

**NEW YORK STATE  
PUBLIC SERVICE COMMISSION**

**JOINT PETITION OF FORTIS, INC.  
*et al.*, AND CH ENERGY GROUP, INC.  
*et al.*, FOR APPROVAL OF THE  
ACQUISITION OF CH ENERGY GROUP,  
INC., BY FORTIS INC., AND RELATED  
TRANSACTIONS**

**CASE 12-M-0192**

**DIRECT TESTIMONY**

**BY**

**Barbara R. Alexander  
Consumer Affairs Consultant**

**ON BEHALF OF**

**PUBLIC UTILITY LAW PROJECT OF NEW YORK, INC.**

**October 12, 2012**

1 **I. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS**

2  
3 **Q. PLEASE STATE YOUR NAME, ADDRESS, AND IDENTIFY FOR WHOM YOU**  
4 **ARE PRESENTING TESTIMONY IN THIS PROCEEDING.**

5 A. My name is Barbara R. Alexander. I use the title of Consumer Affairs Consultant. I have  
6 an office at 83 Wedgewood Dr., Winthrop, ME 04364. I am appearing as a witness on  
7 behalf of the Public Utility Law Project of New York, Inc. (PULP). PULP is a nonprofit  
8 organization formed in 1981 to represent the interests of utility customers in matters  
9 affecting universal service, affordability, and consumer protection. PULP's consumer  
10 education and legal advocacy focuses primarily on the rights of low income residential  
11 utility consumers.

12 **Q. PLEASE PROVIDE YOUR BACKGROUND AND QUALIFICATIONS.**

13 A. I opened my consulting practice in March 1996, after nearly ten years as the Director of  
14 the Consumer Assistance Division of the Maine Public Utilities Commission. While  
15 there, I managed the administrative adjudication and resolution of informal customer  
16 complaints for electric, gas, telephone, and water utility services pursuant to a delegation  
17 of authority from the Commission, and testified as an expert witness on consumer  
18 protection, customer service and low-income issues in rate cases and other investigations  
19 before the Commission.

20 My current consulting practice focuses on regulatory and statutory policies  
21 concerning consumer protection, service quality and reliability of service, customer  
22 service, and low-income issues associated with both regulated utilities and retail  
23 competition markets. I have testified in rate cases, rulemaking proceedings, and

1 investigations before over 15 United States and Canadian federal and state regulatory  
2 agencies. My recent clients include the state public advocate offices and state consumer  
3 advocates in Massachusetts, Illinois, Pennsylvania, Washington, Maryland, Maine, Ohio,  
4 Arkansas, Oregon, California, and West Virginia, as well as AARP in many states  
5 (Montana, New Jersey, Maine, Mississippi, Ohio, Virginia, Illinois, Maryland,  
6 Oklahoma, and the District of Columbia). I recently filed Direct Testimony on behalf of  
7 PULP in the pending electric and natural gas rate cases filed by Niagara Mohawk  
8 (National Grid) in New York State Public Service Commission (Commission) Case 12-E-  
9 0201/12-G-0202.

10 Throughout my consulting career I have testified in rate cases, rulemaking  
11 hearings, proceedings to consider proposed mergers and acquisitions, and with respect to  
12 specific petitions or applications by public utilities relating to low income programs,  
13 consumer protections associated with investments in the “smart grid,” and service quality  
14 programs and policies. I have also published papers and articles on utility issues that  
15 explore and make recommendations with respect to retail competition, default service,  
16 regulation of alternative energy suppliers, “smart” metering proposals and dynamic  
17 pricing programs.

18 I am a graduate of the University of Michigan (B.A. in Political Science With  
19 Honors, 1968) and I received a J.D. from the University of Maine School of Law (1976).

20 I attach my resume with a list of my publications and testimony as Exhibit BA-1.

21 **Q. DO YOU HAVE EXHIBITS TO YOUR TESTIMONY?**

22 A. Yes. I attach four exhibits:

- 1           ➤ Exhibit BA-1 is my Resume with list of publications and testimony since 1996 when I  
2           opened my consulting practice;
- 3           ➤ Exhibit BA-2 is a compilation of selected data responses by Central Hudson Gas &  
4           Electric Corp. (Central Hudson) or Fortis, Inc. and its associated petitioners (Fortis)  
5           that I reference in my testimony and that contain support for evidence in my  
6           testimony;
- 7           ➤ Exhibit BA-3 is a compilation of Central Hudson’s reported terminations for  
8           nonpayment as reflected in its Monthly Collection Reports filed with the Commission  
9           from 2005 through May 2012; and
- 10          ➤ Exhibit BA-4 is a utility pamphlet from Massachusetts that describes the  
11          Massachusetts Arrears Management Program.

12   **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY ON BEHALF OF PULP?**

13    A.    My testimony will address the lack of sufficient benefits proposed by the Petitioners with  
14    regard to the risks associated with this transaction on low income customers and  
15    customer service quality and reliability of service generally. I will propose specific  
16    conditions and commitments in addition to those proposed by Fortis and Central Hudson  
17    that the Commission should impose on the Petitioners, who have placed future rates,  
18    terms and conditions of utility service into issue in this proceeding. I do not offer any  
19    overall opinion on whether the transaction should be approved or disapproved based on  
20    the many factors that other parties to this proceeding may investigate.

21   **Q.    PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.**

22    A.    Based on evidence and my analysis which are discussed in further detail in my testimony,  
23    I recommend the following be included in any approval of this transaction:

- 1 • Central Hudson’s low income customer rates and assistance programs should be  
2 improved as follows:
  - 3 (1) With regard to the low income monthly rate reductions, I recommend that Central  
4 Hudson expand its monthly discount to \$15 per month for electric customers and  
5 \$15 per month for natural gas heating customers;
  - 6 (2) Central Hudson should implement a per therm rate reduction for low income  
7 heating customers, similar to what is provided to similar customers by National  
8 Grid in Brooklyn and Long Island. The per therm reduction should equal at least  
9 40% of the next rate block’s otherwise applicable rate;
  - 10 (3) I recommend that Central Hudson provide both a gas and an electric rate  
11 reduction so that a qualified combined gas/electric customer would receive the  
12 appropriate rate reduction for each service since the combined impact of both  
13 services has a significant impact on the affordability of essential gas and electric  
14 service;
  - 15 (4) In light of Central Hudson’s recent decrease in enrollment in the low income  
16 discount program and its projected under spending compared to the allowed  
17 budget for this program, I recommend that Central Hudson widen its program  
18 eligibility to include the categorical low income programs also relied upon by  
19 several other New York utilities and use the same methodology to determine  
20 eligibility and enrollment in those programs, all of which rely on a means-tested  
21 analysis of household income;

1 (5) The additional costs associated with the implementation of these reforms should  
2 be reflected in the public benefits funding or elimination of certain deferred costs  
3 provided as a condition of approval for this transaction;

4 (6) The Commission should more carefully review the method of providing  
5 efficiency and conservation programs to low income customers to more directly  
6 connect the receipt of bill assistance benefits with the delivery of these vital  
7 programs; and

8 (7) The arrears management program should be evaluated for potential expansion and  
9 simplification based on the Massachusetts Arrears Management Program model.

- 10  
11 • With regard to certain of Central Hudson's service quality and customer service  
12 policies, I recommend that:

13 (1) Fortis should be required to ensure that a 10% improvement in CAIDI and SAIFI  
14 be provided for Central Hudson's customers by June 2015 or achieve at least a  
15 5% improvement for each of the next two years following the expiration of the  
16 current rate plan.

17 (2) Central Hudson's current call center performance is below average in my opinion  
18 and falls to include a Call Abandonment Rate. Central Hudson should be required  
19 to meet a performance standard of answering 80% of calls within 30 seconds and  
20 meet an annual average Call Abandonment Rate of 3%.

21 (3) The performance metrics should include a new measurement of the rate of  
22 disconnection or termination for nonpayment for residential customers. Initially,  
23 Central Hudson should not be allowed to terminate service to more than 4.4% of

1 residential customers per year as a condition of the approval of this transaction.  
2 Central Hudson should also be required to report the termination rate for its  
3 known low income customers, but I do not propose a specific performance  
4 standard for this subset of residential terminations at this time. Over time, as best  
5 practices are identified, this percentage can be reduced.

6 **Q. PLEASE SUMMARIZE THE PETITION FILED BY CENTRAL HUDSON AND**  
7 **FORTIS.**

8 A. Central Hudson and Fortis have filed a petition to transfer the ownership of Central  
9 Hudson to Fortis. Central Hudson serves approximately 300,000 electric and 75,000 gas  
10 customers in eight counties in New York’s mid-Hudson River Valley in a 2,600 square  
11 mile service territory that extends north of the suburbs of New York City to Albany  
12 County. Fortis, Inc. is a publicly traded holding company on the Toronto (Canada) stock  
13 exchange which owns five non contiguous electric and one natural gas distribution  
14 utilities in Canada, serving more than 2 million gas and electricity customers. Fortis also  
15 owns other assets and businesses. These entities operate on a “stand alone” basis in that  
16 they are operated and managed by the utility or business at the local level. The holding  
17 company has only 18 employees. If approved, this acquisition will constitute Fortis’s  
18 first distribution utility owned in the U.S. In this transaction, Fortis proposes that the  
19 local management and staffing levels would be retained for at least two years, the local  
20 headquarters of Central Hudson will be maintained, and various local commitments are  
21 made concerning ongoing union-related contracts, and the continuation of local charitable  
22 and community investments.

1 Q. DO THE PETITIONERS PROMISE ANY RATE REDUCTIONS OR SAVINGS  
2 AS A RESULT OF THIS TRANSACTION?

3 A. This is not clear. The Petitioners do propose a delivery rate freeze for Central Hudson  
4 rates for one year beyond the expiration of the current rate plan which expires on June 30,  
5 2013, a forgiveness of \$5 million in deferred amounts which would otherwise be  
6 recovered from ratepayers,<sup>1</sup> and a modification of the sharing mechanism to share any  
7 realized cost savings due to the transaction with ratepayers. In addition, the Petitioners  
8 promise a \$2 million per year credit to the applicable revenue requirement for the benefit  
9 of ratepayers for five years whether or not synergy or operational cost savings are  
10 realized. However, this proposal does not reflect a proposal to lower rates or provide a  
11 bill credit to customers, but rather is a proposal to defer this amount to the next general  
12 rate case.<sup>2</sup> Furthermore, even if allocated as a customer credit, the impact of this annual  
13 \$2 million credit to the otherwise applicable revenue requirement is minimal, resulting in  
14 a 0.33% and 0.35% in the delivery portion of the bill for electric and gas customers,  
15 respectively, and 0.57% and 0.49% in the commodity portion of the bill for electric and  
16 gas customer, respectively.<sup>3</sup>

17 With regard to all these proposed impacts on rates, it is not clear whether these  
18 proposals would constitute a benefit absent the transaction without examining whether  
19 the Company's revenue requirement should be decreased or increased for the rate  
20 effective year at the end of the current rate plan. I have not evaluated these factors and

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<sup>1</sup> However, the specific deferred account or accounts that would comprise the \$5 million are not identified and this proposal is to be left for some future agreement by the parties. See, CH/Fortis Response to PULP-26.

<sup>2</sup> CH/Fortis Response to PULP-40.

<sup>3</sup> CH/Fortis Response to PULP-41. This calculation assumes a monthly average 600 kWh usage for residential electric and 890 Ccf annually for residential gas.



1 offer no opinion on whether these proposed benefits are sufficient to have a meaningful  
2 impact on customer rates.

3 **Q. DO THE PETITIONERS PROMISE ANY SPECIFIC IMPROVEMENTS IN**  
4 **SERVICE QUALITY OR CUSTOMER SERVICE AS A RESULT OF THIS**  
5 **TRANSACTION?**

6 A. No. The Petitioners promise that all existing commitments for reliability, service  
7 quality, customer service, and low income programs will be met through the current rate  
8 plan and during the one-year extension through June 2014. In fact, the Panel’s Direct  
9 Testimony states that Central Hudson has a “tradition of excellent service to its  
10 customers,” referring to its compliance with the service quality and reliability standards  
11 set in its most recent rate case and the high customer satisfaction ratings in recent  
12 surveys.<sup>4</sup>

13 **Q. DO THE PETITIONERS PROMISE ANY ADDITIONAL ASSISTANCE TO LOW**  
14 **INCOME CUSTOMERS AS A RESULT OF THIS TRANSACTION?**

15 A. Not specifically. The Petitioner promise a one-time \$5 million contribution from its  
16 shareholders that will be divided by agreement among the stakeholders for low income  
17 assistance, economic development, energy efficiency, and similar community benefit  
18 programs applicable to Central Hudson’s service territory. However, there is no specific  
19 assurance that any meaningful level of increased benefits for low income customers will  
20 result from this pool of funds that is intended to reflect proposals for a wide variety of  
21 public purpose programs.

22 **Q. PLEASE SUMMARIZE THE STATEMENTS OF THE PETITIONERS WITH**

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<sup>4</sup> Panel Direct Testimony at 25, lines 8-9; CH/Fortis Response to PULP-20.

1           **RESPECT TO CUSTOMER SERVICE, SERVICE QUALITY, AND LOW**  
2           **INCOME PROGRAM IMPLEMENTATION.**

3    A.     The Direct Testimony filed by the Central Hudson and Fortis Panel in support of the  
4           Petition reiterates that Fortis “has committed to Central Hudson’s maintenance of service  
5           standards in a manner consistent with Commission orders.”<sup>5</sup> This commitment is nothing  
6           more than an obligation to comply with current service quality and reliability standards  
7           and otherwise comply with the Commission’s regulations. In fact, Fortis considered that  
8           Central Hudson is a “well-run and efficient organization so that the potential for  
9           synergies is limited.”<sup>6</sup> This is a commitment that Central Hudson must meet regardless  
10          of this transaction and represents no benefit or improvement in these areas. According to  
11          the Panel, Central Hudson provides “safe, reliable service to its customers,” and Fortis  
12          will support any effort by Central Hudson’s management to improve service quality.  
13          Further, “While Fortis believes the customers of Central Hudson will benefit from  
14          Fortis’s acquisition, any benefits in terms of improved service will likely occur over the  
15          long term and be incremental in nature.”<sup>7</sup> It is the Panel’s overall approach to emphasize  
16          that there is an absence of “negative impacts” from the transaction, but the Panel’s  
17          testimony does state that customers will benefit because “...they will have the assurance  
18          of Central Hudson’s ability to maintain and improve its system and services.”<sup>8</sup> The  
19          proponents of the transaction do not point to any risk that Central Hudson would fail to  
20          achieve its regulated obligations this if the transaction is not consummated. With regard  
21          to the currently applicable service quality metrics and incentives approved in the last rate

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<sup>5</sup> Panel Direct Testimony at 21, lines 15-16.

<sup>6</sup> CH/Fortis Response to PULP-25.

<sup>7</sup> Panel Direct Testimony at 23, lines 6-13.

<sup>8</sup> Panel Direct Testimony at 25, lines 15-17.

1 plan case in 2010, the proposal includes an assumption that these metrics and incentives  
2 will remain in place during the one year rate freeze through June 2014.<sup>9</sup>

3 While the Panel states that the benefits will result in “reduced costs of operations,  
4 ready access to equity capital, and access to additional experience and expertise,”<sup>10</sup> the  
5 details or specific cost savings are not identified. Rather, the Petitioners offer an estimate  
6 of \$2.0 million per year, reflecting avoided public company costs and reduced insurance  
7 costs.<sup>11</sup> Finally, the Petitioners state that Fortis’s “experience and expertise” within its  
8 owned utilities will improve management decisions, such as with installation of  
9 Advanced Metering which has occurred in several Canadian utilities.

10 The specific proposed public benefits relate to overall rate proposals (i.e., the rate  
11 freeze and earnings sharing formula change) and the \$5 million fund for a wide range of  
12 public purposes. While the Panel’s Direct Testimony suggests the potential use of these  
13 funds to increase available funding for the Home Energy Assistance Program (HEAP)  
14 and efficiency programs targeted to low income customers, and contribution toward  
15 economic development programs, the Petition does not propose any specific use for this  
16 fund. Rather, the actual uses for this fund are deferred to “Staff and other parties in  
17 further discussions, and, ultimately, as approved by the Commission.”<sup>12</sup>

18 **Q. DOES THE PETITION OR SUPPORTING TESTIMONY CONTAIN ANY**  
19 **SPECIFIC PERFORMANCE OBJECTIVES OR ENFORCEABLE PROMISES**  
20 **CONCERNING CUSTOMER SERVICE AND RELIABILITY PERFORMANCE?**

21 **A.** No. Neither the Petition nor the testimony submitted in support of the acquisition by

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<sup>9</sup> Panel Direct Testimony at 27.

<sup>10</sup> Panel Direct Testimony at 37, lines 1-2.

<sup>11</sup> Panel Direct Testimony at 38.

<sup>12</sup> Panel Testimony at 42, lines 7-9.

1 Central Hudson and Fortis identifies any specific performance goals or objectives to back  
2 up this vague set of commitments with respect to customer service and reliability of  
3 service. In other words, the Petition and the testimony in support of the acquisition  
4 appear to promise that not only will service quality and reliability of service not  
5 deteriorate, but that the transaction will bring improvements and enhancements to the  
6 customer service and reliability of service provided to Central Hudson's customers.  
7 However, these vague and unsupported statements are not accompanied by any reporting  
8 requirement or specific performance standard other than those that currently exist and  
9 those commitments are only in effect currently until June 2013 or June 2014 pursuant to  
10 the proposed one year continuation of the rates in this Application.

11 **Q. DID YOUR ATTEMPT TO EXPLORE SPECIFIC MEANING TO THESE**  
12 **STATEMENTS ABOUT CUSTOMER SERVICE AND RELIABILITY YIELD**  
13 **ANY ADDITIONAL INFORMATION?**

14 **A.** No. The Petitioners did not prepare any document that reflected an analysis or review of  
15 Central Hudson's service quality or reliability of service as part of its proposed merger  
16 activities. When asked to identify any impact from the "best practices" implemented by  
17 Fortis or its subsidiaries, the response was that no such synergies or best practices had yet  
18 been identified.<sup>13</sup> Fortis has not provided any further details concerning these vague  
19 promises and has not provided any specific "best practice" that would be implemented  
20 even though Fortis has acquired several electric and natural gas utilities in Canada and  
21 presumably should be able to identify specific improvements or practices that resulted  
22 from those acquisitions. While there is the allegation that the acquisition will result in

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<sup>13</sup> CH/Fortis Response to MI-31; MI-32.

1 “positive impacts on the quality of service provided to Central Hudson’s customers as  
2 both organizations implement the merger over time,”<sup>14</sup> neither party offer any specific  
3 commitments or enforceable promises with regard to this vague suggestion of future  
4 improvement in quality of service. In fact, Fortis “is not promising that specific  
5 resources will be provided that will impact utility service....”<sup>15</sup>

6 As a result, I have not been able to identify any specific “best practices” or other  
7 initiatives to implement the vague promises made in the Petition with respect to customer  
8 service or reliability of performance. Finally, the Petitioners explicitly disavow any  
9 intent to make any specific plan or enforceable “promise” to implement their statements  
10 that superficially appear to promise that improvements and enhancement will in fact  
11 occur if this merger is approved.

12 **Q. WHY DO YOU ALLEGE THAT THE LACK OF SUFFICIENT BENEFITS AND**  
13 **COMMITMENTS ASSOCIATED WITH CENTRAL HUDSON’S REGULATED**  
14 **DUTIES IN THESE KEY AREAS WILL INCREASE RISKS TO CUSTOMERS?**

15 A. The lack of specificity with respect to the impact of this transaction on customer service,  
16 service quality, and reliability of service and the failure to identify any specific goals and  
17 objectives that will guide the management oversight of Central Hudson by Fortis  
18 increases the risk of a degradation of service quality and reliability of service, as well as  
19 threatens the ability of vulnerable lower income customers to maintain and retain  
20 affordable service. Furthermore, these risks should be considered in light of the  
21 Petitioners’ vague promises to improve customer service quality and reliability of service.

22 First, the description of the benefits to Central Hudson’s customers and Fortis’s

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<sup>14</sup> CH/Fortis Response to MI-14.

<sup>15</sup> CH/Fortis Response to PULP-21.

1 statements concerning customer service and reliability of service are either a commitment  
2 to comply with current standards or vague promises without any enforceable mechanism  
3 or performance standards to track and assure compliance in the future. While these  
4 general statements may be positive, they are not accompanied by any specific plan to  
5 financial commitments or performance targets, and do not carry with them any risk to  
6 Fortis or its shareholders if they are not met. On the contrary, there is no commitment to  
7 retain after June 2014 the structure relied upon to achieve the existing vaunted  
8 performance levels, so all the risks associated with the failure to meet these vague  
9 promises of service maintenance or improvement and synergies remain with Central  
10 Hudson's New York customers.

11 Second, some of the public benefits identified by the Petitioners relate to  
12 activities, such as continued charitable giving and economic development initiatives, may  
13 not impact the rates and service provided to Central Hudson's regulated utility customers.

14 Third, Fortis will have to generate the return on the investment made to acquire  
15 Central Hudson<sup>16</sup> and these actions may result in pressure to cut costs and reduce  
16 expenses, thus adversely impacting customer service and service reliability for all of  
17 Central Hudson's customers. Furthermore, the vague suggestion that this transaction  
18 will result in the implementation of "best practices" suggests that changes, however well  
19 intentioned, may carry the risk of unintended consequences, such as closing local offices  
20 or consolidating call centers in the future. I am not suggesting that adverse results are  
21 necessarily inevitable as a result of this transaction. However, it is only appropriate to  
22 point out the potential for such actions that have occurred when electric and natural gas

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<sup>16</sup> For example, Fortis is offering to pay Central Hudson's shareholders a price that exceeds the current market price.

1 utilities have been acquired by new owners in the past and that could occur when  
2 management is striving to demonstrate lower costs and savings to its investors.<sup>17</sup> Of  
3 course, it may be possible to reduce costs, increase efficiency, increase profits, and  
4 improve customer service and service quality performance. My recommendations are  
5 designed to make it more likely that these “win-win” results do occur and that the risk of  
6 their non-occurrence is shifted from Central Hudson’s customers to Fortis’s shareholders  
7 and investors.

8 Finally, the risks I have described above can have particularly adverse  
9 consequences for low-income and other payment troubled customers. These customers  
10 rely heavily on the ability to reach customer service representatives in a timely manner,  
11 respond to notices of discontinuance of service, negotiate reasonable payment  
12 arrangements, and make use of their rights under the Commission’s credit and collection  
13 and consumer protection rules. More so than other residential customers, low-income,  
14 vulnerable, and payment troubled customers rely on access to customer service and call  
15 centers to negotiate payment arrangements, respond to disconnection notices, and enroll  
16 in various low-income programs. Low-income customers are typically disconnected  
17 more frequently than non low-income customers and experience a higher rate of

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<sup>17</sup> There are a number of well-documented instances where the purchase of a utility has resulted in deterioration in customer service, including the acquisition of the former GPU, Inc. utilities in Pennsylvania by FirstEnergy in 2001. In that proceeding the Pennsylvania PUC required FirstEnergy to meet certain service quality and reliability standards as a condition of the merger, most of which were not met between 2001 and 2003. The deterioration in service quality and reliability was documented in Ms. Alexander’s testimony on behalf of the OCA in the FirstEnergy reliability investigation initiated by the Commission in early 2004. On November 4, 2004, the Commission approved a Joint Petition for Settlement that, among other things, sets forth goals for improving reliability performance and achieving milestone levels of reliability by the end of 2005, 2006 and 2007 for Met-Ed, Penelec and Penn Power. Pennsylvania PUC, Docket No. I-00040102.

1 nonpayment.<sup>18</sup> A recent study issued by the Center for Financial Services Innovation  
2 (CFSI), with a grant from the Ford Foundation, examined who takes out high interest  
3 small-dollar credit (SDC) loans (payday loans, pawn loans, direct deposit advance loans,  
4 auto title loans, and non-bank installment loans), and why. According to this report, the  
5 top 3 uses for an SDC product included: **utility bills (36%)**, general living  
6 expenses (34%), and rent (18%). Payday loan type credit was used 42% of the time for  
7 paying utility bills.<sup>19</sup> Lower income customers are borrowing funds at very high rates,  
8 resulting in loans that are typically not paid on time, resulting in even higher fees and  
9 interest terms, to avoid termination of service or make payments on bills that are  
10 unaffordable. Even a casual review of Central Hudson's monthly collections report  
11 submitted to the Commission reveals that Central Hudson issues over 20,000 termination  
12 notices per month (far in excess of the typical monthly termination rate of 900-1,000 per  
13 month) and that 23,000-25,000 customers have an arrears balance of greater than 60 days  
14 each month.<sup>20</sup>

15 When a new owner is attempting to recoup the costs paid for the new utility and  
16 promising "synergies," the result may harm low income customers in Central Hudson's  
17 customer service performance and accelerate the trend toward higher rates of termination  
18 of service. As a result, low income programs should be improved and expanded if this  
19 transaction is approved.

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<sup>18</sup> According to the U.S. Department of Energy-Energy Information Administration 1997 Residential Energy Consumption Survey, over 5% of low-income households experienced an electric shutoff in 1997 compare to less than 2% of those over 150% of poverty. Those with very low-income (less than \$5,000 annual household income) experience disconnection at an even higher rate, about 8%.

<sup>19</sup> *A Complex Portrait: An Examination Of Small-Dollar Credit Consumers*, available at <http://cfsinnovation.com/content/complex-portrait-examination-small-dollar-credit-consumers>

<sup>20</sup> See, e.g., the 2011 Monthly Collection Reports submitted in CH/Fortis Response to PULP-2.



1 Q. **IN LIGHT OF THIS RECORD, WHAT APPROACH DO YOU RECOMMEND**  
2 **THAT THE COMMISSION TAKE WITH RESPECT TO THE PETITION AND**  
3 **TESTIMONY CONCERNING CUSTOMER SERVICE QUALITY AND**  
4 **RELIABILITY OF SERVICE?**

5 A. The Commission can take either one of two approaches. First, the Commission could  
6 view these statements as “puffery” that have no legal significance and determine that the  
7 Petitioners have failed to provide any factual evidence to support their obligation to  
8 assure that service quality and customer service will not deteriorate or that improvements  
9 are likely to occur in the future, or that the transaction would have any lasting and  
10 measurable ratepayer benefit. Second, the Commission can take the position that the  
11 Petitioners have promised improvement and enhancement as a benefit to Central  
12 Hudson’s customers as a result of this merger and construct a regulatory scheme to make  
13 sure that these promises in fact occur. Under the first approach, the issue of transaction  
14 benefits becomes moot. I have assumed the second approach in making my  
15 recommendations.

16 Q. **PLEASE INTRODUCE YOUR TESTIMONY ON THESE SPECIFIC ISSUES**  
17 **WITH A SUMMARY OF THE ECONOMIC PROFILE FOR CENTRAL**  
18 **HUDSON’S RESIDENTIAL CUSTOMERS.**

19 A. In 2011 Central Hudson’s residential customers (SC-1) paid an average electric bill of  
20 \$109.58 (689 kWh) and an average natural gas bill of \$116.71 (66 Ccf).<sup>21</sup> Of course, the  
21 average natural gas bill masks the very high bills, often over \$200, that are paid during  
22 the winter heating season. Nonetheless, the average annual cost for a combined

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<sup>21</sup> CH/Fortis Response to PULP-2.

1 gas/electric customers was \$2,715.48 in 2011. This amount represents 27.5% of income  
2 for a household with an income of \$10,000 and 18.1% for a family with income of  
3 \$15,000. This level of household income represents 100% of 2012 HHS Federal Poverty  
4 Guidelines<sup>22</sup> for a household of 2. Even a family with income at \$20,000 (100% of HHS  
5 Federal Poverty Guidelines for a household of 3), which is below the median household  
6 income in most of Central Hudson's counties and towns, would have to pay 13.6% of  
7 their annual income to Central Hudson for essential electricity and gas service and an  
8 even higher amount if their usage was higher due to the lack of sufficient insulation and  
9 weatherization for their dwelling. The impact of even this average electric and gas bill on  
10 lower income households is dramatic and contrasts sharply with the typical requirement  
11 that non-low income households pay a much smaller percentage of their household  
12 income for essential electricity and natural gas service. For example, the median  
13 household income for Dutchess County is \$67,727<sup>23</sup> and payment of this average  
14 gas/electric bill represents 4% of this income level. Yet, the U.S. Census estimates that  
15 11,000 children under the age of 18 in Dutchess County live in a household with  
16 Supplemental Security Income, cash public assistance, or Food Stamps.<sup>24</sup> For a poor  
17 family with medical expenses, food, shelter, and transportation costs, paying the Central  
18 Hudson bill becomes a massive hurdle and is likely to result for a much higher potential  
19 for nonpayment of the full amount, the imposition of late fees, collection actions,

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<sup>22</sup> The U.S. Department of Health and Human Services publishes its HHS Poverty Guidelines annually. This calculation relies on the same poverty threshold calculations used by the U.S. Census and form the basis for eligibility criteria for HEAP and other means-tested financial assistance programs. The most recent version for 2012 was published in January 2012. See <http://aspe.hhs.gov/poverty/12poverty.shtml>

<sup>23</sup> U.S. Census Bureau, 2011 American Community Survey, 1-year Estimate, S1903.

<sup>24</sup> U.S. Census Bureau, 2011 American Community Survey, 1-year Estimate, B09010.

1 terminations, and the build up of large arrears balances compared to higher income  
2 families, all of which is reflected in Central Hudson's monthly collection activity reports.

3 **II. CENTRAL HUDSON'S CURRENT LOW INCOME PROGRAMS**  
4 **SHOULD BE REFORMED AND EXPANDED AS A CONDITION**  
5 **OF THIS TRANSACTION**

6  
7 **Q. PLEASE DESCRIBE CENTRAL HUDSON'S CURRENT ELECTRIC AND GAS**  
8 **LOW INCOME PROGRAMS.**

9 A. Central Hudson provides several programs that provide assistance to low income  
10 customers. In all cases, the Company identifies "low income" customers as those that  
11 receive a regular or emergency benefit or grant from the Home Energy Assistance  
12 Program (HEAP).

- 13 • When the customer receives a HEAP benefit, Central Hudson automatically enrolls  
14 the customer in the monthly bill discount program. The bill discount credit continues  
15 for 12 consecutive months or until the customer renews their HEAP eligibility. In the  
16 last rate case in 2010, the monthly bill credit was established for electric service or  
17 gas service as \$7 per month for 2011, \$9 per month for 2012, and \$11 per month for  
18 2013. However, the customer is eligible for only one monthly credit regardless of  
19 whether the customer takes electric or gas service.<sup>25</sup> During calendar year 2011,  
20 approximately 15,500 customers were enrolled on a monthly basis for an average  
21 monthly expenditure of \$82,683. This enrollment has dropped in 2012. As of  
22 September 2012, the average monthly enrollment was 13,500 at an average monthly

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<sup>25</sup> Central Hudson PSC No. 15, Electricity, Leaf 163.5 (Rev. 7); Central Hudson PSC No. 12, Gas, Leaf 126 (Rev.15). The Tariff states, "Provided the customer's account remains active, each customer will be entitled to only one monthly credit regardless of whether the customer takes electric and gas service from the Company."

1 cost of \$84,270 (the increase is due to the larger discount amount being provided  
2 compared to 2011).<sup>26</sup> The vast majority of these customers are combined gas/electric  
3 customers. As of May 31, 2012, there was a credit of \$358,620 in the funding  
4 allocated for this program.<sup>27</sup> The current monthly credit of \$11 is equal to 50% of  
5 the \$24 minimum customer charge for residential electric customers and slightly less  
6 than 50% of the \$23 minimum customer charge for residential natural gas customers.  
7 Since there is only one credit provided when a customer has both electric and gas  
8 service from Central Hudson, the impact of the \$11 credit is to reduce the minimum  
9 monthly charge to 23% of the combination of both gas and electric minimum monthly  
10 charge.

11 • Central Hudson also operates the Enhanced Powerful Opportunity Program (EPOP).  
12 This program targets customers with high arrears balances for enrollment in a  
13 levelized payment program that provides more significant discounts and the potential  
14 for arrears forgiveness if payments are made on time. According to the most recent  
15 program report and evaluation for the July 1, 2011-June 30, 2012 period, 961  
16 customers were enrolled as of June 30, 2012. For this period, EPOP participants  
17 received \$1,136,025 in discounts on the budget bill (established according to a  
18 formula that reflects household size and income), \$494,474 in arrears forgiveness,  
19 and \$79,691 in incentive credits, for a total benefit expenditure of \$1.7 million. In  
20 addition to the administrative costs equal to approximately 11% of the benefit costs,  
21 the program recorded a grant total cost of \$1,898,880. This is equal to 95% of the

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<sup>26</sup> CH/Fortis Response to PULP-46b.

<sup>27</sup> CH/Fortis Response to PULP-7, attachment 1, and PULP-47.

1 budget allocated for this program.<sup>28</sup> Not all HEAP customers are eligible for EPOP.  
2 Rather, this program is limited to those enrolled in HEAP, with an arrears balance in  
3 excess of \$100, enrollment in the budget billing program, agree to allow Central  
4 Hudson to obtain financial information from the Department of Social Services, and  
5 has the ability to pay the discounted budget bill each month. Program participants  
6 have 36 months to receive the maximum 24 monthly benefits. According to this most  
7 recent evaluation, 637 customers have successfully completed the program.<sup>29</sup> Due to  
8 the budget established for this program, Central Hudson rejects applications or  
9 removes participants from the program to keep the maximum participation limit.<sup>30</sup>  
10 As a result, this program is relatively small and does not resolve the ongoing  
11 affordability issues faced by many low income customers for essential gas and  
12 electric service.

13 **Q. DO ANY OF THESE PROGRAMS IMPLEMENTED BY CENTRAL HUDSON**  
14 **INCLUDE ENERGY EFFICIENCY PROGRAMS TARGETED SPECIFICALLY**  
15 **TO LOW INCOME CUSTOMERS?**

16 A. No. Central Hudson does not provide efficiency services to low income customers  
17 directly.<sup>31</sup> However, Central Hudson does directly provide electric and gas efficiency  
18 programs and expended \$9.9 million for such electric programs and \$572,431 for gas  
19 efficiency programs for the fiscal year ending June 2012.<sup>32</sup> These programs are  
20 primarily rebate programs associated with Energy Star appliances that require the

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<sup>28</sup> Central Hudson's EPOP Rate Year End Report, filed in Cases 09-E-0588/G-0589 (July 31, 2012).

<sup>29</sup> This successful participation number is equal to 4.7% of the low income customers receiving the monthly discount.

<sup>30</sup> *Ibid.*, at 17.

<sup>31</sup> CH/Fortis Response to PULP-9.

<sup>32</sup> CH/Fortis Response to MI-36.

1 customer to purchase the new appliance to obtain a rebate. As a result of the obvious  
2 requirement that a customer must buy a new appliance to trigger the rebate, these are not  
3 programs that most low income customers can or do participate in even though their rates  
4 reflect the subsidies necessary to support these programs. However, residential customer  
5 bills include a System Benefits Charge to pay for these efficiency programs. As a result,  
6 low income customers pay far more to support these programs compared to their ability  
7 to participate in them and subsidize the programs that are primarily used by higher  
8 income customers.

9 Central Hudson informs all the low income customers participating in these bill  
10 discount and the EPOP about New York State Energy Research and Development  
11 Authority's (NYSERDA) EmPower New York programs and refers these customers  
12 directly to NYSERDA as well. NYSERDA implements targeted weatherization and  
13 efficiency programs for low income customers through third party contractors. According  
14 to NYSERDA's EmPower New York website, this program has provided assistance to  
15 61,000 low income households since its inception.<sup>33</sup> A qualified customer gets a no-cost  
16 energy audit and various efficiency and weatherization services, again at no cost, based  
17 on the results of the audit.<sup>34</sup> In addition, the federally funded Weatherization Assistance  
18 Program which targets weatherization services to low income households is implemented  
19 by still a different New York state agency, the New York State Division of Housing and

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<sup>33</sup> According to NYSERDA's 2010 Annual Report, "During 2010, EmPower provided electricity demand reduction and home energy performance improvements to more than 6,334 low-income households." Clearly, this program, while valuable, does not deliver its low income energy performance improvements to even a small percentage of the low income customers participating in New York's gas and electric low income bill assistance programs. Report at 23. Available at [www.nyserdera.ny.org](http://www.nyserdera.ny.org)

<sup>34</sup> <http://www.nyserdera.ny.gov/Page-Sections/Residential/Programs/Low-Income-Assistance/EmPower-for-Residents.aspx>

1 Community Renewal through its network of regional Community Action Program  
2 agencies. Based on the EmPower New York program participation information provided  
3 by NYSERDA, there is no question that this program serves a very small percentage of  
4 the low income customers that are being served not only by Central Hudson, but other  
5 New York gas and electric utilities as well.

6 **Q. HOW DOES CENTRAL HUDSON RECOVER THE LOSS IN REVENUES AND**  
7 **ADMINISTRATIVE COSTS OF ITS LOW INCOME BILL PAYMENT**  
8 **ASSISTANCE PROGRAMS?**

9 A. These programs costs are reflected in delivery rates and the budgets for these programs  
10 were established in the 2010 rate case for the three-year rate plan through June 30, 2013.  
11 All customer classes pay for these programs. While the rate impact of including these  
12 programs in rates is relatively small, it should be noted that low income customers also  
13 pay for these programs in their rates. This is a strong reason to strive for the fullest  
14 possible participation by eligible customers in low income programs.

15 **Q. HOW DOES THE PROGRAM DESIGN FOR THESE LOW INCOME BILL**  
16 **ASSISTANCE PROGRAMS COMPARE TO OTHER LOW INCOME**  
17 **PROGRAMS IN NEW YORK?**

18 A. The following program descriptions indicate that Central Hudson's programs are  
19 relatively modest:

- 20 • National Grid's Niagara Mohawk low income gas customers are provided a  
21 \$7.50/month credit, equal to 42% of the current monthly minimum charge. In 2011,  
22 an average of 68,800 customers per month received this credit which totaled \$6.1  
23 million. There is no reduction on the otherwise applicable delivery service per therm

1 charge. A low income electric customer receives a \$5.00/month credit for basic  
2 electric service (16.7% of current customer charge) and \$15.00/month for electric  
3 heat customers (92.5% of current customer charge).

- 4 • National Grid’s KEDNY’s Reduced Residential Rate provides a \$2.50 monthly bill  
5 reduction for residential non-heating low income customers (equal to 18 % of the  
6 minimum customer charge) and a \$9.50 monthly reduction for residential heating low  
7 income customers (equal to 57.5% of the minimum customer charge). In addition,  
8 there is a reduction of the per therm charge for residential heating service customers  
9 equal to 46.9% of the “block 2 rate” for November 1 through April 30. KEDNY also  
10 operates an On Track program that targets customers with arrears balances. The  
11 reduced rates for heating and non-heating low income customers are reflected in the  
12 Company’s tariffs as two identified subclasses of residential customers.
- 13 • KEDLI provides a \$4.82 monthly rate reduction for general residential service (equal  
14 to 35%3% of the current minimum charge) and a \$13.02 monthly rate reduction for  
15 residential heating service (equal to 78,2% of the current minimum charge). In  
16 addition, there is a rate reduction on the per therm charge for residential heating  
17 service customers equal to 41.4% of the “block 2 rate” for November 1 through April  
18 30. KEDLI also operates an On Track program that targets customers with arrears  
19 balances. These rate reductions are reflected in the Company’s tariffs.
- 20 • Both downstate National Grid companies have expanded the availability of these  
21 programs beyond HEAP participation and include recipients of other categorical low  
22 income programs, such as Medicaid, Food Stamps, TANF, Supplemental Security  
23 Income, Veteran’s Disability Pension, and Public Assistance. The application



1 requires the customer to show a photocopy of the identification card associated with  
2 one or these programs and allows National Grid to contact the issuing agency to  
3 verify the information.<sup>35</sup>

- 4 • Both of these downstate National Grid gas utilities implement an On Track  
5 affordability program targeted to customers at risk of service termination for  
6 nonpayment and high arrears balances, similar to Central Hudson's EPOP, but with a  
7 much larger participation rate.
- 8 • Consolidated Edison reports that 372,728 electric customers are receiving a low  
9 income rate.<sup>36</sup> Gas customers also receive a reduced minimum charge discount and a  
10 per therm rate reduction. Low Income gas heating customers are served under a  
11 tariffed low income rate that provides a \$7.65 discount o the minimum monthly  
12 charge (3 therms) and a 49% reduction off the otherwise applicable per therm rate for  
13 the next 87 therms.<sup>37</sup> For program year April 2011 through May 2012, the electric  
14 rate reduction totaled \$36.1 million. For the program year ending September 2011,  
15 the low income gas reductions totaled \$6.747 million.
- 16 • Orange and Rockland provides natural gas residential heating low income customers  
17 a monthly bill reduction of \$17.40. Electric low income customers will receive a  
18 monthly bill reduction of \$7.00, \$8.00, and \$9.00 for rate years 1 through 3.<sup>38</sup>
- 19 • New York State Electric and Gas and Rochester Gas and Electric both substantially  
20 expanded their gas and electric low income programs in a settlement of a 2010 rate

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<sup>35</sup> KEDNY's Residential Reduced Rate Application is available on its website.

<sup>36</sup> Consolidated Edison's current low income programs were approved in Case 09-E-0428 and 09-G-0795 (multi year rate plans). The reported data is from its June 30, 2012 Low Income Report.

<sup>37</sup> See Consolidated Edison tariffs, Service Classification No. 2 and No. 3 (October 1, 2011).

<sup>38</sup> Case 11-E-0408.

1 case. According to the Commission’s Order approving a settlement on these program  
2 expansions, the “need is indisputable,” “current participant levels were inadequate,”  
3 and “increases are demonstrably reasonable and necessary.”<sup>39</sup> Based on the total  
4 participants and costs reported in the 2011 Report, the monthly bill reduction appears  
5 to average \$16.77 for NYSEG and \$11 for RG&E customers.<sup>40</sup>

6 **Q. IN LIGHT OF THIS INFORMATION AND YOUR PRIOR DESCRIPTION OF**  
7 **THE ECONOMIC INDICATORS OF POVERTY IN CENTRAL HUDSONS’**  
8 **SERVICE TERRITORY, WHAT DO YOU RECOMMEND IN THIS**  
9 **PROCEEDING?**

10 A. I have several recommendations designed to assure that low income customers receive  
11 appropriate benefits if this transaction is approved:

- 12 • With regard to the low income monthly rate reductions, I recommend that Central  
13 Hudson expand its monthly discount to \$15 per month for electric customers and \$15  
14 per month for natural gas heating customers. This will provide a monthly discount  
15 that is well within the very high minimum monthly customer charge reflected in  
16 Central Hudson’s current rate structure and provide a targeted and assured benefit to  
17 low income customers if this transaction is approved.
- 18 • Central Hudson should implement a per therm rate reduction for low income heating  
19 customers, similar to what is provided to similar customers by National Grid in  
20 Brooklyn and Long Island. The per therm reduction should equal at least 40% of the  
21 next rate block’s otherwise applicable rate. This recommendation is crucial to the

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<sup>39</sup> Cases 09-E-0715, 09-G-0716, 09-E-0717 and 09-G-0718. The Commission issued its order approving the rate plan and expanded low income programs on September 21, 2010. See pp. 61-62.

<sup>40</sup> NYSEG’s Low Income Report for 2011.

1 assurance of affordability for essential natural gas heating service. The reduction in  
2 the monthly bill that is provided with the current credit that is related to a portion of  
3 the minimum monthly charge, while an important step, has insufficient impact on  
4 affordability of heating expenses.

- 5 • I recommend that Central Hudson provide both a gas and an electric rate reduction so  
6 that a qualified combined gas/electric customer would receive the appropriate rate  
7 reduction for each service since the combined impact of both services has a  
8 significant impact on the affordability of essential gas and electric service.
- 9 • In light of Central Hudson’s recent decrease in enrollment in the low income discount  
10 program and its projected under spending compared to the allowed budget for this  
11 program, I recommend that Central Hudson widen its program eligibility to include  
12 the categorical low income programs also relied upon by several other New York  
13 utilities and use the same methodology to determine eligibility and enrollment in  
14 those programs, all of which rely on a means-tested analysis of household income.  
15 Customers who for whatever reason have not applied for HEAP but who are clearly  
16 “low income” based on their enrollment in the programs relied upon by other New  
17 York utilities should be solicited and enrolled in Central Hudson’s programs.
- 18 • With regard to the implementation of energy efficiency and weatherization services  
19 for low income customers, the existence of both NYSERDA and Central Hudson  
20 sponsored efficiency programs and their different modes of delivery for these  
21 programs is likely to contribute to an inefficient targeting for Central Hudson’s low  
22 income customers of important and needed services to help reduce the overall bill and  
23 contribute to more affordability bills for gas and electric service. I recommend that

1 the Commission undertake a thorough review of the delivery of low income  
2 efficiency and weatherization programs to increase the coordination and availability  
3 of these programs for low income customers.

4 **Q. SHOULD THE ADDITIONAL COSTS FOR IMPLEMENTING THESE**  
5 **RECOMMENDATIONS ABOUT ADDITIONAL BENEFITS FOR LOW**  
6 **INCOME CUSTOMERS BE INCLUDED IN CENTRAL HUDSON’S RATES AT**  
7 **THIS TIME?**

8 A. No. I recommend that the additional costs for my recommendations be reflected in the  
9 public benefit funding recommended by the Petitioners that will be applicable for any  
10 extension of the current rate plan that may be ordered in this proceeding. It is my  
11 understanding that a 1% temporary surcharge assessment for state revenue under 18a of  
12 the Public Service Law will expire March 31, 2014, and other things being equal, gas and  
13 electric bills will be lowered by 1% at that time. Furthermore, the Petitioners have  
14 proposed to eliminate certain unidentified deferred funds from recovery by ratepayers.  
15 The modest bill impact on other customers from improving the low income rate could be  
16 mitigated by applying public benefit funding or deferred credits for a multi-year period.

17 **Q. DO YOU HAVE ANY RECOMMENDATIONS WITH RESPECT TO CENTRAL**  
18 **HUDSON’S AFFORDABILITY OR ARREARS MANAGEMENT PROGRAM?**

19 A. This program is relatively small and is not the “answer” for assuring affordability of  
20 service for the large number of low income households enrolled in the current discount  
21 program. While I appreciate the intent of this and similar programs to address the  
22 situation of customers at risk of termination who have broken deferred payment  
23 agreements with minimum payment requirements, by attempting to incent regular

1 payments in return for a reduction in the customer's arrears balances, these more "one on  
2 one" programs would need to be significantly expanded to have the desired broader  
3 impact on affordability and, as currently structured, Central Hudson's program does not  
4 provide sufficient rate reduction or bill payment assistance to assure that result. I do not  
5 have any specific proposal for changing the design or implementation of this program at  
6 this time. However, I do not recommend that it be expanded at this time or in this  
7 proceeding. Rather, I recommend that additional rate reductions such as those I have  
8 identified above should be emphasized to provide a more robust bill payment assistance  
9 program to the largest possible number of qualified low income customers.

10 **Q. IS THERE A MODEL FOR A LARGER SCALE ARREARS MANAGEMENT**  
11 **PROGRAM THAT SHOULD BE CONSIDERED FOR ADOPTION BY NEW**  
12 **YORK UTILITIES IN GENERAL AND CENTRAL HUDSON IN PARTICULAR?**

13 A. Yes. The Massachusetts gas and electric utilities operate a large-scale arrears  
14 management program along with a more substantial rate reduction for their low income  
15 customers. For example, National Grid in Massachusetts offers an Arrears Management  
16 Program for low income customers already participating in the Low Income reduced rate  
17 if the customer has an arrears balance of \$300 or more that is at least 60 days overdue.  
18 The customer who makes payments on their current discounted bill under a budget  
19 payment plan can get arrears forgiveness equal to 1/12<sup>th</sup> of their arrears balance over a 12  
20 month period up to a maximum of \$1,500 (or for a longer period of time if the arrears  
21 balance is higher). Importantly, a customer who is enrolled in this program and makes  
22 their monthly budget payment is shielded from disconnection of service. I attach a  
23 description of National Grid's AMP as Exhibit BA-4. This program is implemented

1 statewide in Massachusetts. It is simply designed and widely viewed as successful by  
2 both utilities and advocates.

3 **Q. ARE THERE OTHER BEST PRACTICES THAT ARE IMPLEMENTED IN**  
4 **MASSACHUSETTS THAT SUPPORT YOUR PROPOSED REFORMS?**

5 **Q.** Yes. In connection with my proposal to expand the categorical low income programs  
6 that would trigger a participation in Central Hudson's low income discount and rate relief  
7 benefits, Massachusetts has adopted a statewide means of enrolling low income  
8 customers in their rate discount programs that should be adopted in New York and that is  
9 reflected in the similar approach that National Grid is using in its New York and Long  
10 Island gas service areas. This approach requires the customer to identify the program for  
11 which the customer or member of the household receives benefits (using the same list  
12 that National Grid uses for its New York and Long Island customers), show proof of  
13 enrollment in the program, at which point the utility enrolls the customer in the program.  
14 There is no need for further investigation or additional bureaucracy unless the utility has  
15 some reason to doubt the authenticity of the document provided by the customer and  
16 follows up with confirmation from the agency in question. This approach reduces costs,  
17 enhances the potential of enrollment for needy families, and streamlines the utility's role  
18 in determining eligibility. Finally, it is my understanding that Consolidated Edison in  
19 New York has, in addition to a manual enrollment process, implemented a method to  
20 automatically enroll qualified customers in its low income rate reduction programs based  
21 on data transfer protocols with social assistance agencies. Central Hudson should also be  
22 required to explore this approach once the categorical programs are approved for  
23 enrollment in these vital programs.

1 **III. CENTRAL HUDSON'S CUSTOMER SERVICE AND RELIABILITY**  
2 **PERFORMANCE METRICS SHOULD REQUIRE GRADUAL**  
3 **IMPROVEMENT IF THIS TRANSACTION IS APPROVED**  
4

5 **Q. FIRST, PLEASE IDENTIFY THE PERFORMANCE AREAS THAT ARE**  
6 **MEASURED AND REPORTED BY CENTRAL HUDSON REGARDING**  
7 **RELIABILITY AND CUSTOMER SERVICE.**

8 A. Central Hudson's customer service and reliability performance and reporting  
9 requirements were reviewed and approved in the 2010 rate plan order in Case 09-E-  
10 0588/09-G-0589 (Order Establishing Rate Plan issued June 18, 2010). These  
11 performance measures in standard reliability measurements of frequency (SAIFI) and  
12 duration (CAIDI) of outages with major storms excluded, a Customer Service Index that  
13 reflects the results of customer surveys, a PSC Complaint Rate, an appointments kept  
14 metric, adjusted bills, percentage of calls answered within 30 seconds, estimated meter  
15 readings, and 11 different gas safety measurements. According to Central Hudson, the  
16 Company has met all the applicable performance standards for each year of the rate plan  
17 to date.<sup>41</sup>

18 With regard to reliability indices, Central Hudson's 2011 non-storm SAIFI was  
19 1.20, which is below the PSC SAIFI rate target of 1.45. Central Hudson's 2011 non-  
20 storm CAIDI was 2.26, which is below the PSC SAIFI rate target of 2.5.

21 With regard to the Customer Survey Index (a composite results of several surveys  
22 and survey questions seeking customer satisfaction with various types of transactions),

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<sup>41</sup> CH/Fortis Response to PULP-11.

1 Central Hudson ended 2011 with a CSI of 89.3 percent, above the penalty threshold of  
2 85.0 percent established in Cases 09-E-0588 and 09-G-058.

3 With regard to the PSC Complaint Ratio, the calculated rate of 0.15 per 100,000  
4 customers was below the PSC target of 1.7 complaints per 100,000 customers.

5 Central Hudson's call center performance reflects an improvement from 30.7% in  
6 2009 to 70.6% in 2011.<sup>42</sup>

7  
8 **Q. PLEASE IDENTIFY THE SPECIFIC REFORMS YOU RECOMMEND WITH**  
9 **RESPECT TO CENTRAL HUDSON'S CUSTOMER SERVICE AND**  
10 **RELIABILITY PERFORMANCE METRICS THAT YOU RECOMMEND IN**  
11 **THIS PROCEEDING.**

12 A. I recommend that the Commission require Fortis to commit to a measurable improvement  
13 in reliability and customer service performance as a condition of this transaction. In  
14 order to determine that the transaction will have a benefit to customers, measurable and  
15 enforceable improvement should be required. The Panel's vague promise to assure that  
16 Central Hudson's performance will improve over time and take advantage of the "best  
17 practices" of other Fortis-owned utilities should be made into a concrete performance  
18 requirement. Specifically, I recommend the following specific reforms to the current  
19 Customer Service and Reliability performance metrics that should be required by Central  
20 Hudson to meet as a condition of any approval of this transaction:

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<sup>42</sup> CH/Fortis Response to PULP-44.



- 1           • Fortis should be required to ensure that a 10% improvement in CAIDI and SAIFI  
2           be provided for Central Hudson’s customers over two-year period. I recommend  
3           that at least a 5% improvement be achieved in each year.
- 4           • Central Hudson’s current call center performance is below average in my opinion  
5           and falls to include a Call Abandonment Rate.
- 6           • The metrics should include a new measurement of the rate of disconnection or  
7           termination for nonpayment for low income and residential customers.

8   **Q. PLEASE DISCUSS YOUR RECOMMENDATION FOR A 10%  
9   IMPROVEMENT IN RELIABILITY PERFORMANCE.**

10 A. Central Hudson is at risk of a negative revenue adjustment of 15 basis points for failure to  
11 achieve an annual CAIDI of 2.50 hours and a similar 15 basis point adjustment for failure  
12 to achieve an annual SAIFI target of 1.45 outage events. Of course, these targets exclude  
13 all major storms so that they only measure so-called “blue sky” outages and they are not a  
14 reflection of what customers actually experiences. Nonetheless, these targets were  
15 established in the 2010 rate plan order without any changes from the 2009 rate order.  
16 Central Hudson was also subject to an obligation to complete certain tree trimming  
17 programs as part of the 2010 rate plan order. As a result, there has not been any  
18 required improvement in Central Hudson’s reliability performance since at least 2009 and  
19 under the proposal for rates reflected in this Application, there will be no improvement  
20 required through 2014. This approach is not reasonable and fails to implement any  
21 enforceable commitment to improve service quality as implied by the Panel Testimony I  
22 outlined above. My recommendation is that Fortis commit to a modest 10%  
23 improvement in the targets for CAIDI and SAIFI as a condition of any approval for this

1 transaction. My recommendation would require Central Hudson to achieve a CAIDI  
2 target of 2.25 hours and a SAIFI target of 1.30 outage events with the existing penalty  
3 scheme applicable to those targets by June 2015, two years after the expiration of the  
4 current rate plan. Alternatively, at least a 5% improvement should be achieved in each of  
5 the two-year period. These enforceable targets are reasonable as well because Central  
6 Hudson actually met the recommended SAIFI target in 2010 and 2011 and met the  
7 CAIDI target in 2009 and barely missed this target (2.26 hours) in 2011. In my opinion,  
8 these revised targets are reasonable and should be achievable in the near term.

9 **Q. PLEASE DISCUSS YOUR RECOMMENDATION WITH RESPECT TO THE**  
10 **CALL CENTER PERFORMANCE MEASUREMENTS.**

11 A. Central Hudson's call center performance as reflected in its annual percentage of calls  
12 answered within 30 seconds is below average and has reflected generally a 70% answer  
13 rate for 2010 and 2011. Furthermore, this annual average reflects several months in  
14 which the call answering rate is below 70%. In 2010, the call answering rate was below  
15 70% in January, March, September, October, and November. The same pattern was  
16 evident in 2011. As a result, Central Hudson is not able to handle the larger volume of  
17 calls from customers in the spring and fall, times when higher than normal calls should be  
18 expected and accommodated due to the normal collection cycles that reflect those call  
19 volumes. A proper objective should reflect an annual average 80% answer rate at a  
20 minimum.<sup>43</sup> Furthermore, the call abandonment rate has been too high as well,

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<sup>43</sup> This performance level is a typical industry standard and is the performance result that the larger Pennsylvania electric and natural gas utilities report as well. See, Pennsylvania PUC, 2011 Annual Customer Service Performance Report, available at:

[http://www.puc.state.pa.us/general/publications\\_reports/pdf/Quality\\_Of\\_Service\\_Rpt\\_11.pdf](http://www.puc.state.pa.us/general/publications_reports/pdf/Quality_Of_Service_Rpt_11.pdf)

1 measuring 5.6% in 2010 and 6.2% in 2011.<sup>44</sup> This means that once customers enter the  
2 queue to speak with a customer service representative, over 6% are abandoning the call  
3 before the call is answered. This performance is below acceptable levels and should be  
4 improved as a condition of this transaction. I recommend an annual average call  
5 abandonment rate of 3%. As an example, the Pennsylvania electric and gas utilities  
6 report this Call Abandonment Rate annually. While the recent performance of the  
7 Pennsylvania electric and gas utilities has varied, the larger gas and electric utilities  
8 report an annual average of 3% or less.<sup>45</sup>

9 **Q. DO YOU PROPOSE A BUSY SIGNAL PERFORMANCE OBJECTIVE FOR**  
10 **CENTRAL HUDSON’S CALL CENTER?**

11 A. Not at this time. According to Central Hudson, the call center is operated so that a busy  
12 signal is not encountered. If the trunk lines are full, the calls are automatically routed to a  
13 third party vendor which provides an “automated call answering system.”<sup>46</sup> While I  
14 appreciate that busy signals are avoided, it appears that customers may not be able to  
15 speak with a customer service representative who can substantively respond to their  
16 concern with this system. I presume such calls are reflected in the call answering and call  
17 abandonment rate statistics presented above.

18 **Q. PLEASE DICUSS THE PROPOSED METRIC TO MEASURE THE**  
19 **RESIDENTIAL DISCONNECTION OR TERMINATION RATE.**

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<sup>44</sup> CH/Fortis Response to PULP-44.

<sup>45</sup> Pennsylvania PUC, 2011 Annual Customer Service Performance Report, available at:  
[http://www.puc.state.pa.us/general/publications\\_reports/pdf/Quality\\_Of\\_Service\\_Rpt\\_11.pdf](http://www.puc.state.pa.us/general/publications_reports/pdf/Quality_Of_Service_Rpt_11.pdf)

<sup>46</sup> CH/Fortis Response to PULP-44.

1 A. Central Hudson reports its residential terminations of service for nonpayment as part of a  
 2 monthly collection activity report to the PSC.<sup>47</sup> According to these reports, Central  
 3 Hudson has dramatically increased the volume of such terminations from 4,688 in 2005,  
 4 7,164 in 2006, 6,851 in 2007, 9,182 in 2008, 10,719 in 2009, 11,886 in 2010, and to  
 5 12,704 in 2011. From 2005 through 2011 there was a 171% increase in the volume of  
 6 terminations of residential customers. From 2009 to 2011 there was an 18.5% increase.  
 7 This trend in increasing reliance on termination of service is reflected in 2012 activity as  
 8 well. As of May 2012, Central Hudson had terminated 5,188 customers for nonpayment  
 9 with monthly termination volume in excess of terminations during the same period in  
 10 2011. The following is a compilation of this information for 2005 through May 2012:

**CENTRAL HUDSON MONTHLY COLLECTION REPORTS**

	<b>2005 Terminations for Nonpayment</b>	
Total	4688	
	<b>2006 Terminations for Nonpayment</b>	
Total	7164	
	<b>2007 Terminations for Nonpayment</b>	
Total	6851	
	<b>2008 Terminations for Nonpayment</b>	
Total	9182	
	<b>2009 Terminations for Nonpayment</b>	
Total	10719	
	<b>2010 Terminations for Nonpayment</b>	
Month	Nonpayment Heat	Nonpayment Service Limiter
January	400	400

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<sup>47</sup> CH/Fortis Response to PULP-2.

February	309	309
March	405	0
April	1523	0
May	1603	0
June	1545	0
July	1246	0
August	1161	0
September	1350	0
October	1477	0
November	563	0
December	304	304
AVG	991	
Total	11886	

**2011 Terminations for nonpayment**

January	186	186
February	247	247
March	441	95
April	1199	0
May	1881	0
June	2101	0
July	1557	0
August	1592	0
September	1310	0
October	1512	0
November	399	0
December	279	0
AVG	1059	
Total	12704	

**2012 Terminations for Nonpayment**

January	669	0
February	623	0
March	574	0
April	1409	0
May	1913	0
AVG	1038	
Total	5188	

Percentage Increase 2005 through 2011:

170.99%

Percentage increase 2009 through 2011:

1  
2           Service terminations of essential gas and electric service for nonpayment carry a  
3 high risk of adverse impact of family health and welfare. This is a discretionary action  
4 by a monopoly utility that should be the last resort, not the first resort. Furthermore,  
5 involuntary termination is a regulated action by electric and natural gas utilities for  
6 exactly these reasons. The Home Energy Fair Practices Act declares that continued  
7 service “is necessary for the preservation of the health and general welfare and is in the  
8 public interest.”<sup>48</sup> This dramatic increase in terminations of essential electricity and  
9 natural gas service by Central Hudson is a disturbing and potentially harmful trend.

10           Any proper measurement of “customer service” should include a measurement of  
11 the frequency that a utility makes use of this collection tool so that it is minimized,  
12 particularly where there is clear evidence that terminations for nonpayment have  
13 increased dramatically in recent years. Furthermore, the potential that this change in  
14 ownership will result in pressure to lower operational costs and increase revenues to  
15 shareholders of Fortis may accelerate this trend toward increased reliance on termination  
16 of service which frustrates the societal interest in safe and continuous utility service and  
17 which is particularly harmful to lower income customers.

18           I recommend that Central Hudson add a new metric to its service quality  
19 assurance plan that tracks and reports the termination rate for residential and known low  
20 income customers. This metric should calculate a baseline level of terminations for  
21 residential customers and known low income customers (i.e, those enrolled in Central

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<sup>48</sup> N.Y. Public Service Law, Article 2, Section 30.

1 Hudson's HEAP-based assistance programs) and require Central Hudson to conduct its  
2 collection activities in a manner that does not exceed that baseline level. As a  
3 preliminary matter I recommend that this baseline level be established based on the  
4 average termination rate that was in effect in 2009. While the volume of terminations in  
5 2009 are still much higher than 2006-2008, the proposal would require Central Hudson to  
6 halt the continued rise in terminations for nonpayment as reflected in the 2010, 2011, and  
7 2012 reports. I recommend that the baseline level should be expressed as a percentage  
8 of all residential customers, rather than a strict numerical level, to accommodate the  
9 potential for growth in the overall customer base. In 2009, the termination rate expressed  
10 as a percentage of residential customers (which averaged about 244,000 in that year) was  
11 4.4%. This figure reflects all residential terminations for nonpayment. I recommend that  
12 Central Hudson also report the termination of its known low income customers, but I do  
13 not recommend at this time any performance level for this subset of residential  
14 terminations.

15 **Q. HAVE YOU CALCULATED AND PRESENTED A FORMULA FOR THE**  
16 **OPERATION OF A NEGATIVE REVENUE ADJUSTMENTS FOR THE**  
17 **ADDITIONAL CUSTOMER SERVICE PERFORMANCE METRICS YOU**  
18 **RECOMMEND BE ADOPTED?**

19 A. No. Rather, I recommend that if these additional metrics are ordered to be included that  
20 the Commission then order the parties to consult and present a compliance filing to  
21 reflect a methodology for measuring and calculating a negative revenue adjustment if the  
22 Company fails to comply with the recommended new metric baseline performance levels.

23 **Q. DOES THIS COMPLETE YOUR TESTIMONY AT THIS TIME?**

1 A. Yes