FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Five-Year Review of	)	
Natural Gas Company Uncollectible Rider	)	**Case No. 08-1229-GA-COI**

INITIAL COMMENTS OF
VECTREN ENERGY DELIVERY OF OHIO, INC.

I. INTRODUCTION

The December 17, 2003 Finding and Order in Case No. 03-1127-GA-UNC approved uncollectible expense ("UEX") riders for Columbia Gas of Ohio, Inc., Dominion East Ohio and Vectren Energy Delivery of Ohio, Inc. ("VEDO").[1] In the December 17, 2003 Order, the Commission stated that, 60 months after the implementation of the Order, it would undertake an investigation of the UEX recovery mechanism. Staff has completed the investigation required by the December 17, 2003 Order. This docket was opened to receive the Staff Report of that investigation, and interested parties have filed comments to the Staff Report.

Based on the Staff Report and filed comments, the Commission's August 19, 2009 Finding and Order in this docket deemed it necessary to retain a consultant to "audit, evaluate, and recommend improvements in the collection policies, practices, and performance of the four largest natural gas companies . . .," to "evaluate whether these four companies' collection practices and policies are effective in minimizing uncollectible expense," to "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

[1] DE-Ohio's UEX rider was approved in Case No. 05-732-EL-MER *et al.* (Finding and Order, Dec. 21, 2005).

be employed by natural gas companies in the state of Ohio to minimize uncollectible expense." (August 19, 2009 Finding and Order, at Finding 14.)

The Commission-retained auditor, NorthStar Consulting Group ("NorthStar"), has completed its work and filed a report on May 3, 2010, detailing its review of each LDC's credit and collection practices. By and large, VEDO does not take issue with most of NorthStar's recommendations. Indeed, NorthStar is to be commended for the diligence and thoughtfulness reflected in its Report. These Initial Comments generally address the audit report by chapter, and are offered in the spirit of assisting the Commission in deciding what changes, if any, are warranted to VEDO's existing credit and collection practices.

II. INITIAL COMMENTS

A. Strategy and Organization (Chapter III)

Chapter III of the UEX Report provides an overview of each LDC's credit and collections organization, strategy and process. The UEX Report concludes that VEDO "effectively utilizes" its customer information system and three organizations to perform its customer collection activities. (Conclusion No. III-16.) NorthStar also acknowledges VEDO's initiatives over the past two years to reduce net write off and its innovative contract with FieldStar, DEO's field collections contractor. (Conclusion Nos. III-17, III-18.)

The final conclusion of Chapter III states that "[w]hile VEDO's collections timeline is reasonable, it has a three-day lag between issuing the ten-day notification and the time it begins terminations…." (Conclusion No. III-19.) The UEX Report recommends that VEDO "[e]liminate the three-day lag that occurs before non-pay disconnects are performed." (Recommendation No. III-8.) NorthStar highlights a three-day lag that occurs between the due date of the second bill including the printed disconnection notice and the door tag placed on the premises to disconnect. (Audit Report at III-28.) As a result of changes to Rule 4901:1-18-06(B)(1), effective November 1, 2010, the door tag was eliminated and a noticing letter was implemented. There are two versions of the letter, one for Percentage of Income Payment Plan ("PIPP") customers and a second version for non-PIPP customers. These letters list the amount in arrears and the required payment date to avoid interruption of service. Both versions of the letter were reviewed, modified, and approved by Commission Staff prior to implementation.

B. Initial Screening and Deposits (Chapter IV)

Chapter IV of the UEX Report addresses the LDCs' processes for establishing customer credit worthiness and determining the need for deposits. Having reviewed VEDO's internal screening and deposit practices, NorthStar concludes that "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." (Conclusion No. IV-15.) The auditors also note that VEDO has established a process, in accordance with the Commission's regulations, to determine new customer creditworthiness. (Conclusion No. IV-16.) NorthStar concludes that VEDO "holds, applies and returns deposits as specified by PUCO regulations." (Conclusion No. IV-18.)

NorthStar's only recommendation is that VEDO should evaluate the "cost-effectiveness of assessing mid-stream deposits" for residential customers that have received two or more disconnect notices within the prior twelve months and commercial customers that have received a disconnect notice. (Recommendation No. IV-5.) The auditors find that VEDO does not assess mid-stream deposits for residential customers based on delinquency or number of disconnect notices issued. (Conclusion No. IV-17.) Further, the auditors determine that both residential and commercial customers are assessed deposits to reconnect service after they are disconnected for non-payment. (Conclusion No. IV-17.)

In accordance with the auditor's recommendations, VEDO considered adding mid-stream deposits for residential and commercial customers based upon disconnection notices as a customer service policy. However, after careful consideration and evaluation, VEDO ultimately decided to implement the auditor's recommendation for large commercial customers only. At the commercial account level, VEDO agrees with the auditor's suggestion that regular delinquency in payments may be a key indicator of increased risk of failure of the business. Commercial customer account delinquency activity is monitored by a special skill group within Vectren Utility Holdings' Revenue Management Credit and Risk department. The number of disconnection notices is considered as an input to the decision to assess a mid-stream deposit, even though the account may not have been disconnected for non-payment.

VEDO chose not to implement the auditor's recommendation for the residential customer class. At the residential level, many customers continue to struggle due to current economic conditions. As such, a pattern of disconnection notices that does not culminate in actual disconnection of service may simply be an indicator of a customer in the "struggle to pay" category. It is VEDO's opinion that these customers benefit more from discussions with the utility to reduce costs through conservation programs and education, payment arrangement assistance, and assistance in enrollment in appropriate energy assistance programs than they would from imposition of a mid-stream deposit. The assessment of such deposit may be the tipping point for these customers to move from "struggle to pay" to "unable to pay," ultimately resulting in a disconnection to the customer and an increase in workload for VEDO to perform more disconnections. VEDO does not believe that now is the right time to implement the auditors' recommendations with respect to residential customers.

C. Termination and Payment Arrangements (Chapter V)

NorthStar reviewed each LDC's practices related to termination and reconnection of service, as well as associated payment plans and bill assistance programs. As part of its review, NorthStar reviewed the changes to the PIPP program that became effective in November 2010. NorthStar also reviewed the Commission's historical winter reconnection policies.

With regard to termination and payment arrangements, NorthStar concludes that VEDO's disconnection timeline are "generally reasonable." (Conclusion No. V-33.) The auditors find that VEDO places courtesy calls to delinquent customers to attempt to obtain payment prior to terminating service and offers each extended payment plan to all customers on a consistent basis. (Conclusion Nos. V-36, V-37.) NorthStar also finds that VEDO appropriately communicates with customers on available payment options, including providing a special notice in the winter to customer receiving a disconnection notice, advising customers of the low income programs, budget billing, and the one-third and one-sixth payment plans. (Conclusion No. V-38.) Finally, NorthStar finds that, prior to offering extended payment plans, VEDO attempts to obtain full payment from delinquent customers, requires customer to agree to payment terms or a payment plan when invoking the WRO option, and tracks enrollments and expirations of medical certificates and PIPP plans. (Conclusion Nos. V-39, V-40, V-41.)

Although the auditors found VEDO's disconnection procedures to be reasonable, NorthStar's conclusions are critical of VEDO in two respects: termination thresholds and termination completions. Each conclusion is discussed below.

1. Termination thresholds

NorthStar concludes that "[w]hile VEDO has a low disconnect threshold, termination notices and disconnect scheduling do not have the same thresholds." (Conclusion No. V-34.) To support this conclusion, NorthStar notes a difference between the residential customers with a certain threshold being sent disconnect notices and customers with balances over another threshold added to the queue for potential disconnection. (Conclusion No. V-34.) Therefore, NorthStar recommends that VEDO evaluate changing to disconnect notice threshold to coincide with the threshold for actual disconnections and determine the effect on payments. (Recommendation No. V-9.)

VEDO agrees partially with this recommendation. VEDO already has matched the thresholds for residential customers to be sent disconnection notices and placed in the queue for disconnection during the non-winter months. VEDO, however, does not believe that this is a prudent practice during the winter months, and disagrees with NorthStar. Further, VEDO does not want to prevent customers from soliciting assistance from VEDO or other community action groups during the coldest time of the year.

2. Termination completions

NorthStar also concludes that 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." (Conclusion No. V-35.) NorthStar acknowledges that winter disconnects for non-payment are "limited by weather moratoriums, inability to access meters, $175 winter reconnect rule, and frozen ground conditions to dig meters." (Conclusion No. V-35.) Because of VEDO's percentage, NorthStar recommends that VEDO "[i]ncrease termination performance." (Recommendation No. V-10.) VEDO is working to improve its completed disconnect orders, and in fact has improved its percentage since the audit. The 41% completion rate cited in the Report has since increased to 62%. VEDO management also performs field audits of both VEDO and contractor resources when unsuccessful attempts to disconnect service or collect payment are made. VEDO is working to add more resources and continue to improve its termination performance.

D. Recovery Activities (Chapter VI)

NorthStar reviewed each LDC's recovery activities after the utility has deemed an account uncollectible, issued a final bill and assigned the account to an outside collections agency ("OCA"). The auditors conclude that VEDO had appropriately added a secondary OCA in November 2009 to transfer accounts after a pre-specified period of time. (Conclusion No. VI-10.) The auditors predict that adding a secondary OCA may improve the performance of VEDO's primary OCA. (Conclusion No. VI-10.) Based upon its conclusions, NorthStar recommends for VEDO to consider "adding a second, primary OCA and encourage competition amount the OCAs at each collections stage through an appropriate performance and reward monitoring system." (Recommendation No. VI-5.)

VEDO does not necessarily disagree with the auditor's recommendation, but is contractually limited to implement the recommendation at this time. Specifically, VEDO is in a five-year contract with its primary OCA, ending in November 2011. Under the provisions of this agreement, VEDO is prohibited from adding another primary OCA. For VEDO to implement the auditor's recommendation, it would incur substantial penalties under the agreement. Because the current contract expires in November, VEDO will further consider implementing this recommendation at that time.

In addition, VEDO is currently taking measures to address the concerns raised by the auditors. As noted by NorthStar, VEDO added a secondary OCA to increase competition and to provide incentive for its primary OCA to better perform under the existing agreement. (Conclusion No. VI-10.) To improve the performance of its primary OCA, VEDO implemented performance metrics and holds monthly conference calls to review whether each OCA is meeting the performance metrics. Finally, VEDO initiated a settlement program to improve the collections performance with the existing primary OCA.

E. Meter Reading, Billing and Payments (Chapter VIII)

NorthStar reviewed each LDC's meter reading, billing any payment processing functions. The auditors conclude that VEDO has appropriate processes in place to ensure accurate and timely meter reading. (Conclusion No. VII-1.) The auditors also note that VEDO uses an industry standard system of checks "to ensure the accuracy of customer bills," allowing bills to be rendered timely. (Conclusion No. VII-2.) Measures VEDO has taken to ensure the accuracy of its bills includes printing bills within forty-eight hours after a meter is read, conducting system tests and billing recalculations after a new rate is placed into the system, and instituting a six-sigma quality control process to ensure meter reading and billing accuracy. (Conclusion No. VII-2.) NorthStar also acknowledges that VEDO "effectively minimizes the number of meters with multiple months of estimated reads." (Conclusion No. VII-3.) Finally, the auditors find that VEDO provides its customers with "an appropriate array of payment options." (Conclusion No. VII-4.) The auditors have no recommendations concerning meter reading, billing and payment processing functions. (Audit Report VII-17.)

F. Regulations (Chapter VIII)

As part of its review, NorthStar examined selected regulations and their effect on the LDCs' collections performance. NorthStar's review includes a discussion of bad debt recovery mechanisms in certain other states. The auditors focus mainly on three regulatory mechanisms: the UEX rider and PIPP Rider, PIPP program and winter reconnect orders ("WRO").

1. UEX Rider and PIPP Rider Reports

NorthStar does not recommend that the Commission abandon the UEX rider. Instead, the auditors recommend that the Commission "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." (Recommendation No. VIII-1.) NorthStar also recommends that the Commission require "annual PIPP filings and adjustments to the rates if the rates increase or decrease beyond a certain threshold." (Recommendation No. VIII-2.)

VEDO appreciates the spirit in which these recommendations are offered, but does not believe that these recommendations should be adopted. First, it is not clear what anyone would do with the information that the auditors recommend be collected, such as number of bankruptcies, number of accounts eligible for deposits and number of deposits collected, and so forth. Second, compliance costs for the LDCs would necessarily increase if reports must be generated and prepared quarterly. Third, much of the information that the auditors recommend be included in new reports is already provided to the Commission during annual UEX audits. VEDO does not currently file new PIPP rates annually, but does not object to doing so, provided the Commission establishes a threshold that would trigger an annual filing. Ratepayers should not bear the expense of a process for *de minimus* adjustments to PIPP rates. VEDO remains willing, as always, to provide information to Commission staff on an informal, as-needed basis in lieu of annual filings.

With regard to NorthStar's conclusion that the UEX rider and PIPP rider "effectively shift the collections risk from the utility to the customer" (Audit Report VIII-1), it should be noted that this reduction in risk is already reflected in the rate of return authorized in VEDO's most recent rate case. The reduced rate of return leads to a reduced revenue requirement and lower rates. In addition, collection statistics are provided to Commission staff during annual UEX reviews to ensure that VEDO's collection practices are reasonable. The UEX and PIPP rider mechanisms thus strike an appropriate balance between the interests of shareholders and customers.

2. PIPP Program

The pros and cons of the both the "old" and "new" PIPP programs were thoroughly debated in the rulemaking leading to the most recent changes in the program, and will not be re-debated here. The auditors generally confirm what everyone already knows about the PIPP program:

- The typical PIPP customer uses about 25-30% more gas than the typical non-PIPP customer;
- More customers than ever are participating in the PIPP program; and
- PIPP customers tend not to pay their bills, and accumulate significant arrearages that must be recovered through the PIPP rider.

The auditor's only specific recommendations are to "continue and increase efforts to aggressively pursue terminations for PIPP customers who are delinquent with their payments" and "develop and implement education programs to PIPP customers regarding the new regulations and necessary changes in payment patterns." (Recommendation Nos. VIII-3, VIII-4.) As the auditors note, however, the availability of the WRO significantly limits LDCs' ability to aggressively pursue termination of delinquent PIPP accounts. (Audit Report III-6.) Cajoling and pleading with delinquent customers to pay simply will not work if the LDC cannot disconnect service.

3. Winter Reconnect Order

For the past 20 years, any customer who was either disconnected or served with a disconnection notice may re-establish or maintain service during the winter season by paying $175. (Audit Report VIII-7.) The WRO is available to anyone, regardless of income. (Audit Report VIII-7.) Over 160,000 customers used a WRO in the 2008-09 heating season, racking up arrearages of over $65 million. (Audit Report VIII-7.) Of these customers, 70% used the WRO to avoid termination and 30% of the remaining customers used the WRO to restart service after being without natural gas service for more than 90 days. (Audit Report VIII-7.)

NorthStar's report summarizes all that is wrong with the WRO and other disconnect moratoriums. Simply stated, "Mandatory winter disconnection moratoriums have a severe negative effect on the utilities' ability to collect past due balances and result in increased arrearages." (Audit Report VIII-6.) As NorthStar notes, the WRO enables customers to "game the system" and maintain service over the winter while making limited payments. (Audit Report VIII-7.) The auditors explain that when customers maintain service for the entire winter season, they incur a substantial arrearage. (Audit Report VIII-7.) NorthStar notes, "The increase in arrearages also makes it more difficult for customers to pay down past due balances." (Audit Report VIII-8.)

NorthStar has some common-sense recommendations for the WRO that the Commission should implement. First, the Commission should "[r]estrict the WRO to limited income customers (preferred) or, at a minimum, develop a tiered-payment amount based on income level." (Recommendation No. VIII-5.) NorthStar's recommendation makes sense, because customers that can afford to pay for gas they consume should. In the 2008-09 heating season, customer incurred an average balance of approximately $400. (Audit Report VIII-8.) Furthermore, according to VEDO's data, "the majority of customers do not make the required payment arrangement payments," even though in 2009, PIPP customers paid 16%, under a payment arrangement, of the total amount due and non-PIPP customers paid 25%. (Audit Report VIII-8.) Thus, NorthStar's recommendation has merit based upon prior data and common sense.

The Commission should also re-evaluate the amount of the payment to reconnect service, as recommended by NorthStar. (Recommendation No. VIII-5.) Prior to the current system in place since 1989-90, the required minimum payment was $200. (Audit Report VIII-7.) The Commission should consider raising the payment level back to <u>at least</u> that amount.

The Commission should also give strong consideration to NorthStar's recommendation to eliminate mandatory winter moratoriums. (Recommendation No. VIII-6.) Contrary to the original intention of initiating a temporary moratorium to assist vulnerable customers, the WRO has morphed into a permanent subsidy -- one paid for by customers that pay their monthly bills in full.

III. CONCLUSION

For the reasons discussed above, any action the Commission takes with respect to NorthStar's Report should reflect these Initial Comments.

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Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Initial Comments of Vectren Energy Delivery Ohio were sent by regular U.S. Mail to the parties listed below on this 28th day of January, 2011.

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