NEW YORK STATE OF OPPORTUNITY | Department of Public Service

Case 18-M-0267

In the Matter of Energy Utility Customer Service Quality

2017 UTILITY SERVICE QUALITY REPORT

June 2018

THIS PAGE

INTENTIONALLY

LEFT BLANK

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

EXECUTIVE SUMMARY

This report summarizes the electric and gas utilities' performance for calendar year 2017 on measures of customer service quality. There are two types of measures of customer service quality: (1) performance indicators, which include a standardized set of measures of customer service performance reported by all utilities; and, (2) Customer Service Performance Incentives (CSPIs), which include negative revenue adjustments (NRAs) for unsatisfactory customer service performance on selected measures. Performance indicator data shows that New York State utilities generally provided a satisfactory level of service on performance indicator measures in 2017.

The utilities also met or exceeded the standards for performance on the measures of customer service established within their individual CSPI mechanisms for 2017 reporting period; except for Rochester Gas & Electric Corporation (RG&E), which failed to meet its targets on Calls Answered in 30 Seconds and Estimated Bills. Pursuant to the RG&E's rate plan, negative revenue adjustments relating to those performance deficits are automatically deferred for the benefit of customers, and no Commission action is required at this time.

The following four utilities achieved the targets on their measures for reductions in customer terminations and/or uncollectible expense: KeySpan Gas East Corporation d/b/a National Grid (KEDLI), Brooklyn Union Gas Company (KEDNY) d/b/a National Grid NY, Orange & Rockland Utilities, Inc. (Orange & Rockland), and St. Lawrence Gas Company, Inc. (St. Lawrence Gas). Positive revenue adjustments relating to those achievements are also automatically deferred under each company's respective rate plan, and no Commission action is required.

BACKGROUND

As monopoly providers, utilities have little direct financial pressure to provide quality customer service. Department of Public Service staff (Staff) performs a variety of activities throughout the year to monitor the quality of customer service provided by utilities, and to help ensure the fair and appropriate treatment of utility customers. Since the early 1990s, utilities have been required to report their customer service levels on several key performance indicators on a uniform basis (a detailed listing is provided below).

Maintaining customer service performance became a vital concern after the introduction of revenue decoupling mechanisms (RDMs) and the move to multi-year rate plans in the early 1990s. Under conventional ratemaking regimes, utilities can increase profits either by increasing sales or cutting costs; however, under RDMs, utilities can only enhance profits by cutting costs, since any increases in revenue resulting from increased sales are simply passed back to customers. Customer service operations may be easy targets for utility cost-cutting efforts, since such operations generally do not enhance revenues. In response, CSPIs were developed and implemented as a key performance-based ratemaking tool. Currently, CSPI mechanisms are in place for all the State's major energy utilities.[1]

Under Governor Cuomo's Reforming the Energy Vision (REV), the Commission has shifted to a regulatory model that better aligns utility shareholder financial interest with consumer interest, by, among other things, providing utilities with a variety of earning opportunities based on outcome-based performance measures.[2] As a result of this approach, the Commission continues to place strong emphasis on performance based mechanisms, such as CSPIs.

---

[1] As further discussed below, the CSPI for National Fuel Gas Distribution Corporation operates without the potential for NRAs based on targeted performance.

[2] Case 14-M-0101, Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision, Order Adopting A Ratemaking And Utility Revenue Model Policy Framework (issued May 19, 2016).

PERFORMANCE INDICATORS

To ease the monitoring and analysis of gas, electric, and water utilities' customer service performance, in May 1991, Staff proposed the use of standard performance indicators. The Commission directed all major gas and electric utilities (i.e., those serving more than 25,000 customers) to collect and report monthly service data in accordance with the performance indicators, beginning in April 1992.[3] These performance indicators include: PSC Complaint Rate, appointments kept, telephone answer response time, adjusted bills, estimated bills and customer satisfaction surveys. Since they are designed to be reported on a uniform basis, these performance indicators facilitate comparative analysis of customer service on a consistent basis, and allow identification of overall trends in customer service and inform CSPI design. However, except for the PSC Complaint Rate, performance is self-reported by the utilities and unaudited by Staff.

In August 2013, the Commission authorized a focused operational audit of the accuracy and effectiveness of customer service performance indicator data, as well as data reported to the Commission regarding electric service reliability and gas safety.[4] Overland Consulting submitted the completed audit report, entitled "Operations Audit of the Accuracy of the New York State Utilities' Self Reported Data" (the Final Report) in April 2015. The Commission released the Final Report in April 2016.[5]

---

[3] Case 91-M-0500, Establishing Customer Service Standards Applicable to Electric, Gas and Steam Corporations, Order Directing Utilities to Supply Service Data (issued January 16, 1992); Case 96-E-0909, et al., Order Concerning Electric and Gas Utility Customer Service Performance (issued May 9, 2001).

[4] Case 13-M-0314, Operations Audit to Review the Accuracy and Effectiveness of Certain Reliability and Customer Service Systems, Untitled Order (issued December 19, 2013).

[5] Case 13-M-0314 et al., supra, Order Releasing Report and Providing Guidance on Response (issued April 20, 2016).

The Final Report acknowledged that the development of effective customer service metrics would be enhanced by Staff led workshops. Such workshops were held, and provided valuable information and feedback which resulted in a Draft Revised Customer Service Metrics document (Metrics Document) which was issued for comment. Based on the Metrics Document, and the comments received, the Commission adopted revised customer service reporting metrics, with certain modifications.[6] The utilities were directed to begin reporting performance on the revised customer service measures as soon as practicable.

Analysis of Trends in Customer Service

The data provided by each utility in its performance indicator reports, along with the PSC complaint statistics compiled and issued monthly by the Office of Consumer Services (OCS), allows Staff to analyze and compare utility customer service performance on a detailed basis. The summary data from the OCS complaint statistics and the utilities' performance indicator reports for calendar year 2017 show that New York electric and gas utilities generally appear to be providing satisfactory levels of service, as measured by these indicators.[7]

CUSTOMER SERVICE PERFORMANCE INCENTIVES

CSPIs have typically been negotiated within the context of individual utility rate cases, and the Commission has adopted the terms of such CSPIs, sometimes with modifications, in its rate orders. CSPIs help to align shareholder and ratepayer interests by providing potential earnings consequences to shareholders that reflect the quality of

---

[6] Case 15-M-0566, In the Matter of Revisions to Customer Service Performance Indicators Applicable to Gas and Electric Corporations, Order Adopting Revisions to Customer Service Reporting Metrics (issued August 4, 2017) (Metrics Order).

[7] As previously noted and further discussed below, RG&E failed to achieve targets for Call Answer Rate and Estimated Bills within its CSPI.

service to utility customers. Such performance-based ratemaking techniques are commonly used regulatory tools throughout the United States.

Since the Commission sets CSPIs for each utility in the context of utility rate proceedings, each mechanism is different in scope, target level, and amount at risk for nonperformance. Generally, CSPIs place the utilities at risk of NRAs in the range of 30-50 basis points, depending on the complexity of the mechanism and past utility performance, if certain targets are not met. The Commission has departed from this range, however, and, in some cases, has doubled or tripled amounts at risk to address potential threats to service quality (e.g., in the context of utility mergers and acquisitions, where there may be increased pressure on management to achieve synergy savings). In other cases, the amount at risk falls below this range, either due to the length of time since the CSPI was last reviewed or because the subject utility's performance has not presented any concerns with respect to service quality.

CSPI Components and Key Parameters

CSPIs for all the utilities contain targets for PSC Complaint Rate and customer satisfaction surveys. By their nature, both PSC Complaint Rate and customer satisfaction surveys are broad measures of performance that reflect utility performance in every facet of its operations, from billing accuracy to repair promptness. The incentive mechanisms may also include targets for other more specific measures of utility performance, such as telephone answer rate, estimated bills, or adjusted bills. In general, these specific measures of performance were added to individual utility incentive mechanisms in response to identified deficiencies.

More recently, the Commission has adopted positive shareholder incentives that provide positive revenue adjustments (PRAs) for utilities that can successfully reduce terminations and/or bad debt. These incentives encourage further progress toward the Commission's energy affordability policy goals, and improved treatment of low income customers, while avoiding increases in uncollectible expense.

PSC Complaint Rates

PSC Complaint Rates are measured and reported by OCS in the same way for each utility (i.e., the average monthly rate of complaints per 100,000 customers). In addition to providing a broad and uniform measure of utility performance, PSC Complaint Rates are calculated by Staff rather than self-reported by utilities, and thus are considered to accurately represent customer service levels. Therefore, the PSC Complaint Rate is considered an important and reliable indicator of overall utility customer service performance.

Customer Satisfaction Surveys

Each utility conducts a proprietary customer satisfaction survey, generally administered by an independent survey contractor, which has been benchmarked to establish a target level. Over time, as CSPIs have been adopted, the Commission has approved the use of selected responses to these surveys as part of its measures of customer service performance. Like PSC Complaint Rates, customer satisfaction surveys furnish broad measures of customer service performance that capture all facets of utility operations. Moreover, surveys administered by a third-party contractor provide an additional measure of confidence, secured by the survey contractor's reputation, that the survey results accurately measure customer satisfaction.

Unlike PSC Complaint Rates, customer satisfaction surveys are unique to each utility because they were developed by and for the utilities for gaining customer feedback and identifying process improvement opportunities. The Commission has used these surveys as indicators of customer satisfaction for purposes of applying CSPIs, primarily to minimize the costs that would be involved with developing and administering separate surveys for that purpose. Because they are unique to each utility, the surveys provide an independent and, after several years of results being collected, reliable measure of each utility's customer service performance as measured against itself. The current surveys, however, do not furnish a means for comparing a utility's performance to that of its peers (although the PSC Complaint Rates, and the other performance indicators, are standardized and more readily provide for such comparative analysis).

The Metrics Order instructed Staff to convene a collaborative, to further develop the statewide customer satisfaction survey or alternatives, and to issue a proposal for statewide measurement of customer satisfaction within 6 months thereafter.[8] In compliance with the Commission's directive, on May 14, 2018, Staff submitted a "Staff Report and Proposal on the Development of a Uniform Statewide Customer Satisfaction Survey." The report was issued for public comment on May 23, 2018, and awaits further Commission action.[9]

REVIEW OF CURRENT CUSTOMER SERVICE PERFORMANCE INCENTIVES

In the sections that follow, the customer service mechanisms in effect at the following utilities are described and each utility's respective performance is reported: Central Hudson Gas & Electric Corporation (Central Hudson); Consolidated Edison Company of New York, Inc. (Con Edison); KEDLI; KEDNY; National Fuel Gas Distribution Corporation (National Fuel); Niagara Mohawk Power Corporation, d/b/a National Grid (Niagara Mohawk); New York State Electric & Gas Corporation (NYSEG); Orange & Rockland; RG&E; and, St. Lawrence Gas.[10] In addition, Public Service Electric and Gas Long Island (PSEG-LI) provided performance results on its Operations Services Agreement Metrics for calendar year 2017.

---

8 Metrics Order, Ordering Clause 2 (p. 21).

9 Case 15-M-0566, et al., supra, Notice Soliciting Comments on The Staff Report and Proposal on The Uniform Statewide Customer Satisfaction Survey (issued May 23, 2018).

10 Under the terms of its current rate plan, the CSPI report for Corning Natural Gas Corporation is not due to be filed until May 31, 2018. Therefore, its recent performance under its CSPI is not covered in this report. Case 16-G-0369, Corning Natural Gas Corporation - Rates, Order Adopting Terms of Joint Proposal and Establishing Gas Rate Plan (issued June 15, 2017).

Central Hudson

The Central Hudson CSPI provides for NRAs of up to $3.8 million, divided between electric and gas operations proportionately to the revenues of each (equivalent to approximately 43 and 31 basis points of common equity for electric and natural gas, respectively).[11] The rate plan provides for allocation of $1.9 million to each of two performance measures: PSC Complaint Rate and customer satisfaction. In addition, Central Hudson provides a $20 payment to a customer with whom Central Hudson misses a scheduled appointment. Central Hudson may also earn a PRA of up to five basis points (approximately $474,000) for reducing terminations.

Based on its performance for the calendar year 2017, no NRAs are applicable to Central Hudson. In addition, Central Hudson has improved its performance on customer satisfaction from its 2016 levels. The company had 17,769 scheduled appointments, of which 17,708 (99.6%) were kept. It provided a total of 61 customer credits for missed appointments.

Con Edison

A maximum electric NRA in favor of ratepayers of up to $40 million annually (equivalent to approximately 27 basis points of electric common equity) is applicable if the company does not meet customer service targets.[12] Con Edison's specific customer service performance measures are: PSC Complaint Rate; satisfaction of electric emergency callers; satisfaction of other callers to the company's telephone centers; satisfaction of visitors to the company's service centers; telephone response time (percentage answered within 30 seconds); and, the Outage Notification Incentive Mechanism, a measurement of the company's performance in customer notification of service outages. A separate gas CSPI, based on an average of biannual surveys of

---

[11] Cases 14-E-0318 and 14-G-0319, Central Hudson Gas & Electric Corporation, Order Approving Rate Plan (issued June 17, 2015).

[12] Cases 16-E-0060 et al., Con Edison Company of New York, Inc., Order Approving Electric and Gas Rate Plans (issued January 25, 2017).

customer satisfaction with the handling of emergency calls relating to gas service, carries a maximum gas NRA of up to $3.3 million (equivalent to approximately 10 basis points of gas common equity).

Based on its performance for the calendar year ending December 31, 2017 on its electric and gas CSPIs, no NRAs are applicable to Con Edison. In addition, Con Edison has improved its performance on Calls Answered in 30 seconds from its 2016 levels.

KEDLI and KEDNY

A maximum NRA of $11.7 million annually for KEDNY (equivalent to approximately 49 basis points of common equity), and $9.9 million for KEDLI (equivalent to approximately 53 basis points of common equity) is applicable if the companies do not meet customer service threshold targets.[13] For KEDNY and KEDLI, $4.68 million and $4.455 million, respectively, are allocated to each of two broad-based measures of customer service performance: PSC Complaint Rate and customer satisfaction, as measured through a monthly survey of customers who have recently contacted the companies. In addition, for KEDNY, a $1.17 million NRA applies for the number of bills that are adjusted due to company errors, and an additional $1.17 million NRA applies for the percentage of calls answered within 30 seconds. For KEDLI, a $0.99 million NRA applies to the number of bills that are adjusted due to company errors. The companies also provide a service guarantee policy of compensating customers for a missed appointment. For each missed appointment, KEDLI and KEDNY provide a $30 credit to residential customers and a $60 credit to non-residential customers. KEDLI had 46,669 scheduled appointments for 2017, of which 44,496 (95.3%) were kept. The company provided credits for missed appointments to 2,173 residential and nonresidential customers. KEDNY had 179,421 scheduled appointments

[13] Cases 16-G-0058, et al., National Grid NY and National Grid LI, Order Adopting Terms Joint Proposal and Establishing Gas Rate Plans (issued December 16, 2016).

for 2017, of which 172,394 (96.8%) were kept. KEDNY provided credits for missed appointments to 7,027 residential and nonresidential customers.

KEDNY and KEDLI both met their performance targets for calendar year 2017. Based on their respective performance for calendar year ending December 31, 2017, no NRAs are applicable to KEDNY and KEDLI; and, KEDNY improved its performance on Calls Answered in 30 seconds from its 2016 level. In addition, they both achieved PRAs on their respective residential terminations/bad debts metrics. KEDNY achieved the maximum PRA of $1.260 million for keeping its residential terminations level at 31,563, below the target level of 34,638 terminations and bad debt level at $11,782,802, below the target level of $12,494,661 for calendar year 2017. KEDLI achieved a partial PRA of $360,000 for keeping its residential terminations level at 12,080, below the target level of 12,470 terminations for calendar year 2017. These adjustments will be deferred for future disposition by the Commission.

National Fuel

National Fuel's CSPI consists of eight performance measures, including: residential customer satisfaction; non-residential customer satisfaction; appointments kept; new service installations; telephone response; adjusted bills; estimated bills; and, PSC Complaint Rate. In the current rate order for National Fuel, the Commission determined that in the absence of a multi-year rate plan, National Fuel should be allowed to operate for the time being without NRAs based on targeted performance. However, the associated reporting requirements remain in place.[14] The company's reported performance on the above metrics for calendar year 2017 was satisfactory.

Niagara Mohawk

Niagara Mohawk's CSPI carries a total of $19.8 million annually in potential NRAs: $15.2 million for electric service (equivalent to approximately 41 basis points of electric common equity) and $4.6 million for gas service (equivalent to

---

[14] Case 16-G-0257, National Fuel Gas Distribution Corp.- Rates, Order Establishing Rates for Gas Service (issued April 20, 2017).

approximately 52 basis points of gas common equity). The electric NRA is divided among the following measures: PSC Complaint Rate; residential customer satisfaction; commercial and industrial customer satisfaction; and, calls answered within 30 seconds. The gas amount at risk is divided among the four measures above as well as the percentage of meters read on cycle. Niagara Mohawk also provides a missed-appointment credit, in which an electric or gas customer is credited $30 if the company fails to keep an appointment made at the customer's request.[15] Niagara Mohawk had 172,523 scheduled appointments for 2017, of which 164,897 (95.6%) were kept. The company provided a $30 credit for missed appointments to 7,626 customers.

Niagara Mohawk met its performance targets for the calendar year 2017. Based on its performance for the calendar year 2017, no NRAs are applicable to Niagara Mohawk for customer service performance. In addition, Niagara Mohawk has improved its performance on Calls Answered in 30 seconds from its 2016 level.

NYSEG

NYSEG's CSPI carries maximum potential annual NRAs of $8.2 million for electric (equivalent to approximately 54 basis points of electric common equity) and $1.3 million for gas (equivalent to 29 basis points of gas common equity).[16] Included in this amount is a doubling provision, whereby any individual measure target that is missed for two consecutive years will have its associated NRA doubled in the second missed year, and will continue to double for each consecutive missed year of the target. The current customer performance measures in place for NYSEG are: PSC Complaint Rate; customer satisfaction; estimated bills; and, calls answered within 30 seconds. NYSEG may also earn a PRA of up to $855,000 for reducing terminations and uncollectible

---

[15] Cases 12-E-0201 and 12-G-0202, Niagara Mohawk Power Corporation- Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued March 15, 2013).

[16] Cases 15-E-0283, et al., New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation - Rates, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal (issued June 15, 2016).

expense. In addition, the company provides a “service guarantee” credit of $20 for missed appointments. NYSEG had 10,712 scheduled appointments for 2017, of which 10,535 (98.4%) were kept. The company provided a $20 credit for missed appointments to 177 customers.

NYSEG met all its performance targets for the 2017 calendar year and did not incur any NRAs. In addition, NYSEG improved its performance on Calls Answered in 30 seconds from its 2016 level.

Orange & Rockland

Orange & Rockland’s CSPI consists of targets for customer satisfaction, adjusted bills, and PSC Complaint Rate. Under its electric rate plan, Orange & Rockland may incur a maximum NRA to electric earnings of $1.5 million (equivalent to approximately 23 basis points on electric common equity).[17] The gas rate plan provides for a maximum NRA to gas earnings of $750,000 (equivalent to approximately 24 basis points on gas common equity).[18] Orange & Rockland may also earn a PRA of up to $800,000 for reducing terminations and uncollectible expense.

Based on its performance for calendar year 2017, no NRAs are applicable to Orange & Rockland. In addition, the company achieved the maximum PRA of $800,000 for keeping both its customer terminations level at 7,324, below the target level of 7,500 terminations; and bad debt level at $2,541,634, below the target level of $3.1 million for calendar year 2017. This adjustment will be deferred for future disposition by the Commission.

RG&E

RG&E’s CSPI is comprised of four measures: PSC Complaint Rate, customer satisfaction, percentage of estimated bills, and calls answered within 30

---

[17] Case 14-E-0493, et al., Orange and Rockland Utilities, Inc. - Rates, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans (issued October 16, 2015).

[18] Id.

seconds. The total maximum NRA is $5.9 million annually, with $4.5 million applicable to electric operations (equivalent to approximately 49 basis points of electric common equity) and $1.4 million applicable to gas operations (equivalent to approximately 42 basis points of gas common equity). Like NYSEG, RG&E also has a doubling provision, whereby any individual measure target that is missed for two consecutive years will have its associated NRA doubled in the second missed year, and will continue to double for each consecutive missed year of the target. The company provides the same "service guarantee" credit of $20 for missed appointments as NYSEG. RG&E had 7,614 scheduled appointments for 2017, of which 7,513 (98.7%) were kept. The company provided a $20 credit for missed appointments to 101 customers. RG&E may also earn a PRA of up to $560,000 for reducing terminations and uncollectible expense.[19]

RG&E met its performance targets on PSC Complaint Rate and Customer Satisfaction Survey, but failed to meet its targets on Calls Answered in 30 seconds and Estimated Bills for calendar year 2017. As result, RG&E incurred negative revenue adjustments of $175,000 for not meeting its Call Answered in 30 seconds target level of 77%, and, $350,000 for not meeting Estimated Bills target level of 6%.

Regarding estimated bills, RG&E states that it outsources the meter reading function, and the vendor that performs meter reads for the company has experienced high turnover in the last several months.[20] RG&E states that it has worked with the vendor to create a remediation plan which includes a change to its compensation plan for employees. The company reports that this has been a positive change, as the vendor is experiencing both higher retention and higher response for job openings. RG&E notes improvement in recent results and expresses confidence that results will continue to improve. In addition, it will continue to promote self-service options for customers to provide meter reads.

---

[19] Cases 15-E-0283, et al., supra.

[20] Regardless of whether activities are performed by utility employees or a vendor, the company remains responsible for ensuring that performance targets are met.

Regarding Call Answer Rate, RG&E states that higher than normal representative attrition of 35%, and volumes 8% higher than the previous year, were the root causes of the performance deficit. In addition, the company states that its vendor's call answer rate performance was below the targeted level. RG&E states that it has sought to improve performance by: backfilling representative positions; continuing to link NYSEG and RG&E Call Centers to maximize support such that calls can be routed to next available agent at either center; identifying and implementing customer self-service options to streamline operations; and, implementing vendor process improvements to ensure performance at the targeted level.

St. Lawrence Gas

St. Lawrence Gas' CSPI consists of targets for customer satisfaction and PSC Complaints.[21] The company may incur a maximum NRA of $36,000 (equivalent to approximately 16 basis points on common equity), split evenly between customer satisfaction and PSC Complaint Rate. St. Lawrence Gas may also earn a PRA of up to $12,000 for reducing terminations and uncollectible expense.

St. Lawrence Gas met its performance targets for the calendar year 2017, and did not incur any NRAs. The company had no escalated complaints for calendar year 2017.

In addition, the company achieved the maximum PRA of $12,000 for keeping both its customer terminations level at 376 terminations, below the target level of 451 terminations; and the level of bad debt at $90,000, below the target level $173,000. This adjustment is automatically deferred under the rate plan for the company, and no Commission action is required.

PSEG-LI

Under the Operations Services Agreement between the Long Island Power Authority (LIPA) and PSEG-LI, certain performance metrics are set forth to measure the

---

[21] Case 15-G-0382, St. Lawrence Gas Company, Inc. - Rates, Order Establishing Multi-Year Rate Plan (issued July 15, 2016).

company's performance against customer survey satisfaction goals. PSEG-LI is eligible to earn PRAs and may in certain circumstances be assessed NRAs based on its performance as measured against the customer survey metric. For 2017, PSEG-LI reported that it met its targets for the customer survey metric.

CONCLUSION

As discussed above, except for RG&E, the electric and gas utilities' performance on measures of customer service quality in 2017 was satisfactory. The CSPIs currently in place at the utilities in New York State establish strong standards for performance and put significant amounts of shareholder earnings at risk for nonperformance. Overall, these mechanisms appear to have been effective in encouraging companies to make customer service a corporate priority and providing criteria for ensuring that the quality of customer service remains at satisfactory levels. Staff will continue to monitor customer service quality and promote performance-based ratemaking strategies relating to customer service quality in conformance with Commission policies.