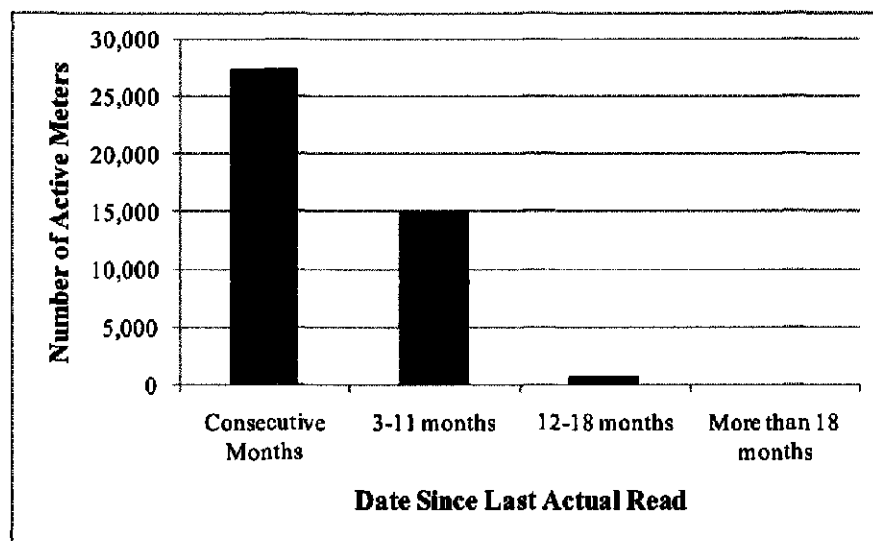
⁴⁰ Duke Verification Response

⁴¹ NSC-DR-01-014. During that period Duke sent 8,940,637 Ohio gas and electric bills; 1,364,540 Ohio and Kentucky bills were estimated. Ohio-only estimated bill counts were not provided. Kentucky represents a small part of Duke's operations.

⁴² January 22 interview with meter reading

2. Less than one percent of Duke's meters have not had an actual read within the last twelve months as required by the OAC.
 - If meters cannot be accessed, Duke takes several steps. Duke makes use of the existing AMR program to address hard to access meters thereby eliminating access problems. They may also attempt to enroll the customer in the EZRead program. Failing that they may attempt to obtain a key for access to the premises.
 - As of August 2009, Duke meter readers had read 99.8 percent of its active meters within the past twelve months (less than 800 of Duke's 420,000 active meters were not read), as required by the OAC.⁴³
 - Exhibit VII-7 provides a distribution showing the age since the last actual read. Only 13 accounts had not had an actual read in over eighteen months.

Exhibit VII-7
Distribution of Meters without an Actual Read in 12 Months
Duke



3. While Duke has an industry standard system of checks and balances to ensure that customer bills are accurate and are rendered in a timely manner, the PUCO staff has identified some deficiencies in Duke's processes for monitoring and responding to potentially defective meters.
 - The billing systems generate standard exception reports including high/low, zero and negative usage. The high/low parameters consider prior month and prior year/same month reads. Accounts are reviewed to determine if consumption is in line with expected usage or can be explained by information noted in the account, such as changes in appliances.

⁴³ November 18, 2009 presentation

- Accounts which do not pass quality checks must be reviewed and corrected by a billing representative. Once reviewed and corrected, the accounts are rerun through the billing system.⁴⁴
 - As a result of PUCO staff concerns regarding the timeliness of Duke's investigation into potentially defective meters, Duke is reviewing its processes.⁴⁵ Duke reports 1,978 zero usage meters in 2008 and 3,518 in 2009.⁴⁶
 - Defective meters which are not addressed in a timely manner may result in a significant back bill, which the customer may have difficulties paying. However, the numbers of zero use meters are not likely to have a significant effect on the collections process.
 - System tests and bill recalculations are performed when new rates are put into the system or changes are made to the regulations.
 - On a daily basis, Duke pulls and checks random bills to ensure system calculations are accurate. In addition, routine SOX testing is performed. This is also standard industry practice.
4. Duke offers its customers an appropriate array of payment options for both their gas and electric customers.
- Customers can pay via bank account using Duke's automatic payment plan (Bill Payer2000).
 - Customers can also make one-time payments using a physical check, cash, credit card, money orders and debits from the customer's checking account.
 - Payments can be made in-person at authorized pay agent locations or at Duke's office at 8th St. and Linn in Cincinnati. Pay agents are local retailers authorized to accept cash, check, and money orders. Payments can also be made over the phone using a checking account or credit card via Speedpay, by mail, or online at the Duke Energy web site.
 - If a field Service Technician arrives at the customer premises to disconnect service, the customer can make an immediate payment over the phone to avoid disconnection.

Recommendations

None

⁴⁴ Original presentation and January 21 interviews with Customer Billing

⁴⁵ Staff Verification Response

⁴⁶ NSC-DR-02-059

G. Vectren Energy Delivery Company, Inc. (VEDO)

Background

VEDO reads approximately 339,000 meters in the greater Dayton area on a monthly basis, using a 21-day cycle. Of the 339,000 meters, 98,000 (or 30 percent) are inside meters. About 83,500 of the inside meters are equipped with mechanical remote indexes allowing for automatic meter reading. Customers are billed monthly based on actual reads. VEDO has recently completed the installation of 60,000 meters equipped with AMR bringing the total number of meters with AMR technology to 117,000. The remaining meters are manually input utilizing Itron handsets.

Meter reading is performed by three outside contractors. Each contract is assigned a specific area of VEDO service territory. VEDO considers only reads from meter readers or remote devices to be actual reads. The OAC requires one actual read every twelve months. For purposes of compliance with the Code requirement, the meter must be read by a meter reader. VEDO's system average number of days since previous read is 30 days.⁴⁷

VEDO utilizes the Banner billing system for all customers. The Banner system interfaces with an Itron system that loads meter reads into the billing system. Gas sales and gas transportation customers served under VEDO Rate Schedules 310, 315, 320, 325, 330, and 341 are included in the utility's bad debt tracker. These rate schedules represent residential and general service customers. Large transportation customers are not included in the utility's bad debt tracker.

Billing exceptions are reviewed by the VEDO's internal meter reading department the day following the meter read.⁴⁸ Approximately 2.8 percent of all bills were estimated of which 2.1 percent represented inaccessible meters, resulting in the billing system rejecting seven-tenths of one percent of all reads.⁴⁹

Conclusions

1. VEDO has appropriate processes to ensure meters and reads are accurate.
 - From September 2008 through August 2009, 97.9 percent of all scheduled reads were obtained. VEDO's meter reading contractor narrowly missed its target of 98 percent. The 2009 aggregate performance results are show below in Exhibit VII-8.

Exhibit VII-8 External Meter Reading Performance VEDO

⁴⁷ DR 14 and interview with R. Boling on 1/27/2010

⁴⁸ Interview T. Massey January 27, 2010

⁴⁹ DR 14

Performance Metric	Requirement	2009 Results
Meter Read Accuracy	99.9 %	99.9 %
Meter Read Completion Rate	98.0%	97.9%
Met Appointments Rate	95.0%	96.8%

Source: Email Response L. Friedeman to D. Francis 2/24/2010.

- Meter reads are loaded into the system the evening the meters are read. The system performs an analysis to accept or reject read based on expected consumption and previous months' reads. Rejected reads are analyzed the next day by the billing group.
 - Meter reading performance is reviewed monthly and annually. Performance is evaluated against contractual requirements.
 - From September 2008 through August 2009, VEDO's reading accuracy was 99.9 percent. Accurate reads are defined as reads for which no billing adjustments are generated.
 - VEDO attempts to read inactive meters during the monthly reads.
2. VEDO uses an industry standard system of checks to ensure the accuracy of customer bills, and bills are rendered timely.
- The billing system generates standard exceptions to meter reads including high/low, idle, negative, missing, and zero use. The high/low parameters consider the prior month's read and the prior year's read. Accounts are reviewed to determine if consumption is in line with expected usage or can be explained by information noted in the account. Where necessary, billing will request a re-read.
 - The bill print batch is not held up while exceptions are investigated. Bills are printed within 48 hours after the read is obtained.⁵⁰
 - System tests and bill recalculations are performed when new rates are put into the system.⁵¹
 - VEDO conducted a billing accuracy review in 2006. This review included a review of the timely handling of billing exceptions. VEDO has also instituted a six-sigma quality control process to ensure meter reading and billing accuracy.⁵²
3. VEDO effectively minimizes the number of meters with multiple months of estimated reads.
- Three hundred-twenty-four meters have not had an actual read within the last twelve months as required by the OAC.⁵³

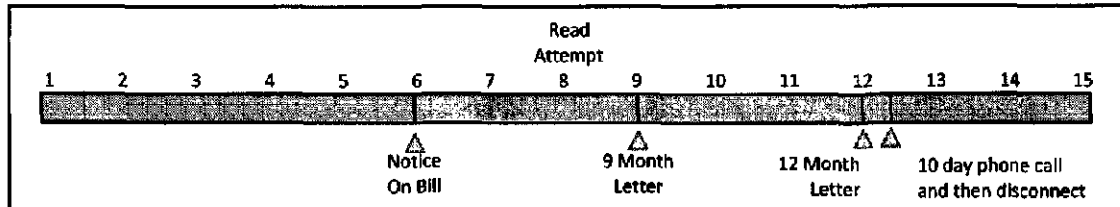
⁵⁰ Interview Massey 1-27-10.

⁵¹ Interview Joe Burkett January 28, 2010

⁵² DR 17 and Initial Presentation

- **Exhibit VII-9** provides an overview of the customer notification process in the event VEDO meter readers are unable to obtain an actual read. VEDO aggressively terminates service anytime after twelve months; however, terminations are conducted only in the non-winter months.

Exhibit VII-9
Meter Reading Customer Notification Process
VEDO



Source: R. Boling Interview January 27, 2010

4. VEDO offers its customers an appropriate array of payment options.
 - Customers can pay via physical check, cash, credit card, and recurring or one-time debits from the customer's checking account.⁵⁴
 - Payments can be made in-person at authorized payment locations (VEDO has 82 in the Dayton area), over the phone with the assistance of a CSR or through the IVR, by mail, by monthly automatic bank drafts, at a third-party bill pay vendor, or online utilizing VEDO's website. About sixty percent of all payments are received via US Mail.⁵⁵
 - If a field collector arrives at the customer premises to disconnect service, the customer can pay cash at the door or make a same day payment over the phone or at an authorized payment location to avoid disconnection.⁵⁶

Recommendations

None

⁵³ Email from L. Friedeman 3-2-2010 to D. Francis

⁵⁴ Initial Presentation

⁵⁵ Ibid.

⁵⁶ Ibid.

CHAPTER VIII: REGULATIONS

This chapter provides a discussion of selected regulations and the effect on the utilities' collections performance.

A. Recovery Mechanisms

Uncollectible Ohio utility customer debt is recovered through two rate riders. The Public Utilities Commission of Ohio (PUCO) established the Percentage of Income Payment Program (PIPP) and associated rider in the late 1980s, and the Uncollectible Expense (UEX) rider in 2003. The PIPP rider is used to recover the arrearages and past due balances associated with the PUCO-mandated limited income assistance program. The UEX rider is used to recover the bad debt expenses associated with non-PIPP customers. While the riders allow for the recovery of the bad debts themselves, most of the costs associated with the actual collection activities are not included in the riders. Instead, most collection costs continue to be recovered through base rates. This provides a potential incentive for utilities to reduce their internal cost of collections and potentially reduce collections performance. The riders effectively shift the collections risk from the utility to the customer. Exhibit VIII-1 provides the PIPP and UEX rider rates in effect from 2006 through 2010.

**Exhibit VIII-1
Annual Rider Rates**

	Effective 2006	Effective 2007	Effective 2008	Effective 2009	Effective 2010
CGO					
UEX	\$0.2116	\$0.1631	\$0.2157	\$0.1866	\$0.1866
PIPP ¹	\$0.4004	\$0.4004	\$0.4004	\$0.6065	\$0.6065
UEX + PIPP	\$0.6120	\$0.5635	\$0.6161	\$0.7931	\$0.7931
DEO					
UEX	\$0.2906	\$0.5674	\$0.4444	\$0.2133	\$0.2133
PIPP ¹	\$0.5653	\$0.5653	\$0.5653	\$0.5653	\$1.7078
UEX + PIPP	\$0.8559	\$1.1327	\$1.0097	\$0.7786	\$1.9211
Duke					
UEX ²	\$0.0000	\$0.0000	\$0.0000	\$0.1569	\$0.1569
PIPP ¹	\$0.1690	\$0.1900	\$0.1900	\$0.2213	\$0.2213
UEX + PIPP	\$0.1690	\$0.1900	\$0.1900	\$0.3782	\$0.3782
VEDO					
UEX	\$0.1468	\$0.1882	\$0.1165	\$0.2115	\$0.2115
PIPP ¹	\$0.1229	\$0.2377	\$0.2377	\$0.2377	\$0.2377
UEX + PIPP	\$0.2697	\$0.4259	\$0.3542	\$0.4492	\$0.4492

¹ Annual adjustments not required.

² Duke's non-PIPP bad debt was included in base rates until 2009.

Source: Rider rates provided by PUCO staff.



While the utilities are required to prepare annual UEX rider reports and adjust rates if the change is greater than or less than ten percent, there is no similar requirement for PIPP. As a result, customers may be subject to substantial rate changes when PIPP rates are adjusted.

As part of the audit, NorthStar contacted other regulatory utility commissions to determine how uncollectible costs are recovered and whether the utilities are subject to bad debt targets. Details of our review are provided in Appendix A. None of the states that responded to our request for information have established specific bad debt targets. Highlights of our survey are provided below:

In both Kentucky and Indiana, most utilities recover bad debt through base rates.

- Larger Indiana gas utilities recover the portion of bad debt related to the commodity portion of the bills through the state's Gas Cost Adjustment (GCA) mechanism. The Indiana commission has seen bad debt amounts increase in the past few years, which has motivated the larger gas utilities to request recovery of the commodity portion of the bad debt through the GCA. The Indiana commission has occasionally reduced the amount requested by utilities in a rate case for bad debt allowances.
- Kentucky recently approved recovery of the commodity portion of bad debt through those utilities' GCA for Columbia of Kentucky and Duke Kentucky. Atmos Gas has requested this treatment in a pending rate case, and the Commission is expected to approve it. The continued high level of gas prices is the motivation for these requested changes in Kentucky. Non-commodity portions of bad debt continue to be recovered through base rates and are not subject to adjustment between rate cases.

Pennsylvania utilities recover bad debt expense through their base rates as Cash Working Capital. There is no mechanism for adjusting bad debt allowances between rate cases. The Pennsylvania Public Utilities Commission collects data on bad debt, and makes that information available annually on their website for all regulated utilities. No specific action is taken based on the metrics collected.

Michigan is moving towards adoption of a bad debt tracker mechanism for its utilities. MichCon Gas has had a bad debt tracker account for several years that establishes a base level of bad debt in a rate case, with an annual up/down adjustment mechanism if actual bad debt differs from the adopted level. The MichCon program provided a 90/10 split both above and below the rate case level – if bad debt was higher than the adopted level, the company was only allowed to recover 90 percent of the difference through the tracker, and if it was lower than adopted, the company was able to retain ten percent of the savings. The Michigan commission has nine rate cases open currently, and in all but one the utilities have proposed a similar bad debt tracker mechanism. In these open cases, the commission is moving towards an 80/20 split both above and below the level of bad debt set in the rate cases.

Connecticut gas utilities recover uncollectibles through base rates.



Recommendations:

1. Require the utilities to file quarterly or annual reports providing information on their collections activities and effectiveness to assist the PUCO staff in monitoring performance. Work with the utilities to develop consistent definitions and a reporting framework. Suggested metrics could include:
 - Financial: Non-PIPP residential bad debt as a percent of Non-PIPP residential billings (gross and net of recoveries), total bad debt as a percent of total billings (gross and net), delinquency aging, net write-offs and recoveries, and PIPP arrearages.
 - Economic: Numbers of bankruptcies, numbers of PIPP customers, and numbers of delinquent customers.
 - Effectiveness:
 - Deposits: numbers of accounts eligible for deposits and number of deposits collected.
 - Termination Notices: Number of bills sent, number of delinquent accounts, number of accounts eligible for termination notices, number of termination notices sent, and number of customers eligible for termination following notification.
 - Payment Arrangements: numbers of payment arrangements made and broken by type.
 - Field Collections: Number of accounts eligible, number scheduled, number worked, number terminated, number collected.
2. Require annual PIPP filings and adjustments to the rates if the rates increase or decrease beyond a certain threshold.

B. PIPP

The PIPP program is a social benefit program intended to reduce the effect of heating bills on low-income customers. Families with income at or below 150 percent of the poverty level are eligible for the program. The program is state-wide and was established by the PUCO. The Ohio Department of Development is responsible for enrollment, income verification and establishing monthly payment amounts. Under current terms of the program, participants pay ten percent of their income to the utility that provides their primary heat source, and five percent to the utility that provides any secondary heat.¹ Utilities are authorized to recover the difference between the participants' actual utility bill and the PIPP payment amount from all ratepayers through the PIPP rider.

¹ Under terms of the recent PIPP program adjustment, the percent of income will drop to seven percent for the primary heat source utility.



All four of the gas utilities have seen their PIPP arrearage balances increase significantly over the past three to four years. There are several economic and demographic factors behind this increase:

- PIPP customer usage is higher than non-PIPP customer usage. According to DEO data, the typical non-PIPP customer uses 99 mcf per year, whereas a PIPP customer uses between 125 and 130 mcf.
- The economic downturn, which is particularly challenging in parts of Ohio, has increased the number of customers qualifying for, and participating in, the program.
- The increase in natural gas prices resulted in an increase in the gap between PIPP payments and actual bills.
- There is a tendency, which may be increasing as a result of the poor economy, for many PIPP participants to make very few of their PIPP payments. Data from VEDO indicates that the average PIPP customer makes only 4.2 payments per year before ceasing to pay anything toward PIPP. These PIPP “bad debts” are also recovered through the PIPP rider.

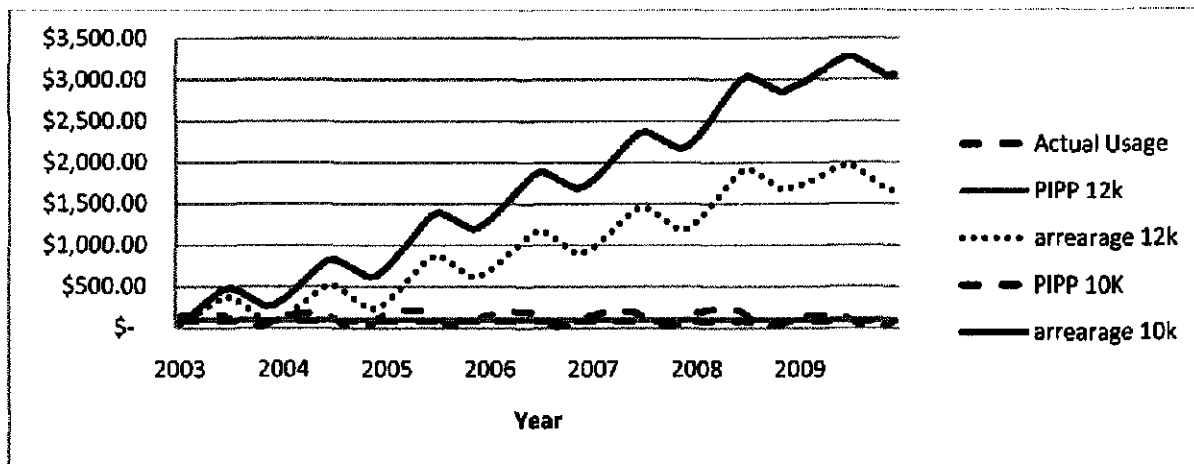
While PIPP is open for any customer with income at or below 150 percent of the poverty level, in practice, the ten percent payment requirement means that the program is only beneficial for the lowest income customers. A customer with an annual usage of 125 mcf would have seen gas bills of approximately \$1,200 in 2009.² In 2008, when natural gas prices were higher, his bills would have totaled approximately \$1,700.³ In order for the PIPP payment to make sense for that customer, they would have to have an annual income of less than \$17,000 in 2008 or \$12,000 in 2009. Incomes above that level would pay *more* than their annual bills under PIPP.

By design, PIPP customers accumulate significant arrearages even when they do make all their payments. **Exhibit VIII-2** illustrates the buildup of PIPP arrearages over a seven-year period for a customer with annual income of \$12,000 (essentially the highest income for which participation currently makes sense) and for a customer with an annual income of \$10,000.

² Using DEO’s Standard Choice Offer rate of \$8.1195/mcf and a monthly customer charge of \$12.50. The monthly gas cost was adjusted up and down to reflect recent changes in price of natural gas

³ NorthStar analysis

Exhibit VIII-2 Build-up of PIPP Arrearages

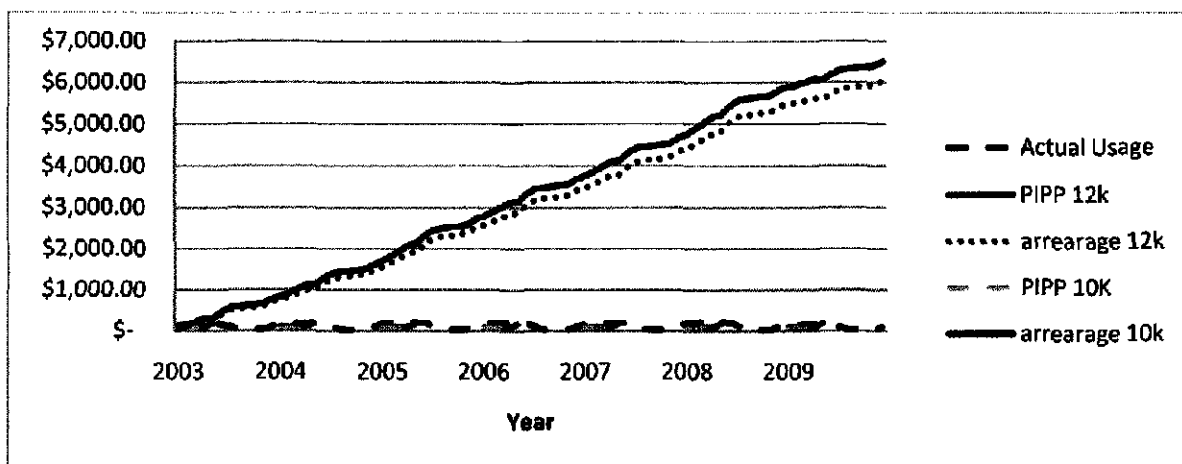


Source: NorthStar analysis.

The PIPP customer making \$10,000 per year pays only \$83 per month towards his gas bill. Using assumptions about rates over the past seven years, this customer would have built up arrearages of over \$2,000 in five years, and \$3,000 in seven years. For the PIPP customer making \$12,000 and paying \$100.00 per month, arrearages would reach \$2,000 in six years.

If the PIPP customer ceases to make the PIPP payments and termination is delayed, the arrearages would increase even faster. If a PIPP customer making \$10,000 per year made only four PIPP payments and the \$175 WRO payment per year and was not terminated, the customer would build up arrearages of over \$4,500 in five years and \$6,500 in seven years, as shown in Exhibit VIII-3.

Exhibit VIII-3 Build-up of PIPP Arrearages Assuming the Customer Makes only Four PIPP Payments and Uses the WRO and is not Terminated



Source: NorthStar analysis.

Most PIPP customers remain in the program for years, accumulating significant arrearage balances. As a result, even when their income increases over the point where it does not make sense for a new customer to come onto PIPP, an existing PIPP customer will remain on the program to avoid having to address the substantial arrearage balances for which they remain responsible.

When PIPP customers do not pay their bills, the utilities are allowed to and do initiate termination actions. However, termination activities can be suspended by invoking the Winter Reconnect Order (WRO), or using medical certificates, and are frequently delayed by cold weather moratoriums, both utility initiated and those set by the governor. Thus, terminations are often delayed until the warmer months when they are not seen as a problem, since gas is primarily used for heating.

The changes in the PIPP program going into effect in November 2010 should address some of the factors that have allowed PIPP customers to continue to participate in the program and receive gas service while making very few payments. However, for many PIPP customers it may be extremely difficult to find the funds needed to catch up with their PIPP payments if they do fall behind. The utilities, the PUCO, and the community action agencies should consider aggressive education programs to PIPP customers regarding the changes to the program.

Utilities do not typically send PIPP bills to Outside Collection Agencies (OCAs) for credit reporting and collection efforts. One reason for this is that these bills are actually never turned into "Final Bills," even when the accounts are terminated. Because the PIPP bills are never "finalized" they are not written off by the utilities. While VEDO has sent PIPP bills to an OCA occasionally, it had no collection success.

Other states have developed alternative mechanisms to address limited-income customers, including rate subsidies, arrearage crediting programs, and other social programs, but face the same challenges as Ohio. Additional information on selected state low-income programs is provided in Appendix A.

Recommendations:

3. Continue and increase efforts to aggressively pursue terminations for PIPP customers who are delinquent with their payments.
4. Develop and implement education programs to PIPP customers regarding the new regulations and necessary changes in payment patterns.

C. Winter Reconnection Order (WRO) and Other Moratoriums

Mandatory winter disconnection moratoriums have a severe negative effect on the utilities' ability to collect past due balances and result in increased arrearages. These moratoriums hamper the utility's ability to collect past due balances during the period when it would otherwise have the greatest leverage. The most effective collections tool available to the utility is the ability to terminate service. For a gas utility, most customers wish to maintain service during the winter season. Customers may not use gas during the summer or may be indifferent



to having service terminated during the summer. Moratoriums also present a resource challenge for the utilities, and can have a negative effect on the customer as it is more difficult for customers to pay the high balances that accrue. Keeping balances at a manageable level is most critical for lower income customers. While customer protections are critical, WRO and other moratoriums potentially enable customers to “game the system”. A portion of the customers availing themselves of the moratoriums may have adequate financial resources to pay their bills.

In the past, the Ohio utilities have been subject to two different types of moratoriums:

- The WRO which is available to all customers regardless of income level.
- Special winter moratoriums which prevent termination of all or selected classes of residential customers for the entire winter. No such moratorium was issued for the 2009-10 heating season. The 2008-09 moratorium applied to all residential customers regardless of income. In 2007, a moratorium was in effect for 90 days, which prevented termination of residential customers whose household income was at or below 175 percent of the federal poverty level.

The WRO was established over twenty years ago, and the required payment amount of \$175 has not changed since the 1989-90 order. Prior to that year, the required amount was \$200. The WRO is available to all customers, regardless of income level. Customers pay \$175 to have service reinstated or avoid disconnection. Customers must be disconnected or received a termination notice in order to use the WRO. PIPP customers who are current with their PIPP payments are not eligible for the WRO. PIPP customers who are delinquent and are scheduled for disconnect can (and do) use the WRO to defer terminations or have service reconnected. For a PIPP customer, the WRO requires that once the \$175 is paid, the customer’s remaining unpaid balance is placed into the PIPP rider arrearages. If termination is delayed, the arrearage balance included in the rider grows.

Over 160,000 Ohio customers used the WRO during the 2008-09 winter heating season. The utilities received \$28.3 million in payments from the WRO compared to a balance due of \$65.3 million – a recovery gap of \$37 million (57 percent). About thirty percent used the WRO to reconnect service and 70 percent to avoid termination. Thirty percent of the customers using the WRO to restart service had not had service for more than 90 days. Many of the customers using the WRO are not currently on, or not placed on PIPP.

Customers must enter into a payment arrangement and may only use the WRO once per heating season. However, it is possible for a customer to make limited payments and retain gas service throughout the winter, through the use of the WRO. As an example, a Duke customer who misses a payment due on October 15 will not be scheduled for disconnection until the end of December (December 24) per Duke’s own termination timeline. Depending on the cycle and the weather, the field collector may not attempt to terminate service until the end of December or the beginning of January. The customer then uses the WRO, makes the \$175 payment and service remains on. If the customer is issued a new bill on January 1, but defaults on the agreed-upon payment amount, the customer will not be scheduled for termination until March 26. Thus, the customer made only the \$175 payment and maintained service for the entire winter season. In the meantime the customer may have incurred a substantial arrearage. Customers using the

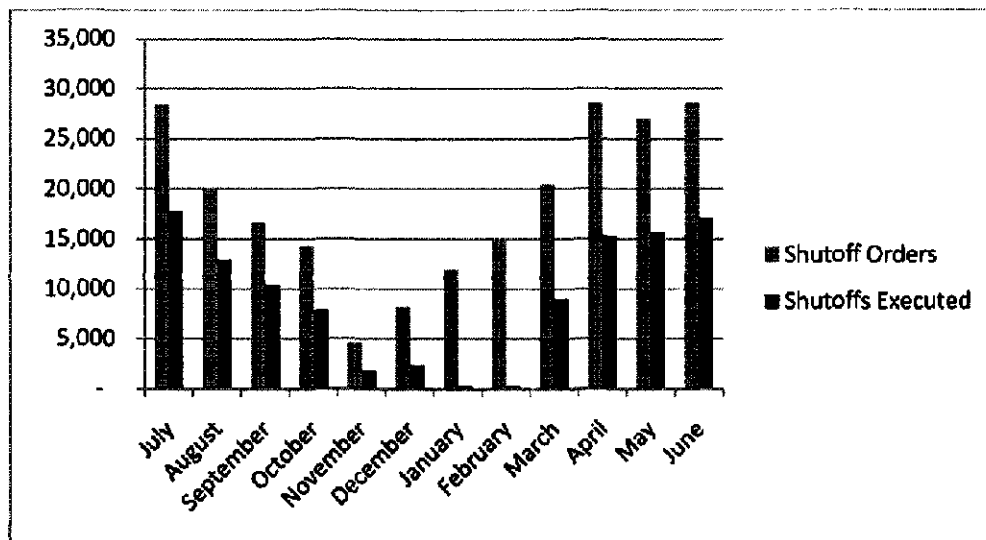


WRO in 2008-09 had an average balance of about \$400. As long as service remains on and the customer defaults on the agreed-upon payments, the arrearage will continue to grow. According to VEDO data, the majority of customers do not make the required payment arrangement payments. In 2009, PIPP customers paid 16 percent of the amount for which the payment arrangement was created and non-PIPP customers paid 25 percent.

Issuance of mandatory moratoriums on winter terminations of customers serves to further compound the problem. During a mandatory winter moratorium, utilities are unable to terminate customers and balances grow substantially. Even if the moratorium is limited to lower income customers, the utilities may not have adequate systems to determine which customers fall within the moratorium guidelines. These moratoriums also have a deleterious effect on the utilities work planning. The utilities are not able to reduce the number of field collectors during these periods, but the collectors can only attempt to obtain payments or perform other non-pay disconnect work. Review of the utilities' terminations during the winter shows a marked decrease from performance during the summer. As a result of the moratoriums, arrearages increase and utility costs remain level. The increase in arrearages also makes it more difficult for customers to pay down past due balances.

CGO data from July 2008 through June 2009 illustrates the significant effect the moratoriums have on termination activity, resulting in both a reduction in the number of eligible orders and execution effectiveness.

Exhibit VIII-4
Effect of Moratoriums on Termination Activity
CGO 2008-09



Source: DR 1-5.

The need for mandatory safeguards to protect customers during the winter period is somewhat mitigated by the existence of internal moratoriums in place at all of the utilities. Each utility maintains internal disconnection moratoriums in effect if the temperature drops below a

certain level. No Ohio residential customer will be terminated if the temperature is projected to drop below 20 degrees Fahrenheit within the next 24 hours. For some utilities, the threshold is even higher.

The internal temperature moratoriums prevented disconnection for some CGO regions on eleven out of twenty days, and all regions on five of those days in January 2010. In that same month, weather considerations precluded DEO disconnection activities on eight to ten days (out of nineteen available work days), depending on field office. Although this does not prevent termination of service throughout the winter, it does protect all residential customers on the coldest days.

Recommendations:

5. Restrict the WRO to limited income customers (preferred) or, at a minimum, develop a tiered-payment amount based on income level. Reevaluate payment amount.
6. Consider eliminating mandatory winter moratoriums.



APPENDIX A

NorthStar contacted public utility commissions in states with weather and service territories similar to Ohio, to discuss bad debt expense recovery mechanism.¹ The commission staff were asked the following questions:

- How is electric and gas utility bad debt recovered?
- Are electric and gas utilities and all customer classes subject to the same regulatory treatment for bad debt?
- Has the Commission established a target for bad debt, and if so, how is it handled?
- What changes have been seen in bad debt/collections over the past couple of years?
- What information or metrics do the utilities report on bad debt and collections activities?
- Is there any type of low income utility bill assistance program in their state? If so, how are the costs not covered by payments handled?

NorthStar received information from commissions in Pennsylvania, Kentucky, Indiana, and Michigan.

Bad Debt Recovery Mechanisms

In all the states surveyed, all customer classes and both electric and gas utilities are treated essentially the same with respect to the bad debt recovery mechanisms.

Pennsylvania utilities recover bad debt expense through their base rates as Cash Working Capital. There is no mechanism for adjusting bad debt allowances between rate cases.² The Pennsylvania Public Utilities Commission collects data on bad debt as a percentage of revenues, and makes that information available annually on their website for all regulated utilities. The 2008 data is attached. 2009 data should be available in May. No specific action is taken based on the metrics collected. None of the other state commission collect any metrics on bad debt, other than through rate case or Gas Cost Adjustment filings. Rate case and GCA filing data are not tabulated or reported in any standard or regular basis. The Pennsylvania Commission does not have bad debt targets for the utilities.

In both Kentucky and Indiana, most utilities recover their part of their bad debt through base rates. However, larger Indiana gas utilities recover the portion of bad debt related to the commodity portion of the bills through the state's Gas Cost Adjustment (GCA) mechanism. The Indiana Commission has seen bad debt amounts increase in the past few years, which has motivated the larger gas utilities to request recovery of the commodity portion of the bad debt through the GCA. The Indiana commission has occasionally reduced the amount requested by utilities in a rate case for bad debt allowances.³

¹ NorthStar also contacted Illinois, West Virginia, and Tennessee, but was not able to obtain detailed information from these states. Some information was obtained from these commissions' websites.

² PaPSC interview.

³ IURC response.



Kentucky recently approved recovery of the commodity portion of bad debt through the GCA for Columbia of Kentucky and Duke Kentucky. Atmos Gas has requested this treatment in a pending rate case, and the Commission is expected to approve it. The continued high level of gas prices is the motivation for these requested changes in Kentucky. The non-commodity portion of bad debt continues to be recovered through base rates and is not subject to adjustment between rate cases.⁴ Kentucky does not have bad debt targets or disallowances. The Kentucky utilities provide periodic reports on the numbers of disconnections to the Commission.

Michigan is moving towards adoption of a bad debt tracker mechanism for its utilities. MichCon Gas has had a bad debt tracker account for several years that establishes a base level of bad debt in a rate case, with an annual up/down adjustment mechanism if actual bad debt differs from the adopted level. The MichCon program provided a 90/10 split both above and below the rate case level – if bad debt was higher than the adopted level, the company was only allowed to recover 90 percent of the difference through the tracker, and if it was low than adopted, the company was able to retain 10 percent of the savings. The commission has nine rate cases open currently, all but one of which has proposed a similar bad debt tracker mechanism. In these open cases, the commission is moving towards an 80/20 split both above and below the level of bad debt set in the rate cases. The “target” bad debt level in the initial MichCon case was set as the average of the prior three years experience. The open rate cases are shortening the look-back period, but the actual period varies case by case. Bad debt expenses for utilities in Michigan have doubled, and in some cases tripled, in the past few years, motivating the utilities to propose the tracker mechanism so they can obtain more rapid recovery of the increasing bad debt write-offs.⁵

Low Income Bill Assistance Programs

Generally the other states surveyed offer few low-income bill assistance programs. For example, low income ratepayers in Michigan only have access to the federal LIHEAP programs, and some utilities offer a credit of \$6.00 per month to low-income customers (amounting to a credit of the monthly customer service charge). Recent legislation provided that the commission *may* establish low-income or senior targeted rates. The commission has not yet taken any actions based on this.⁶

In Kentucky, the only state-wide program is LIHEAP. Three or four utilities, including Columbia of Kentucky, have their own programs funded through a per meter or per mcf charge, some with company matching funds. These programs are authorized through the commission’s Demand Side Management programs, which was expanded in the early 2000s to include low income assistance.⁷

Kentucky’s residential customers are protected by a Customer Bill of Rights. According to the bill of rights, a customer has the right to maintain utility service for up to thirty (30) days upon presentation of a medical certificate issued by a health official. During the winter period, any residential customer that has not been disconnected, he has the right to maintain natural gas

⁴ KyPSC interview

⁵ MPSC interview.

⁶ MPSC interview.

⁷ KyPSC interview.



and electric service for up to thirty (30) days by presenting a Certificate of Need issued by the Kentucky Cabinet for Human Resources between November and the end of March. If the customer has been disconnected due to nonpayment, he has the right to have his natural gas or electric service reconnected between the months of November through March provided the customer presents a Certificate of Need, pays one-third of his outstanding bill (\$200 maximum), accepts referral to the Human Resources' Weatherization Program, and agrees to a repayment schedule that will cause your bill to become current by October 15.

Four of the largest gas utilities in Indiana recently received approval for a Universal Service Program (USP). These programs were not mandated by the Commission, and are funded 25 percent by each company and 75 percent by customers through a per therm rider. The utilities operate the programs individually and offer tiered discounts to qualifying customers based on household income relative to federal poverty guidelines, as provided by the state's Community Action Agencies. The costs of the programs are trued up annually.⁸

The Pennsylvania Commission mandates that all utilities must have a Customer Assistance Program (CAP), however, the policy document that establishes the program is very general. The utilities set up their own programs and set the levels of assistance – percent of income or percent of bills. The costs of CAP, including administrative costs, the difference between the “usage based bill” (the total bill) and the CAP bill (what the customers pay), and arrearage recovery and crediting is recovered through the state wide Universal Service Fund Mechanism (volumetric rider) charged to all customers on a utility by utility basis.⁹ Most of the gas utilities true up CAP costs against the rider quarterly through the GCA mechanism. Statewide there are approximately 420,000 customers on CAP out of 6.3 million customers total. The companies are required to file a 3-year plan of what they expect their CAP costs will be, but the costs often exceed that amount included in the plan and there are no consequences to the utility.¹⁰

The Pennsylvania Commission expects the utilities to be more aggressive with collections and terminations of higher income customers. Terminations are driven by the age and size of the arrearage and the customer's income level. Customers with income less than 250 percent of the poverty level cannot be terminated from December to March. If income is above 250 percent of the poverty level, customers can be terminated with 48-hours notice. For Philadelphia Gas Works, the threshold is 150 percent of the poverty level.

⁸⁸ IURC response.

⁹ Other costs that pass through the Universal Service Mechanism including weatherization and energy efficiency programs.

¹⁰ PaPSC interview.



2008 Collections Data for the Major Electric and Gas Companies

2008 Company	Gross Residential Billings	Gross Residential Write-Offs	Gross Res. Write-Offs Ratio	Residential Recoveries	Net Residential Write-Offs	Net Res. Write-Offs Ratio	Residential Recovery Rate	Overall Total Billings	Gross Total Write-Offs	Gross Tot. Write-Offs Ratio
Allegheny	\$ 554,454,172	\$ 5,616,484	1.01%	\$ 1,386,003	\$ 4,230,481	0.76%	24.68%	\$ 1,284,363,984	\$ 5,992,803	0.47%
Duquesne	\$ 469,775,020	\$ 5,931,737	1.26%	\$ 2,140,281	\$ 3,791,458	0.81%	36.08%	\$ 884,696,811	\$ 8,728,428	0.99%
Met.Ed.	\$ 585,043,618	\$ 11,169,498	1.91%	\$ 2,079,741	\$ 9,089,757	1.55%	18.62%	\$ 1,271,044,181	\$ 12,034,886	0.95%
PECO	\$ 2,429,827,312	\$ 51,306,178	2.11%	\$ 21,104,513	\$ 30,201,665	1.24%	41.13%	\$ 5,295,962,867	\$ 60,978,775	1.15%
Penelec	\$ 467,879,472	\$ 9,374,696	2.00%	\$ 1,850,841	\$ 7,523,854	1.61%	19.74%	\$ 1,128,574,671	\$ 10,274,662	0.91%
Penn Power	\$ 184,277,941	\$ 3,342,208	1.81%	\$ 626,516	\$ 2,715,692	1.47%	18.75%	\$ 258,248,946	\$ 3,514,915	1.36%
PPL	\$ 1,450,626,903	\$ 25,774,438	1.78%	\$ 1,644,026	\$ 24,130,412	1.66%	6.38%	\$ 3,208,750,980	\$ 28,050,017	0.87%
ELECTRIC	\$ 6,141,884,438	\$ 112,515,238	1.83%	\$ 30,831,921	\$ 81,683,317	1.33%	27.40%	\$ 13,329,632,420	\$ 129,574,488	0.97%
Columbia	\$ 481,827,700	\$ 10,874,843	2.26%	\$ 3,613,578	\$ 7,261,265	1.51%	33.23%	\$ 668,732,210	\$ 11,957,161	1.79%
Dominion	\$ 331,893,654	\$ 9,514,663	2.87%	\$ 807,910	\$ 8,706,753	2.62%	8.49%	\$ 428,688,100	\$ 10,586,522	2.47%
Equitable	\$ 363,574,586	\$ 12,591,877	3.46%	\$ 3,750,014	\$ 8,841,863	2.43%	29.78%	\$ 438,025,182	\$ 13,548,288	3.08%
NFG	\$ 292,267,922	\$ 6,116,105	2.09%	\$ 1,194,551	\$ 4,921,554	1.68%	19.53%	\$ 375,446,403	\$ 6,308,010	1.68%
UGI-Penn Natural	\$ 233,511,186	\$ 8,329,440	3.57%	\$ 827,328	\$ 7,502,112	3.21%	9.93%	\$ 341,954,996	\$ 8,752,309	2.56%
PGW	\$ 649,689,318	\$ 45,999,914	7.08%	\$ 7,451,206	\$ 38,548,708	5.93%	16.20%	\$ 888,233,386	\$ 46,255,396	5.33%
UGI-Gas	\$ 343,459,192	\$ 11,659,360	3.39%	\$ 2,810,535	\$ 8,748,825	2.55%	24.96%	\$ 548,289,963	\$ 12,795,863	2.33%
GAS	\$ 2,696,223,558	\$ 105,086,202	3.90%	\$ 20,555,122	\$ 84,531,080	3.14%	19.56%	\$ 3,870,370,250	\$ 110,203,549	3.00%
TOTAL	\$ 8,838,107,996	\$ 217,601,440		\$ 51,387,043	\$ 166,214,397			\$ 17,000,002,670	\$ 239,778,035	

Note: All industry averages are based on total scores and not on an average of company scores except for the three average bill columns

2008 Collections Data for the Major Electric and Gas Companies

2008 Company	Overall Total Recoveries	Net Total Write-Offs	Net Tot. Write-Offs Ratio	Total Recovery Rate	56,231 Residential Customers	56,231 Overdue Customers	56,231 Overdue Percent	56,231 Dollars Overdue	56,231 Average Arrearage	56,231 Weighted Arrearage	Agreements Overdue Customers	Agreements Overdue Percent
Allegheny	\$ 1,486,017	\$ 4,506,786	0.35%	24.80%	612,896	92,199	15.04%	\$ 9,828,408	\$ 106.60	1.39	5,191	0.85%
Duquesne	\$ 2,473,518	\$ 6,254,912	0.71%	28.34%	524,296	38,748	7.39%	\$ 13,133,448	\$ 338.95	4.56	11,084	2.11%
Met.Ed.	\$ 2,338,701	\$ 9,696,185	0.76%	19.43%	482,586	65,333	13.54%	\$ 11,749,440	\$ 179.84	1.78	26,959	5.59%
PECO	\$ 22,397,372	\$ 38,581,403	0.73%	36.73%	1,417,027	303,219	21.40%	\$135,356,181	\$ 446.40	4.07	19,932	1.41%
Penntec	\$ 2,005,126	\$ 8,269,536	0.73%	19.52%	504,968	68,339	13.73%	\$ 10,149,963	\$ 146.38	1.90	27,812	5.51%
Penn Power	\$ 638,356	\$ 2,876,559	1.11%	18.16%	139,701	17,624	12.62%	\$ 3,745,637	\$ 212.53	1.93	8,578	6.14%
PPL	\$ 1,940,477	\$ 26,109,540	0.81%	6.92%	1,204,132	155,884	12.95%	\$ 59,640,223	\$ 382.59	3.78	52,153	4.33%
ELECTRIC	\$ 33,279,565	\$ 96,294,921	0.72%	25.68%	4,885,616	742,346	15.19%	\$ 243,603,300	\$ 328.15	3.54	151,689	3.10%
Columbia	\$ 3,886,388	\$ 8,070,773	1.21%	32.50%	369,922	35,488	9.59%	\$ 6,991,911	\$ 197.03	1.74	13,879	3.75%
Dominion	\$ 873,658	\$ 9,712,864	2.27%	8.25%	326,522	27,740	8.49%	\$ 14,335,959	\$ 516.80	4.41	18,617	5.70%
Equitable	\$ 4,049,434	\$ 9,498,854	2.17%	29.89%	239,185	22,435	9.38%	\$ 5,367,172	\$ 239.23	1.74	7,010	2.93%
NFG	\$ 1,228,123	\$ 5,079,887	1.35%	19.47%	197,850	17,450	8.82%	\$ 3,486,700	\$ 198.66	1.61	6,939	3.51%
UGI-Penn Natural	\$ 866,640	\$ 7,885,669	2.31%	9.90%	143,718	21,391	14.88%	\$ 6,205,820	\$ 280.11	2.19	4,364	3.04%
PGW	\$ 7,766,090	\$ 38,489,306	4.43%	16.79%	481,218	89,290	18.56%	\$ 39,080,911	\$ 437.68	3.88	26,269	5.46%
UGI-Gas	\$ 3,184,241	\$ 9,601,622	1.75%	24.96%	298,547	48,105	16.11%	\$ 9,722,239	\$ 202.10	2.17	7,660	2.57%
GAS	\$ 21,864,574	\$ 88,338,975	2.41%	19.84%	2,057,062	261,897	12.73%	\$ 85,170,612	\$ 325.21	2.75	84,738	4.12%
TOTAL	\$ 55,144,139	\$ 184,633,896			6,942,678	1,004,243		\$ 328,773,912			236,427	

Note: All Industry a

2008 Collections Data for the Major Electric and Gas Companies

2008 Company	Agreements Dollars Overdue	Agreements Average Arrearage	Agreements Weighted Arrearage	Percent of Dollars In Agreements	Percent of Overdue Cust. in Agreements	Total Overdue Customers	Total Percent Overdue	Total Dollars Overdue	Total Average Arrearage	Total Weighted Arrearage	Terminations
Allegheny	\$ 1,484,108	\$ 282.05	3.88	12.97%	5.33%	97,390	15.89%	\$ 11,292,516	\$ 115.95	1.51	19,650
Duquesne	\$ 5,620,250	\$ 507.98	6.84	29.97%	22.21%	49,812	9.50%	\$ 18,753,898	\$ 376.49	5.07	22,081
Met.Ed.	\$ 16,603,088	\$ 615.86	6.10	58.56%	29.21%	92,292	19.12%	\$ 28,352,528	\$ 307.20	3.04	16,359
PECO	\$ 39,695,309	\$ 1,991.54	18.17	22.68%	6.17%	323,151	22.80%	\$ 175,051,490	\$ 541.70	4.94	84,323
Penelec	\$ 14,693,533	\$ 528.32	6.86	59.14%	28.63%	97,151	19.24%	\$ 24,843,496	\$ 255.72	3.32	13,442
Penn Power	\$ 5,996,672	\$ 699.08	6.36	61.55%	32.74%	26,202	18.76%	\$ 9,742,309	\$ 371.82	3.38	4,030
PPL	\$ 26,477,484	\$ 507.69	5.02	30.75%	25.07%	208,037	17.28%	\$ 86,117,707	\$ 413.95	4.09	38,917
ELECTRIC	\$ 110,550,444	\$ 728.80	7.85	31.22%	16.97%	894,035	18.30%	\$ 354,153,744	\$ 396.13	4.27	198,802
Columbia	\$ 10,017,344	\$ 721.76	6.37	58.89%	28.12%	49,365	13.34%	\$ 17,009,255	\$ 344.58	3.04	12,188
Dominion	\$ 20,058,951	\$ 1,077.45	9.20	58.32%	40.16%	46,357	14.19%	\$ 34,394,910	\$ 741.96	6.33	7,887
Equitable	\$ 6,393,170	\$ 912.01	6.65	54.36%	23.81%	29,445	12.31%	\$ 11,760,342	\$ 399.40	2.91	11,979
NFG	\$ 3,279,630	\$ 472.64	3.82	48.61%	28.45%	24,389	12.33%	\$ 6,746,330	\$ 276.61	2.24	11,022
UGI-Penn Natural	\$ 2,382,772	\$ 546.01	4.13	27.74%	16.94%	25,755	17.92%	\$ 8,588,592	\$ 333.47	2.52	7,735
PGW	\$ 21,442,825	\$ 816.28	7.24	35.43%	22.73%	115,559	24.01%	\$ 60,523,636	\$ 523.75	4.64	28,674
UGI-Gas	\$ 4,208,191	\$ 549.50	5.91	30.21%	13.74%	55,765	18.68%	\$ 13,931,430	\$ 249.82	2.69	16,415
GAS	\$ 67,783,883	\$ 789.92	6.75	44.32%	24.45%	346,635	16.85%	\$ 152,984,495	\$ 441.26	3.72	95,880
TOTAL	\$ 178,334,327					1,240,670		\$ 507,108,239			294,682

Note: All industry a

2008 Collections Data for the Major Electric and Gas Companies

2008 Company	UCARE Termination Rate	Termination Percent per Customer	Reconnections	Reconnect Ratio	Average Heating Bill	Average Non-Heating Bill	Average Total Bill	% of Billings In Debt	Collections Operating Expenses
Allegheny	32.06	3.21%	12,308	62.64%	\$ 116.50	\$ 68.54	\$ 76.71	2.04%	\$ 13,140,612
Duquesne	42.12	4.21%	16,443	74.47%	\$ 114.45	\$ 71.82	\$ 74.28	3.98%	\$ 16,384,435
Met.Ed.	33.80	3.39%	14,002	85.59%	\$ 142.00	\$ 90.00	\$ 101.00	4.85%	\$ 14,927,475
PECO	59.51	5.95%	58,296	69.13%	\$ 123.80	\$ 103.86	\$ 109.61	7.20%	\$ 16,112,191
Penelec	26.62	2.66%	10,754	80.00%	\$ 118.00	\$ 72.00	\$ 77.00	5.31%	\$ 13,490,269
Penn Power	28.85	2.88%	3,687	91.49%	\$ 158.00	\$ 102.00	\$ 110.00	5.29%	\$ 4,804,770
PPL	32.32	3.23%	29,053	74.65%	\$ 139.29	\$ 83.34	\$ 101.16	5.94%	\$ 9,202,775
ELECTRIC	40.69	4.07%	144,343	72.71%	\$ 130.29	\$ 84.51	\$ 92.82	5.77%	\$ 88,062,527
Columbia	32.95	3.29%	7,212	59.17%	\$ 114.84	\$ 39.35	\$ 113.38	3.53%	\$ 3,597,442
Dominion	24.09	2.41%	4,048	51.46%	\$ 118.64	\$ 34.01	\$ 117.17	10.36%	\$ 1,125,826
Equitable	50.08	5.01%	7,988	68.68%	\$ 137.85	\$ 41.98	\$ 137.14	3.23%	\$ 3,317,026
NFG	56.71	5.57%	7,192	65.25%	\$ 125.05	\$ 66.41	\$ 123.59	2.31%	\$ 910,088
UGI-Penn Natural	53.82	5.38%	4,524	58.49%	\$ 138.76	\$ 36.84	\$ 132.21	3.68%	\$ 3,094,913
PGW	59.59	5.96%	27,434	95.68%	\$ 119.41	\$ 41.47	\$ 112.81	9.32%	\$ 9,821,543
UGI-Gas	54.98	5.50%	10,018	61.03%	\$ 104.00	\$ 30.00	\$ 93.00	4.06%	\$ 3,035,334
GAS	46.61	4.66%	68,416	71.38%	\$ 122.85	\$ 41.41	\$ 118.47	5.87%	\$ 24,902,172
TOTAL			212,959					5.74%	\$ 112,964,699

Note: All industry a