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ATTACHMENT B

Win-Win Alternatives for Credit & Collections

by

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Overview

This paper explains the innovative approach to customer service and credit and collections introduced in the 1990s at Wisconsin Public Service Corporation (WPSC).[1]

WPSC is a gas and electric utility serving Northeastern Wisconsin. In 1995, the Company served approximately 200,000 gas customers and over 354,000 electric customers.[2] During the last quarter of the 20th century, the Company experienced a great deal of social and economic pressure on credit and collection practices as energy costs rose and societal changes occurred. This paper summarizes the Company's experience with its unique effort to reduce the number of disconnections and at the same time produce good business results by limiting losses and arrears.

The statistics and views presented here represent the lessons learned through mid-1995. Since that time, economic and social conditions, as well as restructuring of the utility industry, have deepened the crisis of high arrearages and non-payment of utility bills for many utilities and their customers. In states that moved to retail competition, as price caps come off, customers are facing huge percentage increases in their electric bills. The WPSC experience in the mid-1990s continues to provide valuable lessons that may be applied to the consumer/utility problems we face today.

WPSC Collection History

As in many states, credit and collections remained substantially unchanged in the state of Wisconsin through the early 1970s. The Wisconsin Administrative Code rules enacted in 1935 remained virtually unchanged and unchallenged until 1972. That year, consumer groups petitioned the Public Service Commission of Wisconsin to revise the Administrative Code, alleging that the Code was not adequate to offer protection to people who could not afford to pay their utility bills.

During the winter of 1974, while the initial hearings were still being carried out, an incident occurred that would change the nature of the debate. A customer of WPSC whose service had been disconnected for nonpayment was found dead in his home a week after the disconnection. Although subsequent investigations cleared the Company of any violation of then-current rules, the Public Service Commission of Wisconsin responded to public pressure and enacted the first winter "moratorium"--prohibiting disconnection if it endangered health or life. In the 1970s and 1980s, many state Commissions adopted similar bans on disconnection of particularly vulnerable customers.[3]

[1] WPSC is a subsidiary of Integrys Energy Group, Inc.
[2] Today, WPSC serves 433,000 electric customers and 314,000 natural gas customers in northeastern Wisconsin and an adjacent portion of Michigan's Upper Peninsula. http://www.integrysgroup.com/investor/financialfactsheet.pdf
[3] Additional states are adopting or strengthening consumer protections in the first decade of the 21st century.

On January 1, 1975, the Commission promulgated, on an emergency basis, new deposit, guarantee, and disconnect rules, in response to public pressure from consumer groups to offer protection for low-income customers. In subsequent years, the Commission also promulgated an annual winter moratorium on disconnections, to satisfy the demands of consumer groups for additional protection for low-income customers.

Wisconsin utilities were concerned that the new rules would result in a spike in arrearages and uncollectible bills. Before the new Commission rules went into effect, WPSC's arrears had been at or below the industry average. Write-offs as a percent of revenue had averaged from 0.10 to 0.25 percent of billed revenue annually. The number of disconnections for nonpayment (DNP) before the new consumer protections was approximately 10,000 accounts per year, and impact of DNP and collection efforts on customer relations was unmeasured.

Since the new rules and the annual winter moratoriums represented a sharp departure from past practice, utilities in the state of Wisconsin were in a state of confusion about how to cope with what they assumed would be rising arrearages and mounting losses. If we could not disconnect customers for nonpayment at certain times, we did not know how we could control losses and incent payment. Similarly, consumer groups were unsatisfied with the action taken by the Public Service Commission and continued to push for more reforms. As a result, there were multiple revisions to the Administrative Code between 1975 and 1983.

The Public Service Lifestyle Survey -1983 -A Watershed Event

Research Premise and Description

In the first decade after the new rules discouraging certain disconnections, it occurred to some people at WPSC that we really didn't know why customers didn't pay their bills. It had been widely assumed that people didn't pay because they were playing games with the bill collector. It did not seem reasonable to us that substantial numbers of customers might not be adequately prepared to respond to the collection demands put on them.

To explore this premise, the Company engaged the firm of Matousek & Associates to do a "lifestyle survey" in the city of Green Bay. A customer base of 1,100 customers who were subject to disconnection was drawn from Company files. From this base of 1,100, a random sample of 200 were selected and interviewed by independent researchers. Each interview was done on the customer's premises and lasted between one-half and one hour. The research was completed in July of 1983.

Research Conclusions

The research concluded that the subject population naturally gravitated into five major clusters or categories with similar characteristics, as follows:

• 12 percent have money, know exactly what they are doing, and will pay if faced with disconnection.

• 41 percent may have enough money but tend to lack money management skills to make it go as far as it needs to.

• 12 percent are in transition--either going into or coming out of poverty.

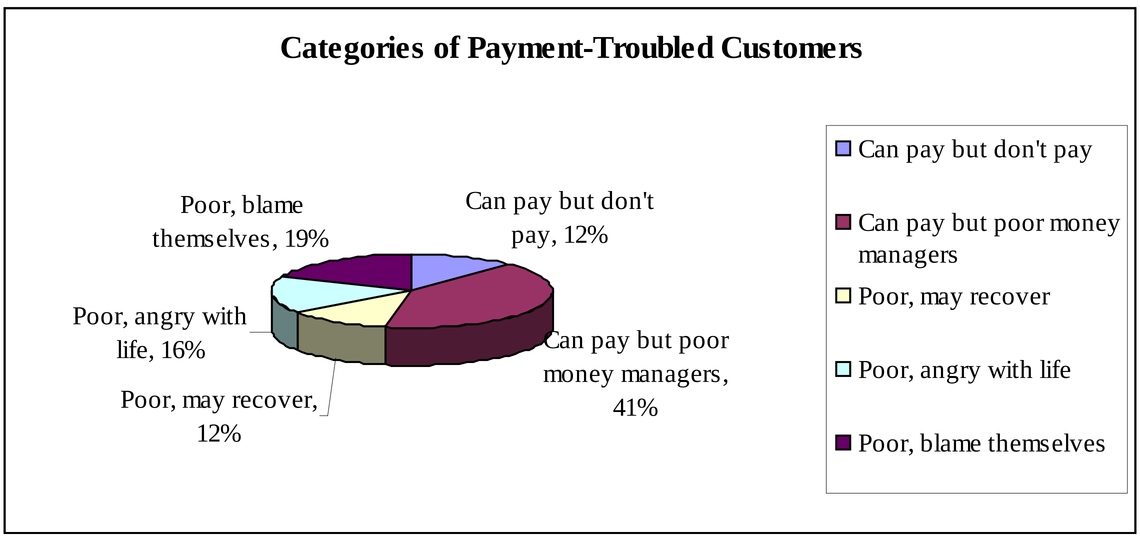
• 16 percent are poor, lack enough resources to pay their bills, and are angry.

• 19 percent are poor and blame themselves for their situation.

While these were not the typical categories used by utility credit managers to subdivide their client base, these categories proved very useful in developing successful and cost-effective responses to payment troubles.

Results revealed that poor credit code customers[4] fall into five categories, as shown in Figure 1, below:

Figure 1: LIFESTYLE SURVEY RESULTS



Operational Implications

Recall the assumptions prior to the research that most customers: (a) had money, (b) knew exactly what they were doing, and (d) could pay. In fact, only 12 percent of our non-paying customers fell into that category. These customers paid almost immediately

[4] Sometimes called "payment-troubled" customers.

when presented with a disconnect notice. A disconnect notice was effective for this 12% of our late and non-paying customers.

The remaining 88 percent did not fit our preconceived picture. They had very limited or no resources to respond to disconnection demands. Further, 19 percent saw themselves as helpless to cope with the situation; they blamed themselves. The operational implications of these findings were extremely important.

First, all of the Company's credit policies were geared to the 12 percent who could easily respond to disconnect notices. These policies were very inadequate to help Company employees cope with the other 88 percent who could not respond in the same way.

In addition, to the extent that Company management indicated to frontline collection personnel that the Company's response to rising arrears or losses would be to "get tough" by disconnecting more accounts, certain results were inevitable. Frontline credit personnel, without further instructions, would naturally choose to disconnect those among the 19 percent who saw themselves as helpless, and who would not complain about such actions. Such choices would produce the illusion of action (more disconnects) but with no concomitant improvement of results (collection of money, reduced arrears).

Subsequent research into specific accounts confirmed this to be the case. In other words, the connection between the ability to disconnect and collecting revenue was either much weaker than previously assumed or simply did not exist.

Five other major conclusions were also drawn from the data, as follows:

1) **Desire to Pay** - The majority of customers really want to pay their bills, but may lack either resources or skills-or both--to successfully achieve this.

2) **Early Intervention –** It is in the company's best interest to get involved with the customer before the problem and arrearage get too large. Also, don't assume customers will get in touch with the company if they're experiencing some difficulty. They generally will not take the initiative to solve the problem.

3) **Personal Contact** - Individualized attention is very important, particularly if the behavior represents a long-standing pattern with the customer.

4) **Flexibility and Involvement from the Utility Company** - Because these families are experiencing so many problems and have such limited income, the utility company needs to recommend resources to handle these other problems before handling the delinquent bill. In other words, we must also be in touch with other resources in the community.

5) **Unique Role of the Utility** - Contrary to our assumption, most customers in collection action were not connected in an ongoing relationship with social services. Many of the same customers were unaccustomed to receiving credit from suppliers, so it was predictable that they would probably experience difficulty managing the utility bill. Therefore, it was logical and most efficient for the utility to play a role in early identification of the customer and to establish a more productive working relationship. Previously, we had assumed this to be primarily a social service agency role.

1983 Credit & Collection Redesign -A New Perspective and Changed Paradigm

The Customer Assistance Advisor

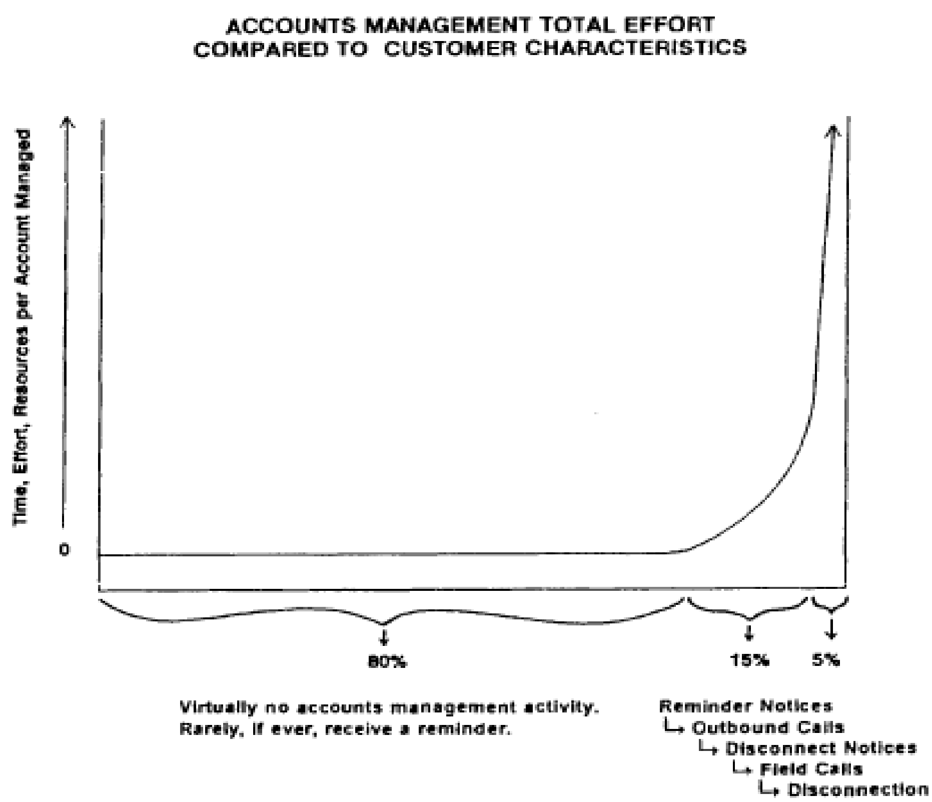
For several years, WPSC had contemplated adding resources to assist the credit department on some of the more difficult credit cases. The 1983 lifestyle survey confirmed the need for such a resource. Figure 2 illustrates the theory behind the targeting of the Customer Assistance Advisor efforts.

It shows the relative time, effort, and resources devoted to collections, based on customer payment characteristics, as an exponential cost curve. It is precisely at the far right-hand side of that cost curve-where costs per account managed are the highest--that customer resources are also probably most limited, as shown by the lifestyle survey. These are the accounts that were targeted by the Customer Assistance Advisor position.

FIGURE 2

ACCOUNTS MANAGEMENT:

TOTAL EFFORT COMPARED TO CUSTOMER CHARACTERISTICS



In retrospect, two elements contributed significantly to the success of the Customer Assistance Advisors. The first was the idea that the Customer Assistance Advisor would be *the logical extension of customer service/credit and collection efforts through normal channels.* In other words, it was not a separate "program" but part and parcel of the total customer service package offered by the Company. As such, it would be an integral part of the Company's overall service effort and not seen as a separate "add-on" that was optional to continue doing on a year-to-year basis.

Secondly, the Customer Assistance Advisors reported to *the same leader as the credit and collections manager*. This was different from most other companies, who had the two functions report to separate areas within the company.[5] WPSC felt very strongly that the success of our Customer Assistance Advisors was due in large part to this overall systems view of the Advisors being part *of the total service package and not part of a different service offered by the Company*. When credit and assistance report to two separate organizations and assistance is seen as an add-on program, it will set up conditions for an internal struggle which wastes resources and does not serve the customer.

The Customer Assistance Advisors who were hired by the Company were required to have a background in social work with experience in the social service system outside the Company. They represented a totally new skill set compared to the typical utility worker. Their responsibilities included the following:

- Coordinate assistance programs.
- Link with community resources and advocates.
- Budget counseling and education.
- Crisis intervention.
- Working with customers on problem-solving and decision-making skills.

Two Customer Assistance Advisors were added at WPSC on a trial basis in the fall of 1983. In 1984, the Public Service Commission of Wisconsin (PSCW) - in response to a disconnection death in another company's service territory - mandated WPSC's plan to the entire state under the heading of Early Identification Program. All of the essential aims of the program were kept intact by the PSCW mandate. WPSC subsequently added five more Customer Assistance Advisors in 1984.

Credit and Collections Theory and Practice

In our experience at Public Service, it was obvious that the utility industry had often followed a credit and collections theory which had been developed for a different set of circumstances in other businesses. There are differences in the customer/supplier

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[5] Some customer advocates have suggested that the two functions be separated, so that the presumed aggressive attitude of the collection effort not infect and overwhelm the presumably more open attitude of customer assistance staff. As WPSC learned, this outlook ignores the possibility of the reverse effect.

relationship between multiple supplier businesses and sole supplier businesses. Utilities have traditionally fallen into the latter category.

With multiple supplier businesses, the customer has many viable alternatives to supply a specific need. Often, although not always, the need is also discretionary. To the extent that a multiple supplier business wants to extend credit to a specific customer, it will always be based on the criteria of "creditworthiness." This is the estimated likelihood of repayment, based on financial information that the customer supplies.

The suppliers in a multiple-supplier business are free to apply whatever guidelines of creditworthiness they choose, so long as they comply with consumer credit laws and apply their standards without discrimination. If the supplier suspects that an applicant poses too high a risk of nonpayment, the customer will be rejected. When rejected, the customer basically has three choices: do business with this supplier on a cash basis; seek out alternative suppliers with more lenient credit policies; or do without the service. The latter situation would occur, for instance, when a customer wants to buy a home, can't qualify for a loan, and therefore keeps on renting.

Utilities, as has been noted, typically fall into the single supplier category. We recognize that, as a legal matter, customers in some states can choose their electricity or gas suppliers, although not their distribution utilities. However, in practice residential customers take service from the designated default supplier, and have no effective choice of supply. Thus, we are still operating in a model where, as a general rule, no viable economic alternative exists for most customers. In addition, gas and electricity services are usually not considered discretionary - rather, they are a necessity of life.

The degree of captivity that the customer feels to the supplier is also inversely proportional to the level of income. The lower the income, the higher the feeling of captivity, since the lowest income customers will have the least ability to substitute for the gas or electric service.

Historically, with some types of utility service -- like telecommunications -- there had been an ideal set forth for universal service, or at least universal access to the system. If it is assumed that telecommunications is a necessity of modern life, then providing a telephone in a customer's home at a low base rate meets universal service goals, since the device will fulfill its purpose simply by being there. There can be discretionary use, such as long distance, but the essential purpose of telecommunications is fulfilled simply by having the customer connected. This is not true with such services as gas and electricity because not only must the customer be connected to the system, but a certain base volume of the energy must be used. This base volume will vary by location, due to energy consumption characteristics.

Therefore, in the state of Wisconsin since 1935 (and in most states) there evolved a general principle of universal access to the gas and electric systems on credit. Customers are generally hooked up by gas and electric utilities without a burden of proving "creditworthiness." The only exception is for customers who have left the same utility with a bad debt previously, in which case arrangements may be requested prior to receiving the service, or a service deposit may be required. However, as a general rule, service deposits have not been required, and customers do business with Wisconsin utilities on an open account credit basis (service is received, the customer is billed after approximately 30 days of use, and payment is due about three weeks later). Collection actions are undertaken from this point and are usually attempted at 30-, 60-, 90-, and 120-day intervals after the original billing of the service.

This is a relatively subtle difference between sole supplier and multiple supplier businesses. However, it is enormously significant in how the companies treat their customers. In a multiple supplier business, when a customer asks for credit, the essential question being answered is whether or not the organization wants to do business with that specific customer. In a sole supplier business, this issue is not even a consideration, since it is assumed that the supplier will do business with that customer. The only question is "under what conditions?" In a multiple supplier business, the supplier is free to permanently and unilaterally sever a relationship with the customer. This is not so in a sole supplier business unless the utility has the concurrence of the regulatory body. This happens on extremely rare occasions. Service might be refused only if a customer is totally uncooperative and the parties are unable to come to any mutually acceptable terms.

Following is a short list of comparisons of service characteristics between multiple supplier markets and a sole supplier market:

COMPARISON OF MARKETS' SERVICE CHARACTERISTICS		
	Multiple Supplier Market	**Single-Supplier Market**
Service Access	Selective depending on supplier	Universal within a "territory"
Credit Availability	Granted to "creditworthy" customers only.	Granted to all customers.
Alternative Suppliers	Usually readily available.	If available, usually non-economic
Credit Risk Philosophy	• Avoid or minimize risk by rejecting or terminating relationship.	Manage risk that is already assumed on front end - ongoing relationship.
Customer Alternatives if Denied Service on Credit Basis	• Do business on a cash up-front basis. • Seek out other, more lenient suppliers. • Do without the goods or service	Seek assistance such as LIHEAP, arrearage forgiveness, deferred payment agreement, budget counseling, general assistance, private agencies, etc. Service is continued - ongoing relationship.

If utilities (and their regulators) employ credit policies that are in sync with the multiple-supplier model, they will experience significant and persistent conflict with slow-paying customers. They will constantly engage in actions which are geared to straining or severing relationship with the customer, when in reality that will not happen. If a utility wants to reduce such conflict, they must carefully examine their collection perspective and their paradigms about collections. Our perspective may be too limited. And our assumptions about the "boundaries" and "rules for success," also referred to as paradigms, may be keeping us in a box where no solutions are evident.

Perspectives and Paradigms -Getting Out of Our "Box"

New and Improved Perspectives

Enlarging our perspectives in order to come to the conclusions we did, Public Service needed to take a new perspective on energy service for its customers. Several points are worthy of mention here:

- Energy is an integral part of shelter, but the relationship is abstract both to the suppliers and to the customers. Therefore, when customers face difficulty paying for it, they may need some help to realize that excessive energy usage is one of the prices they may pay for very low rent.
- The customer's perspective is short term due to both background and circumstances. It's unrealistic to expect customers caught up in this kind of situation with a lack of training and skills to behave otherwise.
- Most utilities' perspective is limited to two alternatives: collect the money or cut the service.
- Regulators' and agencies' perspective may also be limited. Their primary objective is to avoid the problem when the danger is greatest.
- Conventional credit and collection philosophies are ill-suited to a utility's situation where some customers are not "creditworthy."

The conclusion from these various perspectives indicates that what's lacking is a total systems perspective, which must be the focus for *all parties*. The relationship between regulator, supplier, customer, and social service agency is not simply a linear relationship but rather a spatial relationship in a total system. When seen as a total spatial relationship, it's much easier to see why changes in the system and/or solutions in one area will affect all of the areas. *Everyone* who is involved in dealing with the customer must recognize this fact!

Challenging our Paradigms

Paradigms are simply those assumptions which define the boundaries and tell us how to be successful within those boundaries. The boundaries which we previously assumed were as follows:

Old Paradigm

• Supplier - Collect or cut within your credit guidelines.

• Customer - Spread out resources based on short-term priorities.

• Agencies - Deal primarily with the "client."

• Regulators - Deal with the regulated entity, primarily on issues of policy and the immediate customer issue.

The old rules for success were as follows:

Old Rules for "Success"

• Supplier - Increase disconnects as arrears grow. (*i.e.*, more *activity* -- the result of which is rarely measured.)

• Customer - Keep the service on one more day, week, or month. (Promise the supplier anything, even if you can't fulfill it.)

• Agencies - Act only after emergencies occur.

• Regulators - Fulfill your public duty to protect health and life.

Ultimately, the Company concluded that there was common ground amongst regulators, agencies, customers, and suppliers on the issue of avoiding risk and helping to pay the bill. Risk is best avoided by *not* disconnecting service; and a commitment to pay the bill can generally be reached with the customer by showing that the Company has a genuine interest in helping the customer do whatever they can to assure continuity of service and at the same time avail themselves of whatever resources may be available.

These are the primary ideas behind the success of the Customer Assistance Advisor. The credit department continues working with a particular customer unless they feel the customer has limited resources and may benefit from the more in-depth services of the Customer Assistance Advisor. At that time a referral is made to the Assistance Advisor, who generally will visit the customer in his or her home and make recommendations on a plan which is tailored to the customer's needs and qualifications.

Each plan is unique and is aimed at enabling the customer to assert some control over his or her ability to pay the bills and assure continuity of service. This has resulted in a reduction in the number of disconnections, while collection results (as evidenced by arrearages and write-offs) have remained virtually steady. This situation has been a win for both the Company and the customer.

Two additional side benefits were realized that were not anticipated when the new approach was introduced. When the Customer Assistance Advisors were added, a new resource was available to the credit department to refer troublesome credit accounts. This resulted in a sharp reduction in "credit burnout" on the part of the credit personnel. Prior to that time, these personnel would quite regularly ask for new assignments because they felt the stress of constant credit involvement was very high and draining on them.

Secondly, over time, there was a significant reduction in the number of fraud cases noticed by the Company. A possible explanation for this is that customers no longer felt the need to falsify new applications after disconnection which precipitated a move, since they had an ongoing relationship with the Company in the same location.

Choosing New Alternatives - A Retrospective View - 1983 to 1995

Changed Perspectives

The Company has realized that new perspectives have profoundly impacted its view of credit and collection. Among other things, it has been renamed "Accounts Management." The nomenclature may seem insignificant, but the underlying message is to give credence to the idea that managing the account in an ongoing manner is the ultimate objective--not simply to collect the money today.

In addition, the Company has recognized that collection of an account is an integral part of a total customer service picture. As was mentioned before, customers, agencies, regulators, and suppliers all have an interest in managing customer bills and avoiding disconnection. Once this point is successfully established with the customer, it becomes much more natural to concentrate on the matter of working out a long-term solution.

Changed Paradigms

As noted, paradigms constitute those assumptions we make about our world, its boundaries, and what constitutes success. The changed paradigm at Public Service has revealed the following:

- When it comes to credit policy, one size definitely does not fit all customers. Utilities have traditionally concentrated on equal treatment, particularly in areas like credit. This has resulted in unequal outcomes for the customer. In order to concentrate on equal outcomes, you must vary the treatment. This is an application of what author Ken Johnston refers to as Johnston's Law: "If you treat everyone equally, what varies is satisfaction. If you want equal satisfaction, you must vary the treatment."

- Customers who can't or won't pay their bills--for whatever reason--are still customers. In many respects, the Company came to realize that once customers didn't pay their bills, we ceased to treat them as customers --in some subtle and not so subtle ways-- even though they remained in that unique position.

- Perhaps the most important paradigm challenged was the widely held view that disconnection produces payment. Public Service has found that this is just simply not so. Disconnection produces a statistic concerning disconnection, but it will not produce payment if the customer is incapable of paying. Based on our research, many of the disconnections previously accomplished were with those customers who considered themselves poor and helpless and blamed themselves for their lot in life. Under these circumstances, the customers would be disconnected repeatedly and never complain - but also never produce sufficient payment.

Results

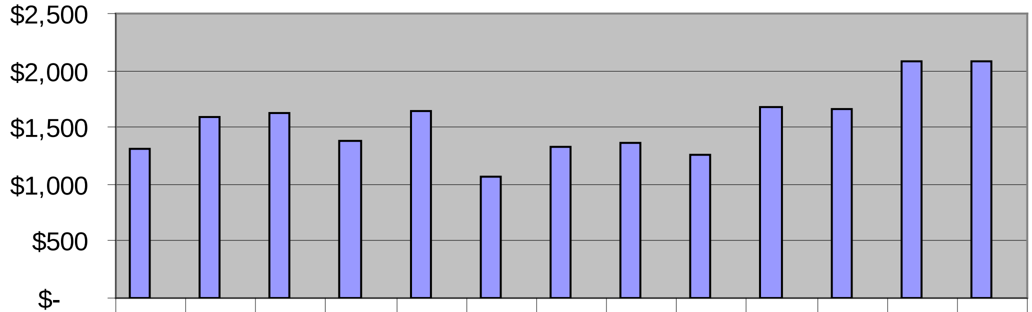
Shown below are some of the representative results taken from a 1992 industry comparison of 174 companies.

SELECTED DATA FOR COLLECTIONS 1990 – 1992 Source: *The Collection Picture*, Published by A.G.A./EEI	
Average Write-offs as percent of revenues:	
Combination utilities	.51%
WPSC	.25%
Disconnects per 10,000 Customers:[6]	
High	1,896
Average	422
Low	33
WPSC, 1990 - 1993	24

Figure 3 shows a summary of net write-offs in graphic form for 1982-94. Also shown are the dollars in thousands and the percent of billed revenue that they represent for 1982-94:

[6] (5 year average for 174 utilities).

WPSC Net Write-offs
$1,000 and As % of Revenues



	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Write-offs	$1,30	$1,59	$1,61	$1,38	$1,63	$1,07	$1,32	$1,36	$1,26	$1,67	$1,65	$2,08	$2,08
As % of revenues	0.26%	0.27%	0.28%	0.24%	0.29%	0.21%	0.24%	0.24%	0.20%	0.27%	0.20%	0.32%	0.32%

FIGURE 3

The same report showed cost of collection per account for 1992. This includes all direct labor charges and write-offs. Although there may be variations between companies in cost allocations, individual companies are usually consistent in their practices year to year. In 1992, the industry-wide average cost per account was $19.00. Public Service's cost was $15.35, or over 19 percent below the average. This cost is consistent with previous years for Public Service.

We believe this is further evidence that reducing the number of disconnections does not reduce credit effectiveness or increase overall operating costs, provided it is done as part of a total customer service system of accounts management.

As can be seen from this 13-year summation, net write-offs as a percent of billed revenue varied from 0.20 percent to 0.32 percent. Year-to-year variations appear to be within normal expectation of the system capability. Figure 4 shows actual disconnections of all classes of service during the same period. There was a steady downward trend, particularly beginning in 1985.

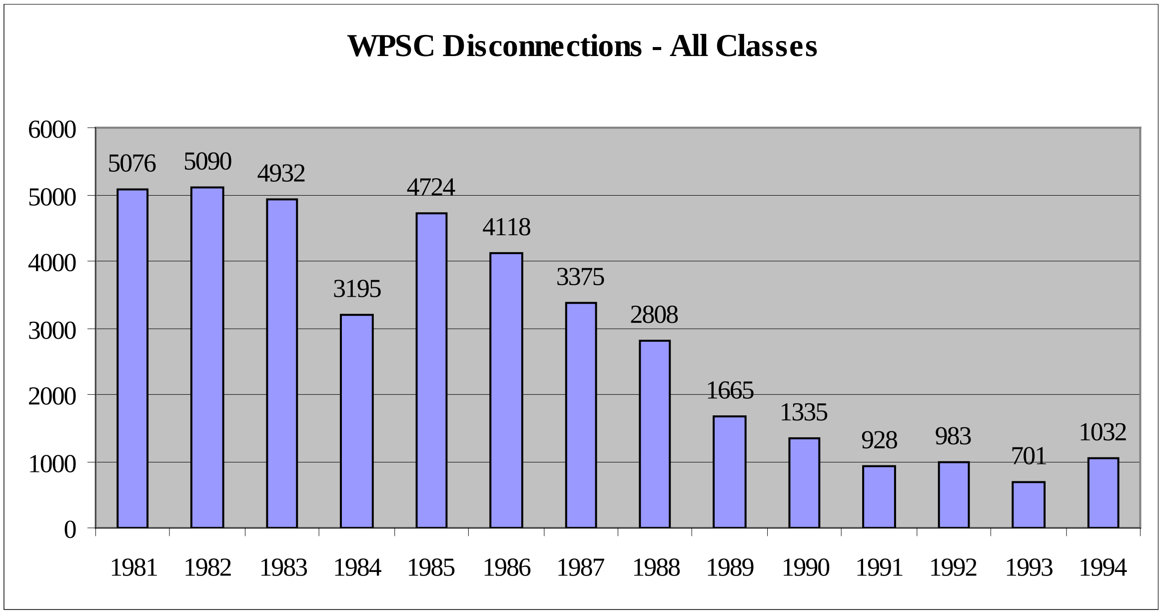


FIGURE 4

Figure 5 shows the residential arrears for 1988-94. Again, there is relatively normal variation in these categories during the same period.

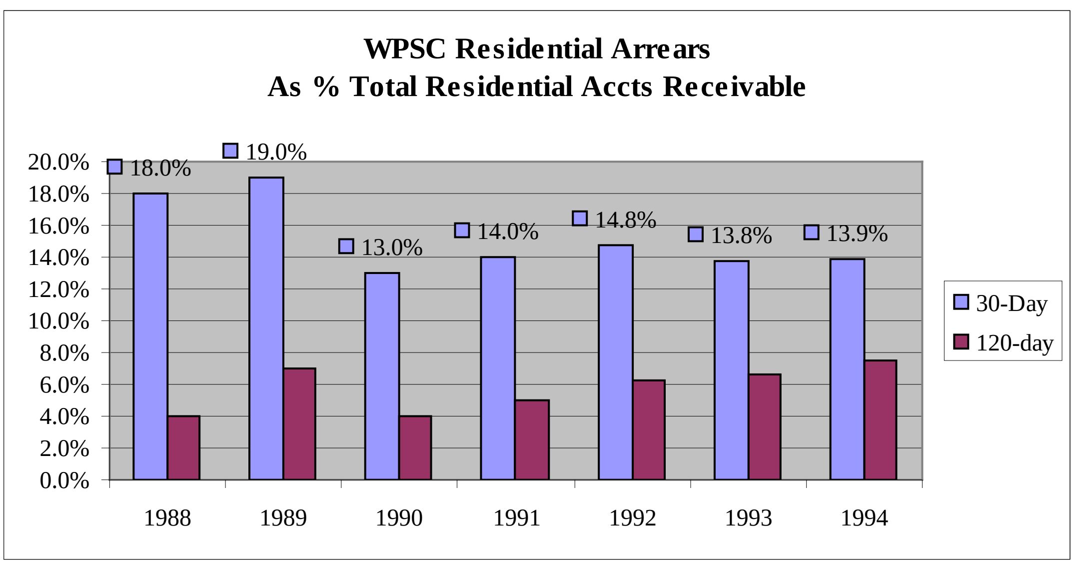


FIGURE 5

The net conclusion is that WPSC was successful in reducing the number of disconnections while at the same time producing substantially the same credit results. Such results were considered to be intuitively unattainable prior to the lifestyle survey in 1983, since the operative paradigm held that disconnection would produce payment.

Conversely, not disconnecting was assumed to automatically increase arrears and losses. When the Company started operating with different assumptions that were based upon its research, results were achieved which were consistent with what the research showed.

Figure 6, on the next page. is a quadrant classification technique used to help understand the characteristics of appropriate alternatives which may be available for each customer situation based on his or her desire to cooperate and the ability to pay. This classification technique does not necessarily imply that customers fall easily or neatly into a given category. However, it is representative of the wider range of approaches, alternatives, and solutions that can be used with customers depending on their unique characteristics.

Lessons We Are Still Learning

	Low Ability to Pay/Cooperative		**High Ability to Pay/Cooperative**	
	Income: Working poor, TANF, SSI/SSA, Unemployment Compensation, Child Support	**Characteristics:** High debt, poor employment history, high medical expenses, wages garnished. *Good credit contact, tries to pay.*	**Income:** Wages, Social Security, Pensions; Adequate income.	**Characteristics:** Usually not a credit problem; arrearages caught up quickly; short-term payment problems
↑	**Attitude:** Responsive, positive		**Attitude:** Responsive, positive	
	Alternative Approaches: Ideal Early Identification referral, Energy Assistance/Fuel Funds, Weatherization, budget counseling, job training placement, medical assistance, food stamps, EITC, Fresh Start – Disconnection is NOT a good choice – customer is unable to pay more than is already paying.		**Alternative Approaches:** Budget counseling Conventional deferred payment agreement Minimal need for credit staff involvement Fresh Start workable	
C O O P E R A T I O N	**Low Ability to Pay/Uncooperative**		**High Ability to Pay/Uncooperative**	
	Income: Working poor, TANF, SSI/SSA, Unemployment Compensation, Child Support	**Characteristics:** High debt, poor employment history, high medical expenses, wages garnished. *Evasive, poor payment history, broken promises and deferred payment agreements, abusers*	**Income:** Wages, Social Security, Pensions; Adequate income.	**Characteristics:** Has ability to pay but chooses not to; Moratorium abuser; Evasive; Poor payment history; Broken promises.
	Attitude: Unresponsive, negative		**Attitude:** Unresponsive, negative	
↓	**Alternative Approaches:** Early Identification referral, usually unsuccessful. LIHEAP, but poor payment history makes them ineligible for emergency funds? Weatherization Budget Counseling Small Claims/Garnishment (low wages make this difficult) Disconnection unlikely to produce payment, due to low income		**Alternative Approaches:** Small Claims/Garnishment Wage assignments Property lien Treble expenses Disconnection – likely to result in quick payment, but above alternatives should produce payments.	

←-- ABILITY TO PAY --------------------------------------→

Perhaps the most important realization for us at WPSC was how limited our ability to deal with the customer really was. This is summed up in Figure 7 by the observation that if all you have is a hammer, everything looks like a nail.

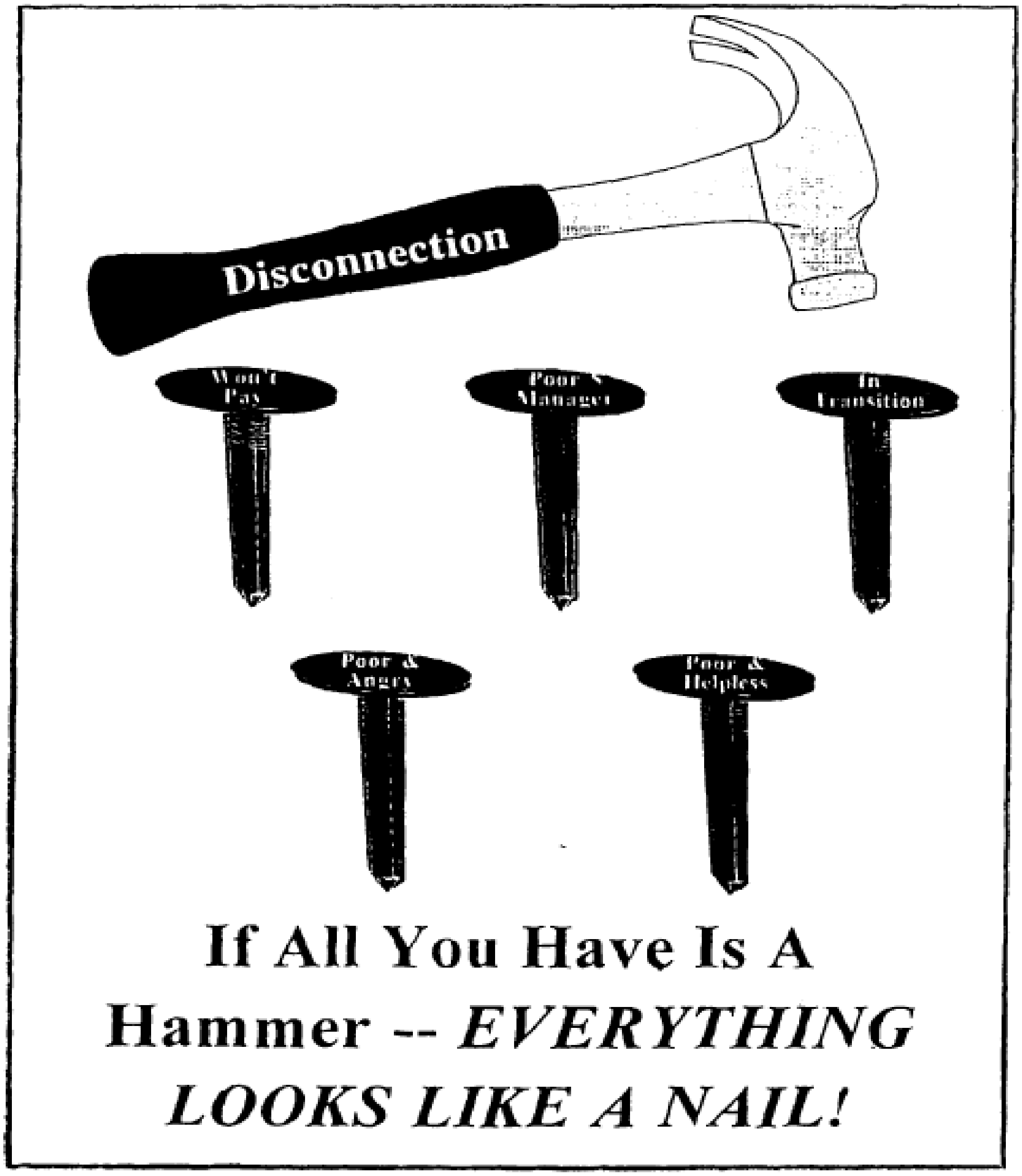


FIGURE 7

When the Company dealt with all people who did not pay their bill for whatever reason with the same tool, namely disconnection, several undesirable results occurred:

• <u>Disconnection of the Poor and Helpless</u> - Credit and collection personnel tended to disconnect the service of customers who didn't complain but who also had virtually no resources and therefore did not pay. The result was the production of a disconnection statistic but no payment. In addition to increased operating costs, the Company also increases its risk of an incident at the customer's premises and the customer is subjected to pain and suffering which he or she is ill-equipped to cope with.

• Increased Frustration and Burnout - Company personnel increasingly characterized all customers who were in arrears as "deadbeats" and therefore ceased to see them as "customers," thereby justifying rude and insensitive treatment of them. Paradoxically, this also led to "burnout" on the part of credit workers.

• Increased Fraud - Since many customers who are disconnected for nonpayment moved to a new premises, they often falsified applications for service in order to gain service. Fewer moves resulted in a major reduction in fraud cases.

• Failure to Change Long-standing Customer Payment Patterns - If the Company is inflexible in offering payment arrangements that genuinely do not fit the customer's circumstances, the customer learns that the "reward" for paying what he or she can versus nothing is exactly the same; namely, disconnection. In this way, disconnection practices actually encourage a long-standing payment habit of withholding payment. The WPSC approach was to establish a regular payment habit which - even though it may be inadequate - represents a change in payment pattern. The ultimate objective is to make this a lasting habit. Subsequent research in 1993 confirmed that customers recognize such treatment and, as a result, respond by moving the energy bill higher in their bill paying priority.

• Increased Risk - As we know, the energy suppliers[7] will be held liable by public opinion for how they treat their customers, particularly those who are deemed less capable of managing on their own. There is an assumed societal responsibility for the energy supplier. Any company that fails to live up to that responsibility will be judged harshly by the public and by the media.

Perspectives

We have also learned that our perspectives must take into account the total system. Narrow perspectives produce provincial solutions. By taking a broader systems perspective, WPSC successfully produced a more comprehensive solution. This is not to say that all problems were solved. Indeed, there is no doubt that a new paradigm will have to be developed to solve the next level of persistent issues which the current paradigm does not solve.

[7] And to an extent, the regulator.

Paradigms

The WPSC experience also points out that we need new paradigms when we want them the least. Familiar solutions look as though they should be successful, such as the disconnection (bigger hammer theory) solution for rising bad debts. At WPSC we found that we tended to avoid new approaches because we thought the old methods of tough talk and more disconnections were the only way to deal with the situation. In a sense we had given up hope of finding a better solution. There's also a tendency on our part to blame others-whether that be regulators, society, etc.- for not approaching the problem.

Final Thoughts

In the end, we also realized that -- as one humorist put it-the best definition of insanity is doing the same thing we've always done and expecting to get different results. If increased disconnections failed to produce payment in the past, why would we assume they would produce payment in the future? The lifestyle survey helped us understand these principles and hopefully set the stage for development of further tools to deal with collections in the future. The electric energy industry has gone through the most significant restructuring since its founding. Similarly, the gas industry is continuing to experience the effects of new developments in marketing, brokering, and delivery of the product. These developments have permanently changed both industries in many states. One of the most significant questions that must be addressed is what service elements we as a society want to carry forward into the future.

As we consider account management (a/k/a credit and collections), the issues will be included under the broad categories of affordability and continuity of energy services. Various services and programs are in place in 2008. While we would all probably stipulate that our current solutions are far from perfect, we must ask how the needs of customers who experience bill paying problems will be met in the future.

To successfully address the issues, the utility industry - as well as all other stakeholders will need to understand how customer needs are met now. Assuming that the stakeholders can agree on basic needs that must continue to be met, a method of safe passage to the future for the service and programs must be provided.