

BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

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Proceeding on Motion of the Commission as to the
Rates, Charges, Rules and Regulations of
Rochester Gas and Electric Corporation
for Electric Service

Case 09-E- _____

Proceeding on Motion of the Commission as to the
Rates, Charges, Rules and Regulations of
Rochester Gas and Electric Corporation
for Gas Service

Case 09-G- _____

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**DIRECT TESTIMONY OF THE
CUSTOMER SERVICE PANEL**

Mark O. Marini
Theresa B. VanBrooker

September 17, 2009

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1 Q. Please state the names of the members on this Customer Service Panel (the
2 "Panel").

3 A. Our names are Mark O. Marini and Theresa B. VanBrooker.

4 Q. Mr. Marini, please state your current position and business address.

5 A. I am Manager of Regulatory and Tariffs in the Rates and Regulatory Economics
6 Department for New York State Electric & Gas Corporation ("NYSEG") and
7 Rochester Gas and Electric Corporation ("RG&E" or the "Company") (together,
8 the "Companies"). My business address is RG&E, 89 East Avenue, Rochester,
9 New York 14649.

10 Q. Please summarize your educational background and work experience.

11 A. I graduated from Rochester Institute of Technology with a B.S. degree in Applied
12 Mathematics. In my present position at RG&E, I am responsible for regulatory
13 and tariff related issues for NYSEG and RG&E. I was hired by RG&E in June
14 1985. My responsibilities have involved rates and regulatory areas, including
15 electric and gas pricing, development and preparation of cost of service studies
16 (both embedded and marginal), load research, revenue allocation, rate design,
17 tariff design, analysis and administration, and participation in regulatory
18 proceedings. During my tenure, I have increasingly gained supervisory and
19 management responsibilities.

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1 Q. Have you previously testified in other proceedings before the New York State
2 Public Service Commission ("PSC" or the "Commission") or any other state or
3 federal regulatory agency or court?

4 A. I have testified on several occasions before the Commission. Most recently, I
5 testified in Cases 03-E-0765, 03-G-0766, Case 05-E-1222, and Case 07-M-0906.
6 I also sponsored testimony in Cases 09-E-0082, 09-G-0083, 09-E-0084, and 09-E-
7 0085.

8 Q. Ms. VanBrooker, please state your current position and business address.

9 A. My title is Director of Customer Service for NYSEG and RG&E. My business
10 address is 89 East Avenue, Rochester, New York 14649.

11 Q. Please summarize your educational background.

12 A. In 1999, I received an M.B.A. from the William E. Simon School of Business in
13 Rochester, New York. I received a B.S. degree from the State University of New
14 York, Empire State College, in 1992.

15 Q. Please describe your work experience.

16 A. I have worked for RG&E for the past 27 years, most of the time in Customer
17 Service. I have had multiple roles during this time. At present, I have
18 responsibility for all aspects of customer service for NYSEG and RG&E.

19 Q. Have you previously submitted testimony in other proceedings before the
20 Commission?

21 A. Yes. I submitted testimony in RG&E's last two rate proceedings, Cases 02-E-
22 0198 and 02-G-0199, and Cases 03-E-0765 and 03-G-0766, and rebuttal

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1 testimony in NYSEG's last electric rate proceeding, Case 05-E-1222. I also
2 submitted testimony in Case 07-M-0906.

3 Q. What is the purpose of the Panel's testimony?

4 A. The purpose of our testimony is to discuss the following topics:

- 5 • Service Quality Measures;
- 6 • Contact Satisfaction Survey;
- 7 • Low Income Programs;
- 8 • Uncollectibles;
- 9 • Customer Deposits; and
- 10 • Credit Cards.

11 Q. Is the Panel sponsoring any exhibits to support your testimony?

12 A. Yes. The following exhibits support the Panel's testimony.

- 13 • Exhibit __ (RGECS-1) (customer service performance mechanisms);
- 14 • Exhibit __ (RGECS-2) (June 2009 year-to-date customer service
15 performance indicators);
- 16 • Exhibit __ (RGECS-3) (new incremental revenue adjustments);
- 17 • Exhibit __ (RGECS-4) (current survey methodology at both Companies);
- 18 • Exhibit __ (RGECS-5) (proposed survey methodology for both
19 Companies);
- 20 • Exhibit __ (RGECS-6) ((contact satisfaction survey cost);
- 21 • Exhibit __ (RGECS-7) (low income programs summary);
- 22 • Exhibit __ (RGECS-8) (low income program proposal);
- 23 • Exhibit __ (RGECS-9) (summary of defaulted installment plans and
24 Home Energy Assistance Program ("HEAP") information);
- 25 • Exhibit __ (RGECS-10) (recent benefits received by Empower New
26 York customers);

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- 1 • Exhibit __ (RGECS-11) (enrollment levels and associated costs of
2 proposed low income programs);
- 3 • Exhibit __ (RGECS-12) (one-time start up costs for low income
4 programs);
- 5 • Exhibit __ (RGECS-13) (proposed low income brochure and
6 application);
- 7 • Exhibit __ (RGECS-14) (uncollectible expense increases);
- 8 • Exhibit __ (RGECS-15) (arrear as of June 30, 2009);
- 9 • Exhibit __ (RGECS-16) (percent of arrears by aging as of June 2008 and
10 as of June 2009);
- 11 • Exhibit __ (RGECS-17) (number of customers and arrears for customers
12 in payment agreements);
- 13 • Exhibit __ (RGECS-18) (webpage from New York State Office of
14 Temporary and Disability Assistance ("OTDA") on HEAP funding);
- 15 • Exhibit __ (RGECS-19) (uncollectibles accounts information from 2006
16 through May 2009);
- 17 • Exhibit __ (RGECS-20) (residential write-off from July 2008 through
18 June 2009);
- 19 • Exhibit __ (RGECS-21) (analysis of residential write-off from July 2008
20 through June 2009);
- 21 • Exhibit __ (RGECS-22) (chart on the national distribution of Fair Isaac
22 Corporation "FICO" score range);
- 23 • Exhibit __ (RGECS-23) (estimated fees associated with customer use of
24 credit cards); and
- 25 • Exhibit __ (RGECS-24) (index of Panel's workpapers). A copy of the
26 workpapers was provided to Department of Public Service Staff ("Staff").

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**SERVICE QUALITY MEASURES AND
CONTACT SATISFACTION SURVEYS**

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Q. Starting with Customer Service Quality Measures and Customer Contact Satisfaction Measures, please explain the purpose of the Panel's testimony.

A. The purpose is to review the current Customer Service Quality Measures and targets at RG&E and propose changes designed to improve the Customer Contact Satisfaction Measures.

Q. What are the current Customer Service Performance Mechanisms at RG&E?

A. Exhibit __ (RGECS-1) shows RG&E's six regulatory Customer Service Performance Mechanisms (Billing Accuracy, PSC Complaint Rate, Estimated Meter Reads, Calls Answered within 30 seconds, Appointments Kept, and Customer Interaction Service Index), and associated targets and revenue adjustments. These measures and revenue adjustments were approved as part of the Merger Order. The measures are well-rounded because they blend the customer experience and performance of key business processes affecting the overall customer experience.

Q. What is the current performance of these measures?

A. Exhibit __ (RGECS-2) shows the Company's June 2009 year-to-date Customer Service Performance Indicators ("CSPI") reports filed with the Commission. All of the measures are on track to meet or exceed the relevant targets.

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1 Q. What are the Panel's suggested changes to RG&E's current Customer Service
2 Performance Mechanisms?

3 A. As shown in Exhibit __ (RGECS-1), RG&E has six Customer Service
4 Performance Mechanisms. These include four (4) key business process measures
5 (Billing Accuracy, Estimated Meter Reads, Calls Answered Within 30 Seconds,
6 and Appointments Kept) which provide the Company with early performance
7 indicators and allow the Company an opportunity to improve any downward trend
8 before it impacts customers. In RG&E's experience, these mechanisms are
9 essential in managing customer satisfaction. Therefore, there is no reason to
10 make changes to these mechanisms or their associated, challenging targets.

11 Q. Do you propose a change to the current revenue adjustment threshold levels?

12 A. Yes. The current revenue adjustment threshold levels are set with minimal to no
13 margin of error. The thresholds should include safety margins to allow for
14 fluctuations in performance for unforeseen and non-reoccurring events. We
15 believe this includes events, such as future economic changes, energy supply
16 price increases and changes in demographics. The current threshold targets do
17 not provide for these fluctuations. Restructuring the threshold targets to
18 increments of 1 integer (or a range between x.0 to x.2 for those measures with a
19 smaller bandwidth) is reasonable and similar to other utilities. Distributing the
20 revenue adjustment risk in 25% increments provides the incentive to take
21 necessary action to correct a failing target. Therefore, we propose new target

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1 threshold levels and distributed risk adjustments as shown in Exhibit __
2 (RGECS-3).

3 Q. Is the Company proposing any changes to the Customer Interaction Service
4 Index?

5 A. Yes. The Customer Interaction Service Index measures the customer’s recent
6 experience with the Company for specific transactions. Although we recommend
7 keeping this mechanism, we are proposing changes, which we will discuss
8 shortly. We are confident these changes will improve the measure for better
9 management of customer satisfaction. The recommended changes will have the
10 added benefit of resulting in consistency for the RG&E and NYSEG surveys.

11 Q. Is the Company proposing any changes to the PSC Complaint Rate?
12 The PSC Complaint Rate measures the number of complaints per 100,000
13 customers received by the Commission. While the current economic environment
14 is increasingly challenging on our customers and complaint rate results have risen,
15 RG&E has thus far met the challenging PSC Complaint Rate. As demonstrated
16 by a review of the complaint statistics on the PSC website, most New York State
17 utilities have experienced a significant increase escalated cases, with a high
18 percentage of these being credit related, as a result of the challenging economic
19 times. In light of these challenges, the Company is not proposing any changes to
20 the PSC Complaint Rate measure or target.

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1 Q. Are there changes to methods of measure for any other customer service
2 mechanisms?

3 A. We would like to make changes to the method of measurement for the RG&E
4 Customer Interaction Service Index.

5 Q. Why does the Panel recommend changes to the RG&E Customer Interaction
6 Service Index?

7 A. One of our goals is to build consistency between the NYSEG and RG&E contact
8 satisfaction mechanisms. The intent of this mechanism is to measure the level of
9 satisfaction of customers who have had recent contact with the Company. Upon
10 review of the Companies' contact satisfaction surveys, we have identified the
11 major differences between the mechanisms and opportunities for survey
12 improvements.

13 Q. What are the current survey methods at both Companies?

14 A. Exhibit __ (RGECS-4) shows the current survey methods at RG&E and
15 NYSEG. The major differences between the two Companies are that the NYSEG
16 survey is mailed, while the RG&E survey is by telephone and the NYSEG survey
17 population is not restricted by transaction type, while the RG&E survey
18 population is restricted to only four transaction types (Billing, No Lights, Turn
19 On/Off, and Tree Trimming).

20 Q. What are the recommended survey improvements?

21 A. We recommend the following:

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- 1 • Telephone Survey: This method of survey provides the best opportunity to
2 receive a response to open ended questions and feedback is based on the most
3 recent contact. The Companies have a better opportunity to gain feedback on
4 recent contact through telephone surveys as opposed to mailed surveys
5 because customers can mail in a response months past the initial contact date
6 and not provide detailed information regarding root cause of dissatisfaction.
7 The telephone survey will ensure more actionable and timely data. Also,
8 contracted telephone surveys provide better assurance of completed survey
9 amounts, because mailed surveys are dependent on the customer's decision to
10 return them.
- 11 • Random Sample of Customer Contacts: A random sampling of customer
12 contacts best reflects the distribution of reasons why customers contact the
13 Companies. This also allows for shifts in the distribution of contact reasons as
14 time goes on. Targeting only a few transactions is too restrictive and may not
15 match the reasons for future customer calls.
- 16 • Increased Number of Completed Surveys: While the numbers of completed
17 surveys for both Companies are statistically valid for results over an annual
18 period, the low numbers of responses, which are dissatisfied, make it
19 challenging to discern trends. Therefore, we recommend that the Companies
20 increase the number of completed surveys.

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- 1 • Satisfaction Scale of 1-10: A scale of 1-10 is a standard that most customers
2 are familiar with and simulates an academic score. Scales with less
3 intermediate values leave less room for customers to discern differences.
- 4 • Implement the Same Survey Across NYSEG and RG&E: A consistent survey
5 approach enables an ability to better manage customer satisfaction.
- 6 • Review of Survey Instrument and Design: Review of the survey instrument
7 and design would provide for better evaluation of customer satisfaction and
8 ensure that the Companies can ascertain appropriate benchmarking for new
9 targets.

10 Q. What is the Panel recommending regarding the survey?

11 A. Referring to Exhibit __ (RGECS-5), the Panel recommends that the survey
12 improvements outlined above be incorporated into the survey. The major change
13 for RG&E would be a transition from a sample population with a targeted
14 transactional survey to a random sample of recent contacts.

15 Q. What is the reason for changing the sample population of the RG&E survey?

16 A. With the current method of targeting only four transactions (Billing, Trouble (No
17 Lights), Turn On/Off, and Tree Trimming) and targeting the same survey
18 completion amount for each transaction (100 per transaction per quarter, 50%
19 residential/50% non-residential), we are missing the opportunity to survey
20 customers with other inquiries (such as collections) and are putting equal
21 importance on transactions which may not reflect our customers' experience. The

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1 current targeted transactions do not match the most likely reasons for customers to
2 have contact with the utility, as shown in the table below.

RG&E Survey: Targeted Transactions	Most Frequent Transactions	Require Field Work
Billing	Billing	
Turn On/Off	Turn On/Off	X
Trouble (No Lights)	Collections	
Tree Trimming	Service Notification (All non-emergency work)	X
	Account Maintenance	
	Payments	
	Trouble (No Lights)	X
	Customer Meter Read	
	Web	
	General Information	

3 By providing a random of sample of all recent transactions, the sampling will
4 better reflect the true distribution of contacts received by the Company and
5 provide the flexibility of future changes to this distribution. For these reasons, we
6 recommend changing RG&E survey sample to a random sample of all recent
7 processed transactions.

8 Q. What transactions does the Panel recommend be included in the random
9 sampling?

10 A. All recent transactions within the previous week should be pulled for the random
11 sample and surveyed within one to two weeks. No transactions should be
12 excluded. For contacts that require field work, the survey may occur within one
13 to two weeks from completion of the work.

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1 Q. Why is the Panel recommending an increase in the number of completed surveys?

2 A. While the Company's completed survey amounts, over an annual basis, provide
3 for statistically valid sample sizes for 95% confidence level, there is a need to
4 increase the monthly results to gain better data and help identify trends.

5 RG&E's current survey method provides approximately 350 completed surveys
6 per quarter (1400 annually and 117 monthly) resulting in a low number of
7 dissatisfied returns.

8 While the return amount is enough for statistically valid annual results of whether
9 the customer was satisfied or not, it has not provided enough information to
10 identify root cause trends for proper prioritization of topic areas and development
11 of action plans.

12 By increasing the amount of surveys to 600, the Company will increase the
13 potential dissatisfied returns by approximately 2 ½ times. This will enable better
14 trending, root cause identification, and a better development of action plans.

15 Q. What are the projected costs for implementing the new survey instrument and
16 transition costs?

17 A. The table below outlines the implementation and transition costs for the new
18 survey.

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Summary of Contact Survey Costs
(See Exhibit __ (RGECS-6))

	A: Current method (for benchmarking purposes)	B: New Survey Method (telephone and increased completed # of surveys) ¹	2009: Total for pre benchmarking year (\$8000 for training/consultation)	2010: Total for benchmarking year	2011: Total after benchmarking year
RG&E	\$72,000	\$121,000 (\$115,000 going forward)	73,848	\$192,548	\$115,200

¹ Excludes internal database set up labor

1 Q. Why is the Panel recommending a 1-10 scale for the overall customer satisfaction
2 question?

3 A. A scale of 1-10 is easily understood by customers. A scale of 1-10 provides an
4 appropriate range for those customers who are neutral, neither satisfied nor
5 dissatisfied.

6 Q. Why are changes to the survey instrument and benchmark necessary?

7 A. The current survey instruments at RG&E have been in place for more than ten
8 (10) years. With the ever changing energy and customer economic environment,
9 updating the surveys to better ascertain customer satisfaction and help identify
10 areas of improvement is beneficial to the Company and our customers. RG&E
11 has four (4) different survey instruments, one (1) for each transaction type.
12 RG&E's survey instruments are robust with up to eighteen (18) major questions
13 and up to forty-five (45) sub-questions depending on the customer's specific
14 answers. However, upon reviewing survey instruments, the Company discovered
15 that further analysis is necessary. We therefore propose to meet with Staff by the
16 end of October 2009 to review proposed changes and gain input on the

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1 benchmarking question. Benchmarking is necessary to ensure correlations are
2 made between the existing survey and the new survey and new targets are set
3 appropriately.

4 Q. What is the proposed transition plan for the new surveys and developing a new
5 benchmark target?

6 A. Once the new survey and benchmarking issues have been resolved, the Company
7 would enter into a contract with a vendor and implement the new survey starting
8 January 2010. While benchmarking the new survey, we will continue with the
9 existing survey. We propose that the Company and Staff meet again before
10 October 2010 to determine the new benchmark target based on nine (9) months of
11 performance with the new survey and three (3) months forecasted results based on
12 history. Thresholds would be set at the agreed upon increments and cost ratios in
13 this rate case. The new target would become effective January 1, 2011. Final
14 target evaluations can be performed in collaboration with Staff by January 2011,
15 with twelve months of data available. Any new targets (targets different than the
16 threshold set in October) would become effective January 1, 2011.

17 Q. Does the Panel have any additional recommendations relative to the Customer
18 Service Performance Mechanisms?

19 A. No, we do not.

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LOW INCOME PROGRAMS

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Q. Turning to the topic of Low Income Programs, please explain the purpose of the Panel's testimony.

A. The purpose of this testimony is to explain the Company's proposal for an enhanced Low Income program.

Q. Does RG&E have any Low Income programs?

A. Yes. Exhibit __ (RGECSP-7) outlines RG&E's current programs. RG&E has two low income programs: Residential Energy Consumer Assistance Program ("RECAP") and I-HEAP.

Q. Please briefly describe the RECAP program.

A. RECAP provides a bill discount of up to \$120 per year, budget counseling through Consumer Credit Counseling Services of Rochester, energy management and up to \$125 per year in arrears forgiveness if the customer pays his/her monthly bill in full. Customers are enrolled for one year and, if they successfully complete that year, they are enrolled for one additional year. RECAP customers are also referred to New York State Energy Research and Development Authority's ("NYSERDA") EmPower NY program for possible energy efficiency upgrades. Targeted enrollment in RECAP is 1,800 customers.

Q. Please briefly describe the I-HEAP program.

A. RG&E's I-HEAP program is for residential non-heating gas customers who receive HEAP grants. These customers are automatically enrolled in a special rate program that provides them with a reduced basic service charge of

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1 \$5.81/month. Customers remain in this program for one year. Should they
2 receive a new HEAP grant, they are re-enrolled in the program. RG&E currently
3 has approximately 472 customers in this program.

4 Q. What changes is the Company proposing for its Low Income programs?

5 A. The proposed program would consist of three (3) separate components - Bill
6 Reduction, Arrears Forgiveness, and Energy Efficiency and Budget management
7 education and support. As with current programs, a customer would need to be
8 HEAP eligible in order to qualify. The programs are proposed to cover both gas
9 and electric service. The Bill Reduction portion of the program would include a
10 \$15 monthly bill reduction for electric service and/or gas service, as applicable.

11 In addition, customers would be referred to an energy services agency such as
12 NYSERDA for energy efficiency and/or budget counseling.

13 In order to qualify for the Arrears Forgiveness portion of the program, the
14 customer must typically have arrears on his or her account between the amounts
15 of \$240 and \$4,800. In order to receive the arrears forgiveness the customer must
16 be making monthly payments in full and on time. The customer would have 36
17 months to complete the program. Each time the customer makes a timely
18 payment, 1/24th of their arrears would be credited and displayed on the next bill.

19 Once a customer successfully eliminates the arrears, they would continue their
20 enrollment in the Bill Reduction program.

21 Customers participating in either the Bill Reduction program and/or the Arrears
22 Forgiveness would be referred to an energy services agency such as NYSERDA

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1 (on a schedule mutually agreed to by the Company and the agency). NYSERDA
2 offers programs including: replacement of old, inefficient appliances, installation
3 of high-efficiency lighting, materials to reduce drafts in homes, installation of
4 insulation for attics and sidewalls, tips to save energy as well as workshops
5 offering energy saving information and budget counseling. RG&E receives
6 verbal feedback from current low income program customers that have been
7 referred to NYSERDA. These customers tend to speak very positively of the
8 benefits received via NYSERDA. Further details regarding the proposed program
9 can be found in Exhibit __ (RGECS-8).

10 Q. How does the proposed program compare to the Company's current Low Income
11 Programs?

12 A. The number of RG&E customers that would benefit from the proposed low
13 income program would increase significantly, as the current program supports
14 2,272 total participants. The proposed program would support approximately
15 42,000 bill reduction customers (all HEAP eligible customers) and approximately
16 4,300 arrears forgiveness customers. In addition, participating customers would
17 be referred to NYSERDA. Although RG&E's current program offers bill
18 discounts and some element of arrears forgiveness, there is a significant time lag
19 between the action of the customer and the benefit that is seen. The proposed
20 program would allow customers to see progress each month in reducing arrears,
21 eventually potentially eliminating the debt and allowing the customer/family to be
22 in a better financial position for the future.

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1 Q. What is the purpose of the proposed Low Income program?

2 A. The proposed program is designed to help vulnerable customers who are impacted
3 by dire economic conditions. In order to determine the extent of the Company's
4 vulnerable population, we reviewed payment agreement and HEAP information.
5 A review of the defaulted installment plans from 2007 – 2009 shows that RG&E
6 customer default rates increased from 28% to 40%. In addition, during the same
7 time period, the number of customers receiving HEAP climbed 37.6% at RG&E,
8 as shown in Exhibit __ (RGECS-9). The proposed programs will provide
9 opportunities for bill relief via a bill reduction to the customer and potentially a
10 monthly arrears forgiveness which will provide the customer an incentive to pay
11 the bill on time. In addition, the energy efficiency benefits, such as those offered
12 by NYSERDA, allow customers to be better positioned to afford their bills for
13 years to come. This will in essence "help customers help themselves."
14 Customers will see a savings each month when a payment is made in full and on
15 time, therefore providing a greater incentive to develop good payment habits in
16 order to receive the monthly benefit. By developing good and consistent payment
17 habits, customers enrolled in the low income program will avoid the danger of
18 disconnect for non-payment.

19 Q. What are the specific customer benefits of the proposed Low Income programs?

20 A. The proposed programs offer multiple customer benefits: a \$15 per meter bill
21 reduction, an opportunity to reduce or eliminate arrears, and referral to
22 NYSERDA's (or equivalent energy services agency) energy efficiency and budget

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1 counseling programs. Customers will be placed on budget billing which will
2 allow them to plan for their monthly expenses and increase potential success in
3 the programs. Participation in the program will encourage the customer to build
4 consistent payment habits and be positioned for greater success in the future.

5 Q. What customer population would be targeted with the proposed Low Income
6 program?

7 A. This program would target low income customers as defined by the HEAP
8 income eligibility guidelines. Therefore, a customer would need to be HEAP
9 eligible to participate in the program.

10 Q. How does this eligibility level differ from the Company's current low income
11 programs?

12 A. The guidelines for eligibility would be the same. RG&E's current enrollments are
13 2,272. The proposed programs would offer a significant benefit to a substantially
14 larger group.

15 Q. Did the Company review other New York State utility Low Income programs
16 prior to developing the proposed Low Income program?

17 A. Yes. The Company undertook a two-part review. Last fall, all of the utilities
18 provided details of their Low Income programs to the Complaint Management
19 Utility Group ("CMUG"). RG&E reviewed these programs. Several utilities had
20 programs that were similar to the Company's objectives, such as current bill
21 management, arrears forgiveness and energy efficiency and budget management.
22 We called the other utilities this June and received newly updated information on

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1 the programs, as new rate case outcomes resulted in changes to the programs. We
2 noted that several of the companies had an arrears forgiveness component with
3 monthly credits applied to the bills. With the current low income program,
4 RG&E observed customers having difficulty finding the additional money to pay
5 down their arrears. Many customers also mentioned the emotional burden the
6 debt creates for them, with little hope of paying down the debt. Other utilities
7 noted that the arrears forgiveness component is very motivating for customers, as
8 the customers can see their arrears decrease each month, upon timely payment of
9 the bill. Implementing an arrears forgiveness program would therefore
10 significantly benefit those customers who continue to have difficulty finding
11 additional money to pay down debt. Some of the companies have built in a more
12 significant bill reduction component to their program, considering family size and
13 amount of energy used to provide bill credits. We considered that option, but
14 believe that while customers would benefit in the short term from such bill
15 credits, when the program ends the customer must once again find the money to
16 pay their monthly bill. Our proposed program provides some bill reduction while
17 encouraging timely payments. For example, for an average RG&E electric bill of
18 \$80, the \$15 credit would be an 18.75% reduction. For a combined gas and
19 electric account averaging \$150, the \$30 credit would result in a 20% reduction.
20 In addition, any HEAP payments received would be applied to current charges
21 and future bills, rather than any current arrears, allowing customers current bill
22 relief. This will be an additional benefit to customers during the most challenging

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1 winter months. Using the same long term view, we believe that the benefits that
2 NYSERDA (or similar energy services agency) offers, such as energy efficient
3 appliances and insulation, enables customers to manage their bills over the long
4 term, not just for the period of the program.

5 Q. How did the Panel determine the enrollment levels for the Bill Reduction portion
6 of the program?

7 A. As previously mentioned, we reviewed information regarding defaulted
8 installment plans and the number of HEAP customers for the last five (5) years.
9 This information is set forth in Exhibit __ (RGECS-9). The information
10 validated that the need continues to increase with more customers seeking HEAP
11 assistance and greater numbers of defaulted plans in recent years. We also
12 reviewed census data. We concluded that since the HEAP eligible population is
13 easily identifiable it would provide the most objective criteria for enrollment
14 eligibility. This same approach was used in our previous rate cases for various
15 low income programs. We weighed various options with higher bill reduction
16 allowances for customers. However, we found that increasing the bill reductions
17 provided benefits in the short term to customers, but would reduce the amount of
18 funding available to support the arrears forgiveness portion of the program, which
19 we believe offers opportunity to improve the financial health and long term
20 outlook for customers/families in need.

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1 Q. Why is the Panel recommending a fixed Bill Reduction versus a variable
2 reduction based on usage?

3 A. The primary reason is to provide something clear and easily identifiable for
4 customers. Offering a fixed bill reduction that will be clearly delineated on the
5 bill, will provide an understandable and predictable value for the customer. For
6 this same reason, we will be requiring customers to go on Budget Billing for the
7 program. Budget Billing allows customers to spread their energy costs evenly
8 over twelve months and to know in advance what their energy costs will be to
9 allow for household budgeting.

10 Q. New York State has a strong focus on encouraging energy conservation and
11 encouraging customers to use energy efficient equipment. How do the proposed
12 programs meet these goals?

13 A. As previously mentioned, RG&E has formed a strong partnership with
14 NYSERDA through Empower NY. Empower or other similar energy services
15 programs offer programs including: replacement of old, inefficient appliances,
16 installation of high-efficiency lighting, materials to reduce drafts in homes,
17 installation of insulation for attics and sidewalls, tips to save energy as well as
18 workshops offering energy saving information, and budget counseling. Exhibit
19 __ (RGECS-10) includes information on recent benefits received by RECAP
20 customers.

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1 Q. What are the enrollment levels and associated costs of the proposed programs for
2 RG&E?

3 A. For RG&E, the enrollment levels are proposed to be approximately 41,000 (the
4 number of HEAP eligible customers) for the Bill Reduction program and up to
5 4,285 in the Arrears Forgiveness program. To support this level of enrollment,
6 revenue requirements are \$17.7 million. This would include \$12.2 million for bill
7 reduction and \$5.5 million for proposed arrears forgiveness and administrative
8 costs. This information is set forth in Exhibit __ (RGECS-11).

9 Q. Are there any other costs associated with the proposed programs?

10 A. Yes. There would be some one-time costs for start up of the programs. The costs
11 are detailed in Exhibit __ (RGECS-12) and include costs for billing system
12 modifications, outreach and facilities set up (for program employees). The costs
13 associated with the programs would be allocated between the gas and electric
14 businesses.

15 Q. How was the additional revenue requirement calculated?

16 A. As detailed in Exhibit __ (RGECS-11), to calculate the bill reduction
17 component, we calculated the expected reduction amounts based on the
18 Company's residential meter distribution (historically 10.32% gas meter only,
19 23.43% electric meter only and 66.25% combined electric and gas meter). To
20 calculate the arrears forgiveness component, specific arrears information for
21 customers enrolled in the current low income programs was considered. A query
22 of our billing system was run for customers within RG&E low income programs,

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1 to calculate the average arrears for customers with arrears between \$240 and
2 \$4,800. The average arrears were determined to be \$1,947 for RG&E.

3 Administrative costs were calculated based on administrative needs to support the
4 proposed level of enrollment. These are estimated to be approximately 8%.

5 Q. How does the Company propose handling any over- or under- spend for the Low
6 Income program?

7 A. The Company recognizes that it will be necessary to conduct an annual true-up of
8 expenses associated with the Low Income program. We propose that the over- or
9 under-spend be reconciled using the Deferral Recovery Mechanism ("DRM"),
10 which is explained in the Revenue Requirements Panel testimony.

11 Q. How did the Company determine the guidelines for eligibility in the arrears
12 forgiveness program?

13 A. We reviewed the average arrears for all RG&E customers and also specifically for
14 customers who are currently participating in one or more of the Low Income
15 programs. The current (as of June 30, 2009) average arrears for all customers is
16 \$498 for RG&E. The average arrears for customers currently in one of the low
17 income programs is \$1,947 for RG&E. We considered that customers in arrears
18 for less than \$240 would receive approximately the same benefit from a minimum
19 installment plan agreement as by being in the program. We believe it is also
20 necessary to set an upper guideline for the program. We looked at the
21 percentages of customers currently on Low Income programs that would have
22 arrears in this range and used these numbers to set the upper limit. We chose a

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1 number 2.5 times the average arrears (for customers in a low income program),
2 which also is cleanly divisible by twenty-four months (\$4,800). Eighty five
3 percent of current RECAP customers in arrears would fall into this target range.

4 Q. If approved, would the new programs replace any existing Low Income programs
5 at the Company?

6 A. Yes. The new Low Income program would replace all existing programs at
7 RG&E.

8 Q. How would customers be advised of the new programs?

9 A. Once the new programs are in place customers who have received HEAP will
10 automatically be eligible for and enrolled in the Bill Reduction component of the
11 program. Customers enrolled in the current low income programs would be
12 advised of the new program and, if they met the arrears guidelines, would be
13 given first option to apply for enrollment in the arrears forgiveness component of
14 the new program. They would be enrolled upon receipt of their signed
15 applications. Outreach would then be done to target customers having arrears of
16 \$240 to \$4,800 who have received HEAP in the past, advise them of the new
17 program, and invite them to apply. Enrollment quotas would be filled on a first-
18 come, first-served basis with a waiting list maintained for future available
19 openings, if necessary. RG&E Customer Advocates would also play an active
20 role in identifying and working with customers who are at risk or who would
21 benefit from the programs. Additionally, outreach materials would be sent to

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1 social service agency offices. Other potential vehicles include bill inserts,
2 rge.com and on hold interactive voice response ("IVR") messages.

3 Q. How will customers apply for the Arrears Forgiveness program?

4 A. If a customer has received HEAP in the past year, the customer would be deemed
5 income eligible and would not need to provide any further proof of income.
6 However, the customer would need to complete and sign an application. The
7 application process will facilitate referrals to agencies providing weatherization,
8 energy efficiency and financial counseling services. The application would also
9 obtain the customer's acceptance of the program as their final payment agreement
10 for the existing arrears balance. Should the customer default off the program, the
11 customer's balance would be due in full and the customer would not be eligible
12 for any additional payment agreements. The arrears forgiveness component more
13 than satisfies the Home Energy Fair Practices Act requirements for a minimum
14 deferred payment agreement. In effect, customers are receiving the benefit of a
15 zero down, no payment agreement as long as timely payments are made to the
16 Company. If a customer has not received HEAP, they will need to provide proof
17 of income eligibility. Exhibit __ (RGECS-13) contains a copy of the proposed
18 application. Applications would be available in local offices, by mail, at area
19 social service agencies and on the Company's website.

20 Q. Are there any requirements other than income and arrears levels?

21 A. Yes. This program is for residential customers with active service and only for
22 the account that serves their primary residence. Also, it is for customers who

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1 have demonstrated a willingness to pay their bill. As such, only customers who
2 have made at least three payments other than agency payments on their account in
3 the past twelve months would be eligible for the program.

4 Q. What is the customer required to do to remain on the program?

5 A. The customer will have to be on budget billing and pay their bill in full and on
6 time every month.

7 Q. How would someone be removed from the arrears program?

8 A. If a customer falls up to two months behind on their bill, they are allowed to catch
9 up to remain enrolled in the program. However, the customer would not receive
10 the arrears forgiveness benefit for the months when their payment was late. Since
11 there are times when a customer may fall behind, they are given thirty-six months
12 in the program to get the twenty-four arrears forgiveness credits. If the customer
13 receives a final termination notice, the customer could apply for Emergency
14 HEAP as a way of catching back up on the program. However, if the customer
15 falls three months behind on bill payments, the customer would be removed from
16 the program. Once on the arrears program, customers must apply for HEAP each
17 year. There is no recertification process for customers who continue to receive
18 HEAP benefits each year. Since one of the requirements of the program is active
19 service, customers are no longer eligible if they move and no longer have an
20 active RG&E account. A customer would also be removed from the program if
21 the customer began direct Department of Social Service ("DSS") payments, such
22 as a voucher or guarantee.

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1 Q. How many times could a customer apply to be part of the arrears forgiveness
2 program?

3 A. Customers would be eligible to participate for one thirty-six month period.
4 Customers who go off the program due to receiving DSS vouchers or due to
5 moving out the service territory could later be considered for reenrollment for the
6 balance of the thirty-six month period should they once again have an active
7 RG&E residential account. However, their arrears could be no greater than when
8 they left the program. Upon completing the program, customers would not be
9 provided with a second opportunity to participate, should they allow their arrears
10 balance to once again grow.

11 Q. Is there anything else the Panel would like to add regarding the proposed new
12 programs?

13 A. RG&E makes every attempt to work with customers who are having trouble
14 paying bills. If a customer exhausts all options for bill payment, he/she is at risk
15 of having service discontinued as allowed by New York State regulations. By
16 offering an enhanced Low Income program, the Company will be in a better
17 position to provide safe and adequate service to a vulnerable population of
18 customers. The proposed program will allow the Company to more significantly
19 assist arrears customers making a difference in their going forward ability to
20 manage their finances. Utilities that offer similar programs have reported that
21 customers value the program and a greater percentage of customers are making
22 timely payments since entering the arrears forgiveness program.

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UNCOLLECTIBLE EXPENSE

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Q. Now, could the Panel please explain the purpose of its testimony regarding uncollectible expense?

A. The purpose of our testimony is to demonstrate that RG&E has experienced an alarming increase in uncollectible expense. For purposes of this testimony, uncollectible expense indicates write-off expense net of recoveries. Despite our best efforts to control costs, the uncollectible expense has increased dramatically. An appropriate amount must be included in rates to adequately account for this increase. In addition to an increase in the base amount included within the revenue requirements, we, along with the Revenue Requirements Panel, propose a symmetrical true-up of delivery and supply uncollectible expense. This true-up would be handled through DRM, as explained in the Revenue Requirements Panel testimony. The true-up mechanism will ensure that the Company neither over- nor under- collects for uncollectibles.

Q. How does a customer account get written off?

A. When service to a customer is stopped, the Company issues the customer a final bill. If the amount due on the account is not paid within a specified period of time (70 days), it is written off the books as an uncollectible expense.

Q. How much has the uncollectible expense increased at RG&E?

A. As shown in Exhibit __ (RGECS-14), from 2007 to 2008, RG&E's uncollectible expense increased 102% (\$9,719,345 to \$19,658,508).

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1 Q. To what does the Company attribute the increase in the expense?

2 A. The best indicator of uncollectible expense is the level of arrears. RG&E has
3 significant exposure in terms of customer arrears. As a general rule, after ninety
4 days past due, collectibility decreases 20% per month (Comprehensive Credit
5 Receivables Network). As of June 30, 2009, approximately 64.5% of the arrears
6 at RG&E are greater than ninety days, as demonstrated in Exhibit __ (RGECS-
7 15). This is an increase of 6.9% at RG&E, for the same time period in 2008, as
8 shown in Exhibit __ (RGECS-16).

9 Q. Are there key factors that impact arrears?

10 A. Yes. The key factors include:

11 a. Downturn in Economic Climate – In general, the economy has suffered
12 significantly over the past year. This downturn has had an impact on our
13 customers, including increased bankruptcies and unemployment rates. Many
14 customers have been challenged in their ability to stay current with their
15 utility bills and have had no ability to pay down arrears.

16 b. Minimum Payment Agreements - Utilities in New York State must adhere to
17 many regulations in an effort to protect customers. As part of these
18 regulations, utilities must offer customers payment agreements with terms as
19 low as \$10 per month on arrears with no initial down payment. RG&E has a
20 significant number of customers with these minimum payment terms. On
21 average, these agreement terms extend twelve (12) years. The impact of these
22 minimum agreements is an increase of uncollectible expense since the

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- 1 likelihood of a customer ever paying the balance in full is very small.
- 2 c. Life Support and Medical Hardship – In addition to minimum payment
- 3 agreement terms, utilities must also provide special protections to customers
- 4 who require life support equipment and those who have certain medical
- 5 hardship situations. While the customer is enrolled as a life support or
- 6 medical hardship customer, the utility cannot pursue collection of the balance.
- 7 d. DSS Abeyance – Utilities must also abide by Social Service law when
- 8 working with customers. When a customer is under a payment promise from
- 9 the DSS, the utility must hold the arrears on the account in abeyance. RG&E
- 10 has a significant number of customers who have balances held in abeyance. If
- 11 the customer goes off social services, the utility is then able to collect on the
- 12 past due balance, but again, the reality is that most customers will not be in a
- 13 position to pay the balance, resulting in an uncollectible expense.
- 14 e. Voluntary Measures Requested by the Commission – RG&E has agreed to
- 15 specific voluntary actions over recent heating seasons as requested by the
- 16 Commission. These have included a temperature threshold for service
- 17 terminations, no field collection activity for elderly, blind and/or disabled
- 18 customers and agreement to initiate service for applicants with a Home
- 19 Energy Assistance Payment. These voluntary actions have also contributed to
- 20 increasing both the balance and the age of our arrears.

21 The factors mentioned significantly increase the average age of the receivable.

22 As noted above, the further the receivable ages from the due date, the lower the

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1 probability of collection and the higher the probability of write off. The number
2 of customers and dollars associated with the regulatory items below are contained
3 in Exhibit __ (RGECS-17).

4 Q. Are the higher arrears having significant impact on the Company's uncollectible
5 expense for 2009?

6 A. Yes. For 2009, we anticipate that uncollectible expense will continue to be high
7 and in excess of what is recoverable in rates.

8 Q. What steps has the Company taken to try to control and mitigate uncollectible
9 expenses?

10 A. RG&E has undertaken numerous efforts in an attempt to minimize arrears and
11 mitigate uncollectibles, including:

- 12 • Significantly increased shareholder funding for RG&E/Red Cross Heating
13 Funds by \$300,000;
- 14 • Instituted a shareholder funded Matching Incentive Payment Programs
15 (customers who qualify for RG&E/Red Cross heating fund can get additional
16 matching grants);
- 17 • Outbound calls to all customers who had previously received HEAP
18 assistance to provide information on qualifying and applying for assistance;
- 19 • Providing HEAP information and outreach through schools, IVR, bill and web
20 messages;
- 21 • Links to the OTDA website to let customers know "How to Apply" for
22 HEAP;

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- 1 • Participation in Human Services Conferences across New York State to
- 2 provide outreach on assistance, ways to manage heating bills, budget billing,
- 3 etc.;
- 4 • Placement of RG&E customer representatives in Monroe County DSS offices
- 5 to assist clients and caseworkers;
- 6 • Placement of additional customer representatives in Rochester area walk-in
- 7 offices to better meet demand for customer service;
- 8 • Providing information on how to use energy wisely;
- 9 • Outreach to raise awareness about commodity prices and how they impact
- 10 heating bills;
- 11 • Outbound reminder calls to customers who fall thirty days in arrears;
- 12 • Outbound calls to customers in danger of field disconnect;
- 13 • Leaving door hangers to remind customers to make payments;
- 14 • Building relationships/partnerships with additional outside agencies to provide
- 15 resources to our at risk customers;
- 16 • Weekly meetings with Monroe County DSS; and
- 17 • Customer Advocates performing field visits and outreach to local agencies to
- 18 obtain assistance for at risk customers.

19 In addition, as part of this rate filing, we propose the following items which will
20 help minimize arrears and uncollectibles:

- 21 • Significantly enhanced Low Income program;
- 22 • Residential deposits; and

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- 1 • Relocation (inside to outside locations) of 1,000 gas meters each year for
2 meters with high arrears (see Direct Testimony of the Capital Expenditures,
3 Reliability and Operations Panel).

4 Q. Does the Panel feel the actions taken to date have positively impacted arrears and
5 write-offs?

6 A. Yes. Although arrears and uncollectible expense are high, we believe that they
7 would be even higher had the Company not undertaken these actions.

8 Q. What amounts have been included in revenue requirements for the Company?

9 A. Amounts required for uncollectible expense are addressed by the Revenue
10 Requirements Panel.

11 Q. Does the Panel expect the uncollectible expense to decrease as the economy
12 recovers?

13 A. We expect the uncollectible expense to remain high for the foreseeable future. As
14 mentioned earlier, the level of arrears at RG&E is very high. As the Company
15 experiences normal attrition of these arrears accounts, we will continue to see
16 high uncollectible expense. In addition, based on information provided by the
17 OTDA, it is proposed that the New York State share of the federal HEAP funding
18 for the heating season 2009-2010 will be reduced significantly from \$549.7
19 million to \$251.0 million as shown in Exhibit __ (RGECS-18). This is a 54%
20 reduction for our state and will have a huge impact on our customers.

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1 Q. Please explain the proposed true-up mechanism for uncollectible expense.

2 A. The Revenue Requirements Panel explains the symmetrical true-up mechanism.
3 Basically, we are proposing a true-up mechanism, which will allow for credits
4 back to the customers if we over-collect in rates for uncollectible expense. The
5 true-up mechanism would also provide the Company the ability to institute a
6 surcharge if we have under-collected for this expense.

7 Q. What incentive is there for RG&E to minimize uncollectible expense if full
8 recovery is available?

9 A. The best indicator of uncollectible expense is the level of arrears. High arrears
10 have a negative impact on the Company's cash flow. It is always in the
11 Company's best interest to maximize collections and minimize uncollectible
12 expense. Additionally, higher uncollectible expense spread to the entire customer
13 base can have a negative impact on customer satisfaction. As such, even with the
14 recommended true-up mechanism in place, RG&E would have an incentive to
15 minimize uncollectible expense.

16 **CUSTOMER DEPOSITS**

17 Q. Regarding security deposits, what is the purpose of the Panel's testimony?

18 A. The purpose is to explain RG&E's request to collect deposits as a condition of
19 service based on Title 16 New York Code of Rules and Regulations (16 NYCRR)
20 Section 11.12(e), which states:

21 *A utility may demand and hold deposits from new or current*
22 *residential customers as a condition of utility service if the*

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1 *commission after investigation and hearing so authorizes such*
2 *practice, upon a finding that the collection and maintenance of*
3 *such deposits is cost-effective for the utility as a whole without*
4 *regard to the utility's cash flow and the availability of capital to*
5 *the utility.*

6 Q. Is the Panel requesting that the Commission conduct a separate investigation and
7 hearing as required by Section 11.12(e)?

8 A. No, we are not. The Panel requests that the Commission address the issue in this
9 rate case. For all practical purposes, the Commission could undertake the
10 requisite investigation and make the necessary findings on the issue following a
11 hearing in this rate case so that a separate hearing is not necessary.

12 Q. Specifically, what is RG&E proposing for security deposits?

13 A. As a condition of service, upon application, the Company would require an up-
14 front deposit from any residential applicant who:
15 • Has never had RG&E service in his/her name and has a high risk credit score,
16 or
17 • Is not currently receiving gas and/or electric service, but has a prior RG&E
18 account with an unpaid debt.

19 Q. How does this differ from what is currently allowed?

20 A. Under current regulations, a utility can not request a deposit from a new
21 residential customer unless such new customer is considered short-term or
22 seasonal (see 16 NYCRR §11.12(b)). When a request is made for service, most

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1 customers will indicate they will have service for one year or more when they
2 realize that if they are deemed short-term, a security deposit will be required.

3 Q. Why target residential deposits?

4 A. Residential customers account for 96% of the accounts written off and 91% of the
5 write-off dollars based on data from 2006-2009 (Exhibit __ (RGECS-19)).

6 Factors such as very low deposit coverage, meter access, winter/special
7 protections, and payment agreement regulations contribute to high uncollectible
8 rates for residential customers.

9 Q. On average, what is the term of service for residential accounts that go to write-
10 off?

11 A. On average, 58% of residential write-offs are from customers whose service was
12 active for less than one year, and 78% of residential write-offs come from
13 customers with service less than two years. This information is outlined in
14 Exhibit __ (RGECS-20).

15 Q. Why is it necessary for the Company to expand their capability to request
16 residential deposits?

17 A. The current deposit specifications are not targeted at the residential population
18 that RG&E has found to be its greatest financial risk. In addition, higher
19 uncollectible costs are born by all customers. Deposits are a way to reduce the
20 burden of all customers through reduced uncollectibles while providing "at risk"
21 customers an incentive to pay in order to have their deposit returned to them.

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1 Q. Which customers has RG&E found to be the greatest financial risk?

2 A. The Company's greatest risk is associated with customers who have never had
3 utility service with RG&E and customers who have had prior service and left an
4 unpaid debt.

5 Q. How did the Panel choose the proposed criteria?

6 A. Through experience, the Company has found that when write-offs occur, very
7 often the customer involved had no prior service with the Company or had a prior
8 unpaid debt. In order to verify the correlation between these attributes and actual
9 financial risk, we looked at residential customers written off for RG&E from July
10 2008 through June 2009. Simply put, the results set forth in Exhibit __
11 (RGECS-21), show that about 84% of accounts written off would have met one
12 of the proposed criteria (before taking the high risk credit score into
13 consideration).

14 Q. What was the methodology for performing the analysis?

15 A. The Company analyzed residential write-off data from July 2008 through June
16 2009 to categorize accounts.

17 Q. What were the results of the analysis?

18 A. As demonstrated in Exhibit __ (RGECS-21), on average, 60.2% of the
19 customers had no prior service and 23.8% had a prior unpaid debt, indicating that
20 approximately 84% of the customers would have met the proposed criteria for a
21 residential deposit before taking the high risk credit score into account for "no
22 prior service" customers.

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1 Q. What conclusions did the Panel draw from this analysis?

2 A. The analysis supports the argument that customers with prior unpaid debt to the
3 Company or no prior service with the Company pose a greater financial risk
4 and/or a greater level of uncertainty. Furthermore, customers with no prior
5 service and a poor credit history pose an even greater financial risk.

6 Q. How would the Company evaluate credit risk for a customer with no prior
7 service?

8 A. We propose using a credit or FICO score. FICO scores are proven models of
9 predicting credit risk based on variables the utility does not have at its disposal. It
10 would allow us to secure deposits on higher risk customers while avoiding
11 deposits on lesser risk customers. FICO scores are the best-known and most
12 widely used credit scores in the United States and are utilized by all credit bureaus
13 (Equifax, Experian, TransUnion). These are the same credit scores financial
14 institutions use to make decisions on loans.

15 Q. What FICO score would be deemed as a higher risk factor?

16 A. A FICO score less than 650 or no score would be deemed to be a higher risk
17 factor. As shown in Exhibit __ (RGECSP-22), twenty-seven percent of
18 consumers have a score of less than 650. A new customer with a score of 650 or
19 higher would not be charged a deposit.

20 Q. How would the amount of deposit be determined for a customer?

21 A. Current regulations have very specific criteria for maintaining residential deposits.
22 These criteria are listed in Section 11.12(h) of the Commission's regulations.

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1 RG&E will fully comply with regulations for holding and refunding residential
2 deposits. Our proposal is to hold the equivalent of two months' average bill as a
3 deposit. This amount will accrue interest and will help the Company guard
4 against unpaid final bills. The average bill would be calculated based on the prior
5 12 months' usage at the premise. When inadequate usage exists, a security
6 deposit will be calculated based on the square footage of the location, taking into
7 consideration whether the service is gas and/or electric and how the service will
8 be used.

9 Q. Is the Panel proposing any exceptions to the suggested deposit requirement?

10 A. The policy is subject to exceptions in compliance with regulatory requirements.

11 Specifically, we will exclude a customer from this requirement if:

- 12 • The customer is a known recipient of Public Assistance, Supplemental
13 Security Income or additional state payments; or
- 14 • The customer is known to be 62 years or older (unless the customer has had
15 service shut off for non-payment in the past six months).

16 Q. What is RG&E proposing for a refund policy on deposits?

17 A. We will adhere to refund regulations as stated in Section 11.12(h) of the
18 Commission's regulations. Specifically, if a customer is not delinquent on his or
19 her bill for a one-year period, we will refund the deposit with interest.

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1 Q. How would RG&E assure that customers were paid interest on their deposits?

2 A. RG&E currently assesses deposits under certain circumstances. Our billing
3 system is equipped to apply interest, at an amount specified by the Commission,
4 on all accounts that have a deposit amount paid.

5 Q. What expenses does RG&E expect to incur as a result of implementing this
6 deposit policy?

7 A. We expect to incur an expense for checking credit scores for new customers.
8 Administrative support costs for implementing this policy will be minimal. Our
9 billing system is already capable of systematically handling deposit requests,
10 interests and refunds.

11 Q. Can the Panel quantify the financial impacts of the proposed deposit requirement?

12 A. We recognize that a deposit requirement targeted at a high-risk customer
13 population has the potential to reduce uncollectible expense. It is difficult to
14 quantify the extent of this reduction due to the numerous external influences that
15 affect a customer's bill and his or her ability to pay it. Examples of these external
16 influences include the availability of public assistance funds, the unemployment
17 rate, fluctuations in the commodity costs, and temperatures.

18 To the extent that uncollectible expense is reduced as a result of deposits, the
19 amount would be reflected in the true-up recommended in the uncollectible
20 portion of this testimony and that of the Revenue Requirements Panel.

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CREDIT CARDS

1

2 Q. Could the Panel please explain the Company's proposal for credit card payments?

3 A. Every day customers inquire about the ability to pay RG&E bills with a credit
4 card. Credit cards are an established method of payment for retailers. According
5 to Visa Internal Statistics – Q4 2006, of every \$100 spent by consumers, nearly
6 \$40 is in a form other than cash or check. Providing this option to customers will
7 benefit both the customers and the Company. New York State gas and electric
8 utilities are one of the few retailers for which customers cannot pay bills with a
9 credit card. By enabling customers to pay their RG&E bills by credit card, the
10 Company will enhance the quality of service provided to customers. Customers
11 are often able to gain personal benefits, such as cash back and frequent flyer
12 miles, by utilizing credit cards. Credit cards are also very well-suited to self
13 service options such as automated phone payment or payment through the web,
14 which provide the customer 24-by-7 convenience and rapid processing. Offering
15 this payment option, along with all of those currently available, will help build
16 customer satisfaction and allow customers to choose the payment option that best
17 meets their needs.

18 Q. Have there been recent developments on this front?

19 A. Yes. Recently, the credit card payment option has been made available in
20 circumstances in which it has not traditionally been available. For example, the
21 New York State Department of Motor Vehicles and the Internal Revenue Service
22 now accept credit cards. Customers desire this payment option.

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1 Q. How does the Company propose to recover any fees or costs associated with a
2 customer's credit card payment?

3 A. The Company proposes that any fees associated with this payment option be
4 considered among the general costs of doing business similar to fees paid for
5 other payment methods (such as Electronic Funds Transfer, Remittance and
6 Electronic Bill Presentment and Payment) and be included in the revenue
7 requirements. There would be no "special" fee charged to customers paying with
8 credit cards.

9 Q. The Panel mentioned that there will be no special fee charged for credit card
10 payments. Can the Panel explain what was meant by that statement and why it is
11 important?

12 A. Yes. New York State General Business Law § 518 states:

13 *No seller in any sales transaction may impose a surcharge on a*
14 *holder who elects to use a credit card in lieu of payment by cash,*
15 *check, or similar means. Any seller who violates the provisions of*
16 *this section shall be guilty of a misdemeanor punishable by a fine*
17 *not to exceed five hundred dollars or a term of imprisonment up to*
18 *one year, or both.*

19 Since RG&E is proposing that the cost of credit cards be included in the revenue
20 requirements, there would be no transaction fee or surcharge for any customer
21 wishing to use a credit card for payment.

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1 Q. Do major credit card companies offer utilities separate credit card rates?

2 A. Yes. Both Visa and MasterCard offer utilities a flat interchange fee per
3 transaction which is much less than the percentage charged to a typical retail
4 store. Visa and MasterCard fees charge \$.75 and \$.65 per transaction for utilities
5 compared to a retail store having interchange rates of 1.4% to 2% plus. Based on
6 our average payment amount, our rate is four to fives times less than the amount
7 paid by a supermarket for the same dollar value.

8 Q. Are there other fees besides interchange fees?

9 A. Yes. The acquirer does charge a fee for its services which is a small amount per
10 transaction. The acquirer is a financial institution or merchant bank (such as Bank
11 of America) that contracts with the merchant for credit card acceptance and
12 enables credit card payments from customers. In addition, we would expect an
13 assessment fee from the acquirer of approximately \$.00095 per dollar paid.

14 Q. Has the Company estimated the fees associated with customer use of credit cards?

15 A. Yes. The Company has estimated this cost to be \$554,111 in the first rate year.
16 The details for these estimates are included in Exhibit __ (RGECS-23).

17 Q. What are the major assumptions that are included in this estimate?

18 A. In order to calculate the cost of accepting credit card payments, we projected the
19 customer acceptance rate over a multi-year period. Information obtained from
20 credit card vendors indicate acceptance rates between 10% and 30%. The other
21 factors taken into consideration were projected credit card processing fees

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1 including interchange fee (VISA and MasterCard), acquirer fee (Bank of
2 America) and assessment for payments received by credit card.

3 Q. With the acceptance rate being a forecast, what mechanism would be in place to
4 ensure associated costs are not over- or under-collected?

5 A. It is difficult to forecast acceptance rates for this new program since there is no
6 baseline for New York State utilities offering this type of credit card payment
7 option to customers. Customer economics and demographics also make it
8 difficult to derive acceptance rates for a new program. Due to this, we
9 recommend an annual true-up for any over or under collections (+/- 5%).

10 Q. Would the Company offer credit cards with no consumer fees without a true-up
11 mechanism to recover fees?

12 A. No. A true-up mechanism would be required to ensure proper recovery. This
13 program is purely being offered for customer convenience and satisfaction. We
14 propose that the over or under spend be reconciled using the DRM which is
15 explained in the Revenue Requirements Panel testimony.

16 Q. Is RG&E projecting any impact on uncollectible expense as a result of the ability
17 to obtain payments by credit cards?

18 A. Because we do not intend to specifically target payment-troubled customers, we
19 are not planning any material reduction in arrears or uncollectibles.

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1

OUTAGE INFORMATION ON THE WEBSITE

2

Q. Is there anything else the Panel would like to address?

3

A. Yes. RG&E recognizes that Staff has recommended that our Company

4

implement a more robust system for providing customer outage information on

5

our website. We agree with this recommendation and have developed a plan for

6

implementation. The specifics of the recommendation and associated costs are

7

included in the Direct Testimony of the Capital Expenditures, Reliability and

8

Operations Panel.

9

Q. Does this complete the Panel's direct testimony at this time?

10

A. Yes, it does.