Before the
Washington Utilities and Transportation Commission

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Washington Utilities and Transportation Commission

vs.

Avista Corporation

Docket Nos. UE-991606 / UG-991607

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DIRECT TESTIMONY AND EXHIBITS

OF

ROGER D. COLTON

On Behalf of:

Spokane Neighborhood Action Programs
Spokane, Washington

May 2000

TABLE OF CONTENTS

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Roger Colton. My address is 34 Warwick Road, Belmont, MA 02478.

Q. FOR WHOM DO YOU WORK AND IN WHAT CAPACITY?

A. I am a principal in the firm of Fisher, Sheehan & Colton, Public Finance and General Economics (FSC). I provide technical assistance to a variety of public utilities, state agencies and consumer organizations on rate and customer service issues involving telephone, water/sewer, natural gas and electric utilities.

Q. FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of the Spokane Neighborhood Action Programs (SNAP).

Q. PLEASE DESCRIBE YOUR EXPERIENCE WITH LOW-INCOME ENERGY ISSUES.

A. I have been working on low-income energy issues nationwide for roughly 20 years. My work has included utility rate issues, energy assistance, weatherization and energy efficiency, credit and collections, and customer service. To give a notion of the work that I engage in, let me briefly list the initiatives that I am currently working on. I'm currently under contract with the New Hampshire governor's office to help design that state's Electric Assistance Program funded through the state electric wire charge. I'm working for the New Jersey Division of Ratepayer Advocate and the Pennsylvania Office of Consumer Advocate on the design of the natural gas universal service programs in those respective states. I'm working for the Maryland Office of Peoples Counsel on that state's electric and natural gas universal service programs. I'm under contract with the Missouri Department of Natural Resources to assess the impact of two pending electric utility mergers on low-income consumers. I am working for the U.S. Department of Health and Human Services to help LIHEAP offices nationwide integrate new energy affordability programs created through electric and natural gas retail choice legislation with existing LIHEAP programs. I'm working for Oak Ridge National Laboratory to provide technical assistance on low-income electric and natural gas restructuring issues on an as-needed basis to public officials nationwide. I'm under contract with the Iowa Department of Human Resources to design that state's electric universal service program. Finally, I have just completed reviews of the appropriate level of electric, natural gas and water/sewer utility allowances for public and Section 8 housing in Miami (FL) and Austin (TX).

Q. DO YOU WORK ONLY FOR STATE AGENCIES AND COMMUNITY BASED ORGANIZATIONS?

A. No. I am currently under contract to Duquesne Light Company (Pittsburgh, PA) to help it redesign its range of universal service programs as well as to Entergy Services Corporation (Little Rock, AR) to help it design universal service programs in the five states served by its various operating companies. In addition, I have been hired by Vermont Energy Futures, an all-fuels energy consumer cooperative, to design its low-income service offerings.

Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION BEFORE?

A. While I have never previously testified before the Washington Commission, I have testified on low-income utility issues in a variety of proceedings before regulatory bodies. I have attached a summary of my experience as Exhibit RDC-1.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY TODAY.

A. The purpose of my testimony is to consider cost-effective ways for an electric and natural gas utility such as Avista to generate desired outcomes from its low-income customer base. More specifically, my testimony will:

- Provide an overview of the Avista low-income population;
- Provide an overview of how Avista responds to nonpayment, particularly as those processes relate to low-income consumers;
- Introduce a planning process appropriate to the development of responses to low-income payment troubles;
- Propose a cost recovery mechanism for the responses to low-income payment troubles developed through the planning process I explain.

In general, I conclude that: (1) the Company does not currently tailor its collection processes based on low-income status; (2) the failure to tailor responses redounds to the detriment of the Company, the Company's total ratepayer population, and the Company's low-income customers; (3) a rational planning process exists through which appropriate nonpayment responses can be developed; and (4) the recovery of costs associated with tailored responses to low-income payment troubles is appropriate and reasonable.

Q. PLEASE SUMMARIZE THE RECOMMENDATIONS YOU MAKE.

A. I recommend the following:

1. Avista should be directed to initiate a collaborative process through which stakeholders can consider a range of appropriate responses to low-income payment troubles;

2. The collaborative process should develop a range of low-income nonpayment responses utilizing the planning process that I outline in the text of my testimony below;

3. The costs of the responses developed through the collaborative should be subject to recovery from all ratepayers, within a maximum cost recovery cap.

4. The costs should be recovered through a one percent wires charge that is collected as an undifferentiated component of base rates.

I describe the specifics of the recommendations, as well as the specific bases for these recommendations, in detail in the text of my testimony below.

PART 1: LOW-INCOME CUSTOMERS AND THEIR ABILITY TO PAY

Q. PLEASE DESCRIBE THE LOW-INCOME POPULATION SERVED BY AVISTA.

A. Avista has a substantial population of low-income consumers, many of whom live at the lowest subsistence levels of income. More than 60,000 persons live with incomes at or below 125 percent of the federal Poverty Level in the communities served by Avista with natural gas service. Of these low-income persons, over 15,000 live below 50% of the federal Poverty Level, while another 30,000 live between 50% and 100% of the federal Poverty

Level.

Similarly, nearly 105,000 persons live with incomes at or below 125 percent of the federal Poverty Level in the counties served by Avista with electric service. Of these low-income persons, nearly 28,000 live below 50% of the federal Poverty Level, while another 50,000 live between 50% and 100% of the federal Poverty Level.

The 2000 federal Poverty Level by household size is set out in Exhibit RDC-2. The distribution of persons by Poverty Level in the counties in which Avista has an electric presence is presented in Exhibit RDC-3 (page 1 of 2). The distribution of persons by Poverty Level in the communities in which Avista has a natural gas presence is presented in Exhibit RDC-3 (page 2 of 2).

Q. IS THERE REASON TO BELIEVE THAT THE LOW-INCOME POPULATION OF SPOKANE COUNTY IS FACING INCREASING ECONOMIC PRESSURES TODAY?

A. Yes. We know that there is substantial poverty in Spokane County. Nearly 22% of Spokane's children live in poverty, while in 1998, one in five people in Spokane County received basic cash assistance or food stamps on a regular basis. Nearly 5,300 households in Spokane County receive rental subsidies or live in units receiving subsidies. Fully one-half of all students in District 81's elementary schools receive free or reduced-price lunches.

We know further that these families are facing increasing economic pressures. Foreclosures in Spokane County jumped from 70 in 1990 to 474 in 1997, and grew to 1,088 in 1999. A two-bedroom unit renting for the fair market value in Spokane costs 95% of the monthly TANF (welfare) payment for a three-person family. If all of the adults on unemployment, or receiving public assistance, in Spokane County looked for work, an additional 15,000 jobs would be needed.

We know that the cost of living index for Spokane is 108.8 (with 100 representing the U.S. city average cost of living). In contrast, however, the estimated median household income in Spokane is $36,015, compared to $44,060 for Washington State and $40,525 for the U.S. as a whole. According to the Spokane County draft Comprehensive Plan, the largest and fastest growing types of employment in the area are in low-wage, part-time, service sector employment.

Q. IS THERE A GENERALLY ACCEPTED MECHANISM TO USE IN MEASURING THE DIFFICULTY THAT LOW-INCOME CONSUMERS HAVE IN PAYING THEIR HOME ENERGY BILLS?

A. The generally accepted measure of inability-to-pay involves energy burden. A household's energy burden is the household energy bill divided by the household income. Energy burden is used as the measure of inability-to-pay at both the state and federal levels. The federal Low-Income Home Energy Assistance Program (LIHEAP), for example, is statutorily directed to target the highest level of benefits to households with the lowest incomes and the highest energy burdens. In addition, virtually every state adopting a low-income rate affordability program funded through a system benefits charge uses energy burden as the mechanism to target benefits.

Q. PLEASE CHARACTERIZE THE OVERALL ENERGY BURDEN THAT LOW-INCOME CONSUMERS FACE IN THE AVISTA SERVICE TERRITORY.

A. The Company's low-income consumers currently bear non-sustainable energy burdens. Because of these burdens, low-income consumers can be expected to experience arrears, be subject to credit and collection efforts, have their service disconnected, be forced to make unreasonable budget decisions between competing household necessities (*e.g.*, heat or eat), and be forced to engage in a wide variety of dangerous and/or unhealthy activities in an effort to keep paying their utility bills. In addition, these energy burdens have been found to represent an impediment to low-income consumers taking constructive actions to address their inability-to-pay.

Q. HAVE YOU QUANTIFIED THE ENERGY BURDEN FACING THE COMPANY'S LOW-INCOME CONSUMERS?

A. Exhibit RDC-4 shows 1999 electric, natural gas and combined gas/electric burdens for Avista's low-income households. This Exhibit shows that natural gas and electric bills for households living below 50% of Poverty are unaffordable, both standing alone and in combination with each other. In addition, combined natural gas and electric bills for most low-income consumers are unaffordable up to 100% of Poverty Level. Only when incomes reach the 100% to 150% level of Poverty do average bills become affordable to the low-income consumer.

Q. PLEASE EXPLAIN WHY YOU CONCLUDE THAT THESE ENERGY BURDENS ARE NON-SUSTAINABLE.

A. The lack of sustainability can be viewed from two different perspectives. For example, according to the U.S. Department of Housing and Urban Development (HUD), a household experiencing total shelter costs in excess of 30 percent of income is likely to be over-extended. HUD defines total shelter costs to include housing (rent or mortgage) plus the cost of all utilities except telephones. As a practical matter, a consumer who pays 10 percent or more of his or her income for utility costs is not going to experience *total* shelter costs of 30 percent or less. In contrast, the Federal National Mortgage Association (FNMA or Fannie Mae) has indicated that utility bills should not generally exceed 20% of total shelter costs. If total shelter costs are in the range of 30% (or even 40%) of income, this would yield sustainable energy burdens of from 6% (30% x 20%) to 8% (40% x 20%) of income. The energy burdens of low-income consumers routinely exceed these figures.

Q. WHAT IS THE IMPACT OF BEARING A NON-SUSTAINABLE ENERGY BURDEN?

A. One of the primary impacts of non-sustainable energy burdens is the nonpayment of home energy bills. While Avista has never examined the extent of accounts receivable associated with LIHEAP recipients who are Company customers (SNAP-1-51), experience with other states and other utilities demonstrates quite clearly that a relationship exists between low-income status and payment troubles.

Nonpayment, however, is not the only impact of inability-to-pay based on non-sustainable home energy burdens. In addition, because of these unaffordable burdens, low-income consumers are forced to make unreasonable budget decisions between competing household necessities (*e.g.*, heat or eat), and be forced to engage in a wide variety of dangerous and/or unhealthy activities in an effort to keep paying their utility bills. In addition, these energy burdens have been found to represent an impediment to low-income consumers taking constructive actions to address their inability-to-pay. In a recent study of low-income inability-to-pay home energy bills, I found:

> Low-income customers, however, frequently have little incentive, and even fewer choices, to pursue. . .constructive responses to bill unaffordability. Enrolling in an energy efficiency program to reduce high bills on a going-forward basis, for example, does not help pay the existing arrears unless coupled with a reasonable long-term deferred payment plan. Conversely, agreeing to a deferred payment arrangement does not address affordability on a going-forward basis unless some adjustment can be made in either the level of the bill or the level of household resources available to pay for the bill.
>
> All too frequently, the customer is faced with an immediate need (*i.e.*, bill payment by a date certain) with the available constructive responses to an inability-to-pay unable to deliver assistance either in the form, the time period, or the magnitude necessary to meet that need. Given the immediate consequences of failing to address

> the short-term nonpayment crisis, the customer is pushed into the negative actions identified in this research.[1]

The "negative actions" identified included practices, among others, such as increasing high cost debt by purchasing food and fuel on credit cards; turning down thermostats to dangerously low temperatures; using alternate (and unsafe) energy sources for heating (such as ovens, burners, and charcoal grills); burning "alternative fuels" in fireplaces and wood stoves, including furniture, clothes, siding, used tires, doors, and woodwork; engaging in dishonest or unlawful activities, such as writing bad checks and tampering with meters; foregoing the purchase of food, medical care, dental care and medicine; and foregoing the payment of other bills (such as rent, water, and electricity).

Q. WHAT DO YOU CONCLUDE?

A. The needs of low-income consumers are great in the Avista service territory, both in terms of dollars and in terms of the number of households in need. The energy problems of Avista's low-income customers are not household budgeting problems. There is, instead, an absolute mismatch between household resources and expenses.

\1\ *See*, Roger Colton (May 1999). ***Measuring LIHEAP's Results: Responding to Home Energy Unaffordability***, Fisher, Sheehan and Colton, Public Finance and General Economics: Belmont, MA.

PART 2. THE COLLECTION ACTIVITIES OF AVISTA.

A. The Existing Collection Activities.

Q. HOW DOES AVISTA RESPOND TO NONPAYMENT OF BILLS?

A. Avista engages in a full range of traditional credit and collection activities. In 1999, Avista:

- Disconnected 19,032 residential customers;
- Entered into 168,247 residential payment arrangements;
- Mailed 93,254 7-day disconnection notices;
- Mailed 70,428 24-hour "final" disconnection notices;
- Made 14,304 field collection visits;
- Made 60,127 nonpayment telephone reminder phone calls.

(SNAP-1-09).

Q. DOES THE COMPANY TAILOR ITS RESPONSE TO NONPAYMENT BASED ON INCOME?

A. No. The Company states that it does not segment its customers by income, nor does it track collection costs by income or other demographic measures beyond residential and commercial. (SNAP-1-06, SNAP-1-07). The Company does not segment or categorize its customers by income. (SNAP-1-10). The Company does not know how many low-income customers it serves. (SNAP-1-12). The Company does not:

- track bad debt by socio-economic status, by zip code, or by receipt of low-income fuel assistance (SNAP-1-49); or

- track arrears by socio-economic status, by zip code, or by receipt of low-income fuel assistance (SNAP-1-50).

B. The Efficacy of Existing Low-Income Collection Activities.

Q. WHAT IS THE RESULT OF THE COMPANY FAILING TO TAILOR ITS NONPAYMENT RESPONSES TO THE INCOME OF ITS CUSTOMERS?

A. The impact of failing to tailor responses to nonpayment to the income of customers is that the Company's collection activities are likely to be have a degree of ineffectiveness and inefficiency to them. In some instances, the Company is devoting resources (dollars, stafftime) to collection activities that have no hope of succeeding in the collection of money. In other instances, the Company is devoting resources beyond that necessary to collect money. To this extent, the Company is not only wasting money, but is imposing hardship on its low-income customers and frequently generating adverse impacts to its remaining ratepayers as well.

Q. CAN YOU ILLUSTRATE HOW A COLLECTION TOOL CAN BE INEFFECTIVELY AND INEFFICIENTLY USED IF NOT APPROPRIATELY TAILORED?

A. Let me introduce two illustrations. First, the disconnection of service for nonpayment is such a tool. Most utilities argue that the disconnection of service is a collection tool to be used to minimize uncollectible accounts. The disconnection of a nonpaying customer can serve two distinct functions. On the one hand, a shutoff can be said to remove the nonpaying customer from the system. In this way, the customer is prevented from incurring additional future unpaid bills. On the other hand, a shutoff can be said to be a means of collecting the current arrears. In this way, the disconnection of service is a device to obtain payment toward past bills.

Second, through deferred payment plans, households are permitted to retire their arrears over time. The Company offers five types of deferred payment arrangements. Under the "balance in full plan," customers commit to pay their entire account by a specific date. Under the "current bill plus plan," the customer adds a portion or all of their arrearage to future bills. Under the "short term arrangement plan," customers make multiple payments to retire their balance before their next scheduled meter read. Under the "special payment plan," the customer pays the estimated annual bill plus 1/6th of the total account balance. Under the "levelized payment plan," the customer pays the estimated annual bill plus 1/12th of the total account balance. (SNAP-1-13). The Company states that is has no specific criteria that a customer must meet before being offered any type of payment arrangement. The various arrangements are offered on an as-needed basis. (SNAP-1-13).

Q. PLEASE EXPLAIN WHY YOU BELIEVE THESE TWO COLLECTION DEVICES TO BE POORLY TAILORED FOR LOW-INCOME CUSTOMERS.

A. Low-income payment-troubled customers often face substantive barriers to entering into deferred payment arrangements, or seeking other redress to nonpayment. These barriers make it more likely that these customers will face the termination of service for nonpayment or other sanctions for nonpayment. Other sanctions might include such things as the imposition of late payment fees, the collection of additional cash security deposits, and the imposition of other fees (e.g., reconnect fees) that serve to increase a low-income customer's total utility bill.

The barriers which impede low-income participation in deferred payment arrangements (or other responses to nonpayment) frequently bear no relationship to the ability or willingness of such customers to make payments. A study of winter disconnections in Maine, for example, found that 80 percent of households who were disconnected during the winter months lacked telephone service. The lack of telephone service in the home, the study found, impeded the ability of low-income consumers to contact the utility to negotiate payment plans as well as the ability to contact social service agencies to obtain fuel assistance. Other barriers exist as well, including:

- **<u>Lack of effective knowledge</u>:** The lack of "effective knowledge" was found to be the primary barrier to participation in Pennsylvania's Low-Income Home Energy Assistance Program (LIHEAP).[2] A Penn State University study found that "while most consumers indicate awareness of energy assistance, in general, their knowledge

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[2] Drew Hyman, ***Consumer Budget Priorities and Utility Payment Problems in Pennsylvania***, prepared by Consumer Services Information System Project (Penn State University) for the Pennsylvania Public Utility Commission (1988).

is not sufficient to allow them to act. Almost half of those who say they `know about' energy assistance cannot name a single program." The lack of effective knowledge can impede entry into deferred payment arrangements as well.

- **<u>Misperceptions as to eligibility</u>:** A 1988 study of why low-income households do not participate in the Food Stamp program nationwide found that about half of the eligible nonparticipants had misperceptions regarding their eligibility for the program.[3] Misperceptions as to "eligibility" can impede low-income participation in deferred payment arrangements as well.

- **<u>Burdensome and complex processes</u>:** So, too, did GAO find in an April 1999 study of low enrollment in state Medicare programs[4] that many potential recipients do not participate because, amongst other things, the persons found the administrative process to be complex. Perceptions as to the process of negotiating a deferred payment arrangement will serve to impede low-income participation as well.

As can be seen, there is an abundance of information about how a variety of barriers can impede low-income participation in processes and programs that are designed to address particular financial needs. Nonparticipation results from these barriers rather than from a lack of need or a lack of desire to participate.

Q. WHAT ARE THE HARMS TO THE COMPANY FROM AN INAPPROPRIATE USE OF SERVICE TERMINATIONS TO COLLECT MONEY FROM LOW-INCOME CONSUMERS?

A. Service disconnections for nonpayment cannot be assumed to result in reduced costs to all other ratepayers. In fact, the disconnection of service has been found by the New York public

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[3] General Accounting Office, ***Food Stamps: Reasons for Nonparticipation*** (December 1988).

[4] General Accounting Office, ***Low-Income Medicare Beneficiaries: Further Outreach and Administrative Simplification Could Increase Enrollment*** (April 1999).

service commission staff to result in an *increase* in uncollectibles to that state's energy utilities. While the impact of service terminations on uncollectibles has not been studied in recent years, a study by the New York PSC staff found that there was "some correlation between companies with low uncollectible rates and a low percent of residential service terminations." The New York study reported that: "surprisingly, we found that companies with good [final termination notice] credibility, showing a high level of service termination levels where customers do not respond to their final notice, also tended to have the higher uncollectible rates."

The New York study does not stand alone. Referring to the "limited usefulness of service terminations as a collection tool," one Wisconsin utility found service termination to be a useful collection tool for only 12% of its payment-troubled customers.

Even if service terminations do remove payment-troubled customers from the system, when considered in light of low-income consumers, removing a nonpaying customer from the utility system does not necessarily result in the least-cost provision of service to all remaining ratepayers. Whenever a customer's service is disconnected, two things happen. First, the company avoids the variable cost of delivering that unit of energy to the household. Second, the company forgoes the revenue that *would have been* collected from the household but for the disconnection of service. To the extent that the revenue would have exceeded the variable cost of delivering the energy (whether it be gas or electricity), other ratepayers lose a contribution toward the payment of the fixed charges of the company. In this instance, the disconnection of service leaves remaining, paying, customers worse off than had the disconnection not occurred. In general, there is an advantage to all ratepayers from keeping as many households on the system as possible.

Q. WHAT ARE THE HARMS TO THE COMPANY FROM AN INAPPROPRIATE USE OF DEFERRED PAYMENT PLANS TO COLLECT MONEY FROM LOW-INCOME CONSUMERS?

A. The use of deferred payment arrangements also can impose substantial costs on other ratepayers. Consider, for example, that one expense associated with deferred payment arrangements arises from the fact that a dollar collected today is worth more than a dollar collected tomorrow. As a result of deferred payment plans, in other words, Avista loses the time value of the arrears subject to these plans. The loss of time value can manifest itself in either of two ways. In the event that Avista must borrow money to fill its short-term capital needs, the loss shows up as a working capital expense. In contrast, even when Avista need *not* borrow money to provide the revenue (the payment of which is deferred through a payment plan), the loss shows up as an opportunity cost. If the money *had* been collected rather than deferred, the prudent utility manager would have invested that revenue and obtained a rate of return on it. Given this loss in time value, and assuming that all payment plans are successfully completed, each low-income payment plan imposes an expense equal to the carrying cost of the arrears on the utility.

Aside from these carrying costs, one cannot assume that low-income deferred payment arrangements are successfully completed. Assume that a low-income household enters into a payment plan to retire $400 in arrears over 12 months. Even setting aside the costs of carrying those arrears, the value of that payment plan is not $400. The value of that payment plan is $400 discounted by the risk that the payment plan will not successfully be completed. If there is a 60% probability that the consumer will default on the payment plan before its successful completion, the value to the Company of the $400 deferred payment plan is only $160 ($400 x (1 - .60)) = $160). When the payment plan process is not appropriately tailored, the risk that payment plans will be negotiated, but unsuccessful, will increase.

Q. DOES THE COMPANY TAILOR ITS PAYMENT PLANS TO LOW-INCOME CUSTOMERS?

A. No. This process of tailoring the use of payment plans does not now occur. While the Company tracks the number of deferred payment arrangements by month, as well as the number of residential broken arrangements by month (SNAP-1-41), it does *not* track the number of low-income customers on payment plans, nor does it track the number of low-income customers who have failed to maintain one or more payment plans. (SNAP-1-14).

Q. HOW EFFECTIVE ARE AVISTA'S DEFERRED PAYMENT PLANS?

A. The Company does not directly measure the effectiveness of *any* of its current credit and collection mechanisms, including deferred payment arrangements. Instead, the measure of effectiveness is based exclusively on monitoring tracking gross and net write-offs and delinquencies and then comparing those results to industry averages. (SNAP-1-03). Exhibit RDC-5, however, sets forth the number of residential customers in arrears, the ratio of deferred payment arrangements to the number of accounts in arrears, and the ratio of defaulted payment arrangements to total payment arrangements. Through 1998, the number of deferred payment arrangements was consistently less than 20% of the total number of accounts in arrears. Moreover, the number of defaulted payment arrangements was consistently between 40% and 50% of the total number of payment arrangements. While, in 1999, the number of short-term payment arrangements nearly doubled (SNAP-1-14), the rate of defaulted payment plans stayed relatively constant. In addition, the change in the number of deferred payment arrangements did not result in a decrease in the reserve for uncollectibles. The 1999 reserve was higher than the 1998 reserve. (SNAP-1-55).

Q. WHAT DO YOU CONCLUDE FROM YOUR DISCUSSION ABOVE?

A. First, I wish to note that my conclusion is *not* that the Company should abandon its use of service terminations as a collection device, nor that the Company should abandon its use of deferred payment arrangements. Instead, what I conclude is that, despite the substantial sums of dollars the Company routinely spends on traditional credit and collection activities, the Company has never considered the effectiveness, efficiency or efficacy of those collection activities. This is particularly true from the perspective of low-income consumers. The Company has never considered whether its existing collection mechanisms "work" for low-income consumers, even in the face of information and experience indicating that such mechanisms do *not* work for such customers. At the same time, the continuing use of these mechanisms generate substantial harms to the Company's low-income customers as well as to the ratepayer base as a whole.

PART 3: A RECOMMENDED PLANNING PROCESS.

Q. PLEASE EXPLAIN THE PURPOSE OF THE COLLABORATIVE PLANNING PROCESS THAT YOU RECOMMEND BELOW.

A. I propose that Avista engage in a collaborative process to develop a range of new responses to low-income nonpayment that are reasonably targeted to redressing the nonpayment consistent with the needs of the company, the low-income customers, and the residential ratepayer population as a whole. The purpose of this initiative is to reasonably pursue specifically-identified low-income payment objectives consistent with established regulatory principles. The payment objectives I identify below, as well as the mechanisms proposed to achieve those objectives, are the result of a specific planning process that has considered both the service and rate impacts of the problems sought to be remedied and the means chosen as remedies.

Q. PLEASE EXPLAIN WHO YOU WOULD INCLUDE IN YOUR PROPOSED COLLABORATIVE.

A. I propose that all relevant stakeholders be invited to participate in the collaborative. These might include, but not be limited to: Avista, the Washington Utilities and Transportation Commission, Office of Public Counsel, SNAP (and other community action agencies), the Department of Community, Trade and Economic Development (DCTED), and the Northwest Energy Coalition (NWEC).

Q. WHAT TIMELINE WOULD YOU PROVIDE FOR THE COLLABORATIVE?

A. Collaborative processes often do not work unless they are given strict timelines within which to finalize a workproduct. I propose that the collaborative developing responses to low-income payment problems generate their recommended proposals for implementation by the beginning of the 2000/2001 winter heating season.

Q. PLEASE EXPLAIN THE PLANNING PROCESS YOU RECOMMEND FOR USE TO DEVELOP THE RECOMMENDED LOW-INCOME INITIATIVE.

A. Developing an appropriate response to low-income payment problems, like any other endeavor, requires good planning. The planning process I have employed in similar circumstances begins with the following steps:

Step 1: <u>Articulate</u> the program goal.

Step 2: <u>Establish</u> one or more program objective(s).

Step 3: <u>Identify</u> the strategy through which to accomplish the objective(s).

Step 4: <u>Identify</u> one or more tactics through which to implement the strategy.

Q. WHAT PROGRAM GOAL DO YOU RECOMMEND?

A. I propose the following low-income program goal: Avista will deliver quality electric and natural gas service at affordable prices consistent with the ability of investors to earn a fair rate of return.

Note that there are three important statements in this program goal. First, the quality of service provided to low-income consumers should not degrade as a result of low-income programs. Second, there is a recognition that rates should be "affordable." Avista should not seek complete, prompt, regular, automatic and continuing payments if, in obtaining those outcomes, customers are going without food or medicine, living in unhealthful homes, and the like. Third, the right of investors to earn a fair rate of return is explicitly recognized.

Q. HOW WOULD YOU DEFINE "AFFORDABLE" UTILITY RATES?

A. I would define "affordable" in the same way the Federal Communications Commission (FCC) did in its May 1997 "universal service" order to implement the Telecommunications Act of 1996. The FCC decided that the concept of "affordability" includes both an "absolute" ("to have enough or the means for") and a "relative" ("to bear the cost of without serious detriment") component. According to the FCC, "both the absolute and relative components must be considered in making the affordability determination required under the statute."

Q. PLEASE EXPLAIN THE SECOND STEP IN YOUR PLANNING PROCESS.

A. The second step involves articulating specific program objectives. it is against program objectives that program performance is subsequently measured. Generally accepted planning principles provide that program objectives are to be both attainable and measurable. The proposed collaborative is predicated on achieving the following objectives:

- **<u>Complete payment</u>:** If the customer is billed $100, the company wants to collect $100.

- **<u>Prompt payment</u>:** If the customer receives a bill that is due on the 20th of the month, the company wants its payment no later than the 20th of the month.

- **<u>Regular payment</u>:** If the customer receives 12 bills in a year, the company wants 12 payments in a year, one in response to each bill.

- **<u>Automatic payment</u>:** The company does not want to expend effort to generate payment. Two people who both make $120 payments each month toward their monthly $120 bill do not present equal customers if one pays by check on the 10th of each month and the other pays only after receiving a shutoff notice followed-up by a collections phone call.

- **<u>Continuing payment</u>:** The company does not want to occasionally collect revenue from customers. Two customers, both of whom have annual $500 bills which are paid in a full and timely fashion, are not equal if one customer is "on the system" for a full twelve months and the other customer is not. A customer may be *off* the system due to either voluntary or involuntary disconnects. A customer who moves, thus leaving a housing unit vacant for some period of time (whether days or weeks) represents a lost sale to the Company. Days of lost sales revenue cannot be recouped.

Seeking these objective does not represent an effort to implement social ratemaking. Seeking these objectives is sound business to be pursued by any rational business. Indeed, I have largely developed these objectives through my work with two public utilities in their consideration of how to become more competitive as they enter into a world of retail choice.

Q. HOW DOES THE CONCEPT OF "AFFORDABILITY" INTERACT WITH THESE UTILITY OBJECTIVES?

A. Affordability, as defined above, is achieved when bills can be paid -- and thus the outcomes identified immediately above achieved -- without the consumer regularly engaging in an activity that is harmful to their health, safety or welfare. The notion of affordability can be operationalized through a rebuttable presumption. Bills that are paid carry a rebuttable presumption that they are affordable. Through such a process, a customer (or his or her representative) can approach the Company and make the case that bills rendered to a customer are "paid-but-unaffordable." A series of measures should be developed to denote what customer demonstration is necessary to fall outside the definition of affordability immediately above.

Q. PLEASE EXPLAIN THE STRATEGIC APPROACH THAT UNDERLIES ACCOMPLISHING YOUR PROPOSED LOW-INCOME PAYMENT OBJECTIVES?

A. The overall strategy proposed through which to pursue achieving the objectives stated immediately above involves Avista implementing a series of activities explicitly targeted to specific payment problems identified within specific populations.

This strategy incorporates the notion of low-income customer segmentation. It recognizes that there is no monolithic "low-income population" and that Avista should not rely upon any single response to low-income nonpayment. Different policy and programmatic responses may be needed, for example, for a welfare mother with kids, for an unemployed laborer, and for a low-income/fixed-income retired widow.

In recent work that I have been doing with other utilities, I have analogized low-income programs to a tool box. A set of low-income activities should provide a utility with the tools necessary to address the various *types* of nonpayment (*e.g.*, late payment, partial payment, nonpayment, chronic nonpayment, episodic nonpayment) as well as the various *reasons* for nonpayment (e.g., bad budgeting, chronic inadequate household income, temporary household financial crisis, high winter bills). Different problems require different tools. There exists an old maxim stating that "when your only tool is a hammer, you tend to see every problem as a nail." That saying has merit. Just as if your only tool is a rate discount, you tend to see every problem as one of inadequate income, if your only tool is service disconnection, you tend to see every problem as a collection issue. A strategy based upon the commitment to deliver a package of activities targeted to specific payment problems and specific populations is a sound strategy.

Q. HAS ANY UTILITY COMMISSION EVER ADOPTED A SIMILAR APPROACH?

A. Yes. The New York PSC staff concluded: "it appears that the use of an *array of collection tools* targeted to *various types of collection situations* is most productive in reducing collection rates." (emphasis added). Each of the three parts of this comment is appropriate:

(1) there should be an array of collection tools; (2) those tools should be used on a targeted basis; and (3) each tool should be tailored to respond to a particular type of collection situation. This is precisely the approach to responding to low-income nonpayment that I propose below.

As the New York PSC staff concluded: ". . .we believe that utility collection operations should:

- Ë identify payment-troubled customer problem types in order to mold effective collection programs;
- Ë develop comprehensive collection information systems;
- Ë implement collection programs designed to resolve customer payment problems and characterized by personalized attention; and
- Ë design mechanisms, where possible, to evaluate various collection practices."

In light of my conclusions above about the shortcomings in Avista's responses to payment troubles, and consistent with the reported experience in Wisconsin and New York, I offer an alternative below to improve the Company's responses to low-income payment troubles in particular.

Q. HOW DO YOU DEVELOP THE SPECIFIC PROGRAM COMPONENTS THROUGH WHICH YOUR PROPOSED STRATEGY CAN BE IMPLEMENTED?

A. In planning parlance, the program components are called "tactics." They represent the specific action steps through which a strategy is implemented. A program may, and likely will, have multiple tactics to implement the strategy. Developing the set of tactics which would then comprise an Avista initiative responding to low-income nonpayment involves identifying the specific needs of various low-income populations and developing appropriate interventions designed to address those needs. The planning model is called the "logic model." It involves four steps:

1. Identify the need to be addressed.
2. Design an intervention to respond to the need.
3. Identify the outcome(s) resulting from the intervention.
4. Relate the outcomes to the overall objective.

In the logic model outlined above, the set of interventions adopted in Step 2 becomes Avista's low-income initiative.

Q. CAN YOU ILLUSTRATE APPLICATION OF THE LOGIC MODEL?

A. Yes. One "tactic" that Avista has adopted involves allowing customers to pick their own billing date to match the date on which pay checks, or public assistance checks, or social security checks, are received. Whether or not Avista consciously went through the planning process above, it is reasonably easy to review the logic model planning steps underlying this decision.

1. Identify the need to be addressed.

- o Identify thing to be controlled: timing of bill payment.
- o Determine desired/expected performance: payment by due date.
- o Determine whether material variance exists: some customers make complete but consistently late payments.
- o Determine root cause: mismatch between the date on which fixed, limited income is received and the date on which utility bill payment is due.

2. Design an intervention to respond to the need.

- o Intervention needed: pick a date for receiving bill that corresponds to receipt of income check.
- o To whom intervention directed: persons on fixed limited incomes who can afford to pay from income (e.g., social security recipients).

3. Identify the outcome(s) resulting from the intervention.

- o Desired/expected performance: payment by chosen due date.

4. Relate the outcomes to program objectives.

- o Obtain timely payment.

Q. IS THIS PROCESS SIMILAR TO OTHER PLANNING PROCESSES THAT THE COMPANY ENGAGES IN?

A. Yes. Each Company activity, either implicitly or explicitly, is based on a line of reasoning similar to this. The Company offers extended payment plans through which to retire arrears as a mechanism to respond to an identified need. The Company disconnects service as a mechanism to respond to an identified need. The Company requires cash deposits as a mechanism to respond to an identified need. In each case, the Company has identified a "need," has developed an intervention to respond to that need, and, presumably, has a specific outcome that it seeks to generate through that intervention. What I am proposing in this proceeding is nothing more and nothing less than what the Company has already done in other circumstances.

Q. WHAT TYPES OF INTERVENTIONS MIGHT THIS PLANNING PROCESS YIELD?

A. Illustrations of potential outputs from the collaborative process are included in Exhibit RDC-6. I wish to emphasize that I include these simply as illustrations of the planning outputs, not as proposals to be considered at this point in time. While I would suggest that the collaborative consider the attached illustrations, it will be up to the collaborative to identify the relevant needs and to develop the interventions appropriate to respond to those needs.

Q. PLEASE SUMMARIZE THIS SECTION OF YOUR TESTIMONY.

A. The process of responding to bill nonpayment should be subjected to planning processes just like any other Company activity. Because of the unique nature of low-income payment problems, the need to engage in this process to identify and develop appropriate responses to low-income nonpayment is even more important. This is particularly true because the "traditional" collection processes often represent an ineffective, indeed frequently a counter-productive, response to nonpayment. The purpose of the collaborative process I outline above is to exercise the planning process I outline through which appropriate responses to low-income nonpayment can be developed. I address a funding stream in the next section of my testimony.

PART 4: FUNDING RESPONSES TO LOW-INCOME NONPAYMENT.

A. Setting the Revenue Stream.

Q. WHAT FUNDING STREAM DO YOU PROPOSE FOR LOW-INCOME PAYMENT RESPONSES?

A. The collaborative process should adopt all interventions that are reasonably designed to address particular payment problems of low-income consumers. In order to mitigate any potential rate/bill impacts of the proposed interventions, however, I propose to place a before-the-fact cap on the potential total expenditures. This cap delineates a maximum expenditure allowed for the proposed low-income interventions. If, however, the total cost of the proposed interventions exceeds the cap, the Company should agree to spend up to the cap.

SNAP proposes that Avista cap its expenditures on its low-income programs at 1.0% of total jurisdictional revenue. Given total jurisdictional revenue for Avista at current rates, the capped low-income expenditures would be as set forth in Exhibit RDC-7. The cap would increase as rates increase or as jurisdictional revenues increase.[5]

Q. HOW SHOULD THE REVENUE STREAM BE CAPTURED IN RATES?

A. I propose that there be a one percent (1%) wires charge that is collected as an

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\5\ If Washington state moves to retail choice in either the natural gas industry or the electric industry, or both, the funding stream will need to be converted to a charge per unit of energy.

undifferentiated component of base rates. In this fashion, while the wires charge generates an liquidated and earmarked stream of revenue for low-income nonpayment responses, it will not appear as a separate line item on the customer's bill. If the Company so chooses, the wires charge can be booked as revenue through the Tariff Rider that has been previously approved by the Commission. Doing so, however, should not compromise the fact that the charge should be transparent on the customer's bill.

Q. WHY SHOULD THE WIRES CHARGE BE AN UNDIFFERENTIATED PART OF BASE RATES RATHER THAN A SEPARATELY STATED LINE ITEM?

A. Several reasons lead to this conclusion. First, there is no reason why the expenditures on low-income nonpayment responses should be segregated out for greater scrutiny than the collection activities generated toward all ratepayers. Since not all collection expenditures appear as a separate line item, the low-income expenditures should not so appear either.

Even more importantly, however, little question exists but that, as discussed in the section immediately below, responses to low-income nonpayment will generate not only expenses, but will generate expense offsets as well. I am not proposing that the total expenditures on low-income payment trouble responses be passed through the wires charge on only a net basis. To the extent that expense offsets occur, those offsets will be recognized and passed through to ratepayers in routine base rate proceedings. Even if during the interim period between base rate cases, to the extent that such offsets keep total Company expenditures down, they contribute to pushing the need for a new base rate case further into the future, thus benefitting all consumers.

Given this treatment of the expense offsets, however, it would be inappropriate to include the wires charge as a separate line item on a customer's bill. To do so would be misleading to the consumer. It would identify the expenditures on low-income nonpayment responses, but it would not identify the expense offsets.

Q. GIVEN THIS DISCUSSION, WHY SHOULD THE COMPANY COLLECT FUNDS FOR RESPONDING TO LOW-INCOME NONPAYMENT THROUGH A SEPARATE WIRES CHARGE IN THE FIRST INSTANCE, RATHER THAN AS A PART OF BASE RATES CALCULATED AS PART OF THE TOTAL REVENUE REQUIREMENT?

A. Allowing the Company to collect the revenue for responding to low-income nonpayment through a wires charge, in effect, allows the Company to generate and earmark a budget for these purposes. This allows the collaborative to precisely define the interventions it seeks to implement as well as to place limits on what interventions will be approved. If interventions above and beyond the wires charge are found to be appropriate, they will need to be implemented with cost recovery achieved through a base rate proceeding.

In addition, segregating the funds into a wires charge, even if not separately identified on a customer's bill, would allow the Company and the Commission to clearly identify the rate impacts of the pending base rate case. The wires charge that I recommend should be assessed and decided upon separately from any underlying increase in base rates associated with, or approved through, this proceeding.

Q. IS THERE PRECEDENT FOR CREATION OF A WIRES CHARGE TO FUND PROGRAMS FOR LOW-INCOME CONSUMERS?

A. Yes. Other states have adopted a wires charge to fund low-income programs. The proposal in this proceeding is somewhat different in that it is not focused exclusively on delivering rate discounts or rate affordability assistance. The limitations on funding such assistance should, therefore, not be the limitations adopted for the Avista collaborative proposed above. The state that has developed the most sophisticated set of utility-specific programs, however, is Pennsylvania. The costs of those programs have been quantified for the electric utilities at this point. Those costs are set forth in Exhibit RDC-8.

Since full enrollment for these programs does not occur until the year 2002, and since Pennsylvania has entered a retail choice environment for its electric utilities, it is not possible to project what the expenditures are as a percent of total jurisdictional revenue to compare to Avista. Exhibit RDC-8, however, does provide the total number of residential customers for each company to allow a comparison of the proposed Avista expenditures to comparably sized Pennsylvania utilities. As can be seen, the expenditures proposed for Avista are not out-of-line with comparable expenditures in other situations.

B. The Role of Cost Offsets.

Q. PLEASE EXPLAIN THE CONCEPT OF COST OFFSETS TO WHICH YOU REFER ABOVE.

A. The cost to a utility of a low-income activity is not necessarily the same as the costs that need to be passed through to ratepayers. Offsetting the costs of low-income nonpayment responses are those expense savings that result from the activities.

A utility is entitled to collect the revenue which it bills to its customers. There is, however, no hard and fast legal rule mandating what methodology is to be used in determining the billed amount in the first place. The basic rule is that rates and services are not to be unduly discriminatory, nor is a utility to give unreasonable preferences to a particular customer class. While traditional practice has held to the principle that rates be "cost-based," application of that principle goes only so far. The term "cost" does not have an unwavering defined meaning. The term "cost-based" certainly cannot be construed to invariably mean that rates be based invariably on embedded cost of service. The legal principle has often been stated that so long as rates cover variable cost of service, they will not be held to be unduly discriminatory or unduly preferential.

Even aside from the structure or design of rates, however, the Company has considerable latitude to determine the types of credit and collection activities it will engage in. These activities are not held to strict cost-effectiveness standards. When asked to provide any studies of the cost-effectiveness of its existing credit and collection activities, for example, the Company could not do so. (SNAP-1-3, SNAP-1-4). As a result, it is not possible to determine whether the Company's *existing* collection processes (e.g., levelized equal monthly budget payment plans, negotiated payment plans for arrears, cash security deposits, service terminations for nonpayment [including all steps leading up to those terminations]) are "cost effective" or not. No empirical work establishes that these existing collection processes return more money to the Company than they cost.

The test of acceptability (defining "acceptability" as meaning that expenditures are recoverable) is *not* whether the activities generate more savings than they cost, but rather whether a reasonable person acting reasonably could conclude that the activity (and thus the expenditure) will yield the result for which it is designed.

Because Avista has never had occasion to calculate the costs of serving low-income customers (SNAP-1-6, SNAP-1-15, SNAP-1-49), it is impossible to determine the full extent of cost savings generated by a low-income program. Assuming, however, that low-income consumers contribute to costs in direct proportion to their numbers (i.e., since 26% of all customers live at or below 150% of Poverty Level,[6] 26% of all collection costs are attributable to customers living at or below 150% of Poverty), and assuming that the Company's "bottom up" approach to calculating costs fully captures all relevant costs, the minimum cost offsets put into play from a low-income program directed toward customers with annual incomes at or below 150% of Poverty would be as follows:

Ë	Working capital:	$ 243,700
Ë	Uncollectibles:	$ 714,537
Ë	Arrears notices:	$ 70,466
Ë	Deferred payment plans:	$ 196,849
Ë	Disconnect/reconnect:	$ 98,966
Ë	Total:	$1,324,518

Q. IS THERE SOME EMPIRICAL REASON TO BELIEVE SUCH OFFSETS DO IN FACT ARISE?

A. Yes. That low-income programs do, in fact, generate such savings has been confirmed by impact evaluations of other efforts. For example, the Columbia Gas CAP impact evaluation found that CAP customers had 61% fewer disputes, 53% fewer *new* payment agreements, and 67% fewer credit hold requests. In addition, the Columbia Gas impact evaluation found

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\6\ We know this to understate the contribution of low-income customers to collection costs. Utilities in both Pennsylvania and Maryland have found that low-income customers contribute to collection costs disproportionate to their incidence in the total customer population.

further that, for CAP customers, cancellation of payment plans was reduced by 69%, termination notices declined by 48%, and shutoff orders were printed 74% less often.

Q. PLEASE EXPLAIN WHAT YOU MEAN BY A "TOP DOWN" AND "BOTTOM UP" APPROACH.

A. It is not likely that the existing Avista cost calculations accurately capture the cost savings that can be attributed to appropriately tailored nonpayment responses. The Pennsylvania PUC has now mandated the use of the "top down" approach to estimating savings first introduced in the Equitable Gas evaluation of its Customer Assistance Program (CAP). One of the most significant impacts of the use of this "top down approach" is its impact on calculating administrative cost savings. According to the Equitable Gas evaluation, the bottom up approach captures only about one-fourth the actual administrative costs of traditional credit and collection activities that are captured by the top down approach. According to the PUC:

> In reviewing previous studies of CAP-type programs, the method of cost analysis generally employed begins by developing the costs of the alternative (here EAP). Then, an attempt is made to isolate the individual costs of activities associated with traditional approaches to credit and collection for low-income payment-troubled customers, by means of estimating costs of individual (unit) activities to form an aggregate cost And then, the two are compared.

The PUC then states:

> As may be obvious, the weakness of the standard approach is in the costing of the traditional service effort. Historically, the 'Credit and Collections' function has existed approximately for the same duration as the utility. For the first utilities of the Atlantic states, this means that practices which made perfect sense when the utility was founded, or during a past decade when the cost reporting of such areas as 'Customer Service' or `Credit and Collections' was last systematically reviewed, continue over the years. They are integral to the yearly cycle of cost accounting and reporting. This system (as developed for firm level regulatory and

financial reporting) works, so it is not changed.

Thus, while costs are properly accounted into overall FERC categories, utility accounting systems were never intended to support individual project-level testing of costs of traditional operations versus a mix of alternatives. The kind of demand placed upon cost accounting by program evaluation is very unusual in the ongoing routine of business The level of cost information required, and particularly the routine accounting of cost by low-level activity is usually not present prior to the information requests posed by program-level evaluation. Capturing the level of costs required for evaluation easily becomes an impractical project, because the amount of person-effort required is prohibitive.

The bottom-up approach misses significant costs of traditional operations. While fully adequate for traditional accounting purposes, utility cost tracking is simply not designed to facilitate direct 'what if' testing of the rationality of traditional costs at the program or project level. And, over the years, critical support costs for an operation can become institutionalized in other budgets, and so be missed. Finally, the bottom-up approach depends on developing a comprehensive list of cost categories. By the nature of this task, it is quite possible for some of the relevant categories to be missed. Not only are cost categories missed, but the 'productivity factor' is often left out in bottom-up accounting. For example, a study of activities relevant to credit and collections might accurately state the time and cost of issuing a collections letter, but leave out the fact that one-fourth of the day's work time is not accounted for by directly relevant work tasks for which per unit costs are developed. The missing element is the productivity factor.

In contrast to this "bottom up" approach is a "top down" approach. Attached as Exhibit RDC-9 is the Pennsylvania PUC's description of the "top down" approach to cost calculation.

Q. ARE THERE OTHER COST OFFSETS THAT WILL ALSO LIKELY ARISE?

A. Yes. Despite these specific figures, there are other expense savings and revenue enhancements that have not been quantified. For example, if collection efforts previously directed toward low-income customers are no longer needed (as Columbia Gas found), those efforts can be directed to other customers. The revenue enhancement and expense reductions from non-low-income customers resulting from those redirected efforts have not been incorporated into the analysis.

In addition, the revenue enhancements from a stabilized low-income customer base have not been captured. Given an average annual electric bill of $577 and an average annual natural gas bill of $388 (SNAP-1-61), each day of lost electric revenue costs Avista $1.60 and each day of lost natural gas revenue costs the Company $1.10. This lost revenue results not simply from customers off the system due to service disconnections for nonpayment. It includes, also, customers who engage in frequent mobility because of unaffordable home energy bills.[7]

Q. IS THERE ANY ROLE THAT COST OFFSETS DO *NOT* PLAY IN YOUR PLANNING PROCESS?

A. Yes. Cost offsets do not need to be equal to or greater than the cost of the low-income rate initiatives to justify cost recovery for the low-income programs. Collection expenses are not subject to a strict cost-benefit analysis. Consider that Exhibit RDC-10 sets forth the dollars

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\7\ A study of Head Start families in Missouri found that nearly two-fifths were "frequently mobile." Of those households, forty-five percent lived at or below 50% of Poverty. More than half of the frequently mobile households listed unaffordable home energy as a major contributing cause to their decisions to move. Moreover, "The data reveals, also, that it is, indeed, *unaffordable* energy bills and not merely the disconnection of service which contributes to the forced mobility of the low-income Missouri households. Three-fourths (71 of 96) of the low-income households who moved because of unaffordable energy bills did so notwithstanding the fact that they either had been paying their bills, or had at least not fallen so far behind as to warrant the disconnection of service."

Avista spent on various collection activities in 1999. The Company has not subjected these expenditures to any cost-effectiveness evaluation, designed to determine whether the collection activities generate more dollars of benefits than they cost. (SNAP-1-3, SNAP-1-4).[8] Instead, the Company finds the expenditures to be justified (and the WUTC has found the costs to be recoverable) if the performance of the company is in line with industry averages. (SNAP-1-3).

The proposed expenditures on low-income activities should be treated no differently than the remaining company expenditures on credit and collection activities. As with the other Company collection activities, the low-income activities proposed below are designed with a rational view toward generating specific outcomes. The expenditures on the activities are certainly not out-of-line with the outcomes sought. Whether or not the "benefits" generated exceed the direct expenditures on the activities does not drive whether the expenditures are appropriate or the costs are recoverable.

Q. CAN YOU PLEASE SUMMARIZE YOUR DISCUSSION OF COST OFFSETS?

A. Targeted responses to low-income nonpayment can generate substantial savings to be used

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[8] Consider, for example, that one New York study found that an aggressive program of pursuing the termination of service as a collection tool actually has the impact of *increasing* uncollectibles. David Sawyer and Phillip Teumim (undated). *Gas and Power Utility Uncollectibles and Collection Activity*, Consumer Services Division, New York State Public Service Commission: Albany (NY).

as an offset to program costs. The complete savings to expected cannot be estimated in this proceeding. Expense savings would need to be calculated using a top-down methodology as explained in the attachment from the Pennsylvania PUC. In addition, estimates as to the proportion of collection activities and expenses attributable to low-income consumers would need to be made, as well as calculations of the additional revenue enhancements and expense savings that would flow from a targeted responses to low-income nonpayment.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

Exhibit RDC-1

COLTON TESTIMONY EXPERIENCE
1988 - PRESENT

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
I/M/O UtiliCorp Merger with St. Joseph Light & Power	Witness	Missouri Dept. of Natural Resources	Merger impacts on low-income	Missouri	00
I/M/O UtiliCorp Merger with Empire District Electric	Witness	Missouri Dept. of Natural Resources	Merger impacts on low-income	Missouri	00
I/M/O PacifiCorp	Witness	The Opportunity Council	Low-income energy affordability	Washington	00
I/M/O Merger of PECO Energy and Commonwealth Energy	Witness	Office of Consumer Advocate	Merger impacts on low-income	Pennsylvania	00
I/M/O Public Service Co. of Colorado	Witness	Colorado Energy Assistance Foundation	Natural gas rate design	Colorado	00
I/M/O Avista Energy Corp.	Witness	Spokane Neighborhood Action Program	Low-income energy affordability	Washington	00
I/M/O TW Phillips Energy Co.	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O PECO Energy Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O National Fuel Gas Distribution Corp.	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O PFG Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O UGI Energy Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
Re. PSCO/NSP Merger	Witness	Colorado Energy Assistance Foundation	Merger impacts on low-income	Colorado	99 - 00
I/M/O Peoples Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
I/M/O Columbia Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
I/M/O PG Energy Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
I/M/O Equitable Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
Allerruzzo v. Klarchek	Witness	Barlow Allerruzzo	Mobile home fees and sales	Illinois	99
I/M/O Restructuring New Jersey's Natural Gas Industry	Witness	Division of Ratepayer Advocate	Universal service	Pennsylvania	99
I/M/O Bell Atlantic Local Competition	Witness	Public Utility Law Project	Lifeline telecommunications rates	New Jersey	99
I/M/O Merger Application for SBC and Ameritech Ohio	Witness	Edgemont Neighborhood Association	Merger impacts on low-income consumers	Ohio	98 - 99

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
Davis v. American General Finance	Witness	Thomas Davis	Damages in "loan flipping" case	Ohio	98 - 99
Griffin v. Associates Financial Service Corp.	Witness	Earlie Griffin	Damages in "loan flipping" case	Ohio	98 - 99
I/M/O Baltimore Gas and Electric Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
I/M/O Delmarva Power and Light Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
I/M/O Potomac Electric Power Co. Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
I/M/O Potomac Edison Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
VMHOA v. LaPierre	Witness	Vermont Mobile Home Owners Association	Mobile home tying	Vermont	98
Re. Restructuring Plan of Virginia Electric Power	Witness	VMH Energy Services, Inc.	Consumer protection/basic generation service	Virginia	98
Mackey v. Spring Lake Mobile Home Estates	Witness	Timothy Mackey	Mobile home fees	State ct: Illinois	98
Re. Restructuring Plan of Atlantic City Electric	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Re. Restructuring Plan of Jersey Central Power & Light	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Re. Restructuring Plan of Public Service Electric & Gas	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Re. Restructuring Plan of Rockland Electric	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Appleby v. Metropolitan Dade County Housing Agency	Witness	Legal Services of Greater Miami	HUD utility allowances	Fed. court: So. Florida	97 - 98
Re. Restructuring Plan of PECO Energy Company	Witness	Energy Coordinating Agency of Philadelphia	Universal service	Pennsylvania	97
Re. Atlantic City Electric Merger	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97
Re. IES Industries Merger	Witness	Iowa Community Action Association	Low-income issues	Iowa	97
Re. New Hampshire Electric Restructuring	Witness	NH Comm. Action Ass'n	Wires charge	New Hampshire	97
Re. Natural Gas Competition in Wisconsin	Witness	Wisconsin Community Action Association	Universal service	Wisconsin	96
Re. Baltimore Gas and Electric Merger	Witness	Maryland Office of Peoples Counsel	Low-income issues	Maryland	96
Re. Northern States Power Merger	Witness	Energy Cents Coalition	Low-income issues	Minnesota	96
Re. Public Service Co. of Colorado Merger	Witness	Colorado Energy Assistance Foundation	Low-income issues	Colorado	96
Re. Massachusetts Restructuring Regulations	Witness	Fisher, Sheehan & Colton	Low-income issues/energy efficiency	Massachusetts	96

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
Re. FERC Merger Guidelines	Witness	National Coalition of Low-Income Groups	Low-income interests in mergers	Washington D.C.	96
Re. Joseph Keliikuli III	Witness	Joseph Keliikuli III	Damages from lack of homestead	Honolulu	96
Re. Theresa Mahaulu	Witness	Theresa Mahaulu	Damages from lack of homestead	Honolulu	95
Re. Joseph Ching, Sr.	Witness	Re. Joseph Ching, Sr.	Damages from lack of homestead	Honolulu	95
Joseph Keaulana, Jr.	Witness	Joseph Keaulana, Jr.	Damages from lack of homestead	Honolulu	95
Re. Utility Allowances for Section 8 Housing	Witness	National Coalition of Low-Income Groups	Fair Market Rent Setting	Washington D.C.	95
Re. PGW Customer Service Tariff Revisions	Witness	Philadelphia Public Advocate	Credit and collection	Philadelphia	95
Re. Customer Responsibility Program	Witness	Philadelphia Public Advocate	Low-income rates	Philadelphia	95
Re. Houston Lighting and Power Co.	Witness	Gulf Coast Legal Services	Low-Income Rates	Texas	95
Re. Request for Modification of Winter Moratorium	Witness	Philadelphia Public Advocate	Credit and collection	Philadelphia	95
Re. Dept of Hawaii Homelands Trust Homestead Production	Witness	Native Hawaiian Legal Corporation	Prudence of trust management	Honolulu	94
Re. SNET Request for Modified Shutoff Procedures	Witness	Office of Consumer Counsel	Credit and collection	Connecticut	94
Re. Central Light and Power Co.	Witness	United Farm Workers	Low-income rates/DSM	Texas	94
Blackwell v. Philadelphia Electric Co.	Witness	Gloria Blackwell	Role of shutoff regulations	Penn. courts	94
U.S. West Request for Waiver of Rules	Witness	Wash. Util. & Transp. Comm'n Staff	Telecommunications regulation	Washington	94
Re. U.S. West Request for Full Toll Denial	Witness	Colorado Office of Consumer Counsel	Telecommunications regulation	Colorado	94
Washington Gas Light Company	Witness	Community Family Life Services	Low-income rates & energy efficiency	Washington D.C.	94
Clark v. Peterborough Electric Utility	Witness	Peterborough Community Legal Centre	Discrimination of tenant deposits	Ontario, Canada	94
Dorsey v. Housing Auth. of Baltimore	Witness	Baltimore Legal Aide	Public housing utility allowances	Federal district court	93
Penn Bell Telephone Co.	Witness	Penn. Utility Law Project	Low-income phone rates	Pennsylvania	93
Philadelphia Gas Works	Witness	Philadelphia Public Advocate	Low-income rates	Philadelphia	93
Central Maine Power Co.	Witness	Maine Assn Ind. Neighborhoods	Low-income rates	Maine	92
New England Telephone Company	Witness	Mass Attorney General	Low-income phone rates	Massachusetts	92

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
Philadelphia Gas Co.	Witness	Philadelphia Public Advocate	Low-income DSM	Philadelphia	92
Philadelphia Water Dept.	Witness	Philadelphia Public Advocate	Low-income rates	Philadelphia	92
Public Service Co. of Colorado	Witness	Land and Water Fund	Low-income DSM	Colorado	92
Sierra Pacific Power Co.	Witness	Washoe Legal Services	Low-income DSM	Nevada	92
Consumers Power Co.	Witness	Michigan Legal Services	Low-income rates	Michigan	92
Columbia Gas	Witness	Penn. State Office of Consumer Advocate (OCA)	Energy Assurance Program	Pennsylvania	91
Mass. Elec. Co.	Witness	Mass Elec Co.	Percentage of Income Plan	Massachusetts	91
AT&T	Witness	TURN	Inter-LATA competition	California	91
Generic Investigation into Uncollectibles	Witness	Penn OCA	Controlling uncollectibles	Pennsylvania	91
Union Heat Light & Power	Witness	Kentucky Legal Services (KLS)	Energy Assurance Program	Kentucky	90
Philadelphia Water	Witness	Philadelphia Public Advocate (PPA)	Controlling accounts receivable	Philadelphia	90
Philadelphia Gas Works	Witness	PPA	Controlling accounts receivable	Philadelphia	90
Mississippi Power Co.	Witness	Southeast Mississippi Legal Services Corp.	Formula ratemaking	Mississippi	90
Kentucky Power & Light	Witness	KLS	Energy Assurance Program	Kentucky	90
Philadelphia Electric Co.	Witness	PPA	Low-income rate program	Philadelphia	90
Montana Power Co.	Witness	Montana Ass'n of Human Res. Council Directors	Low-income rate proposals	Montana	90
Columbia Gas Co.	Witness	Penn. OCA	Energy Assurance Program	Pennsylvania	90
Philadelphia Gas Works	Witness	PPA	Energy Assurance Program	Philadelphia	89
Southwestern Bell Telephone Co.	Witness	SEMLSC	Formula ratemaking	Mississippi	90
Generic Investigation into Low-income Programs	Witness	Vermont State Department of Public Service	Low-income rate proposals	Vermont	89
Generic Investigation into Dmnd Side Management Measures	Consultant	Vermont DPS	Low-income conservation programs	Vermont	89
National Fuel Gas	Witness	Penn OCA	Low-income fuel funds	Pennsylvania	89
Montana Power Co.	Witness	Human Resource Develop. Council District XI	Low-income conservation	Montana	88

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
Washington Water Power Co.	Witness	Idaho Legal Service Corp.	Rate base, rate design, cost-allocations	Idaho	88

Exhibit RDC-2

2000 Poverty Levels (48 contiguous states)						
	Number of Household Members					
	1	2	3	4	5	6
100% Poverty	$8,350	$11,250	$14,150	$17,050	$19,950	$22,850

NOTES:

/a/ Each additional person: add $2,900.

SOURCE: Federal Register, February 15, 2000, at pages 7555 - 7557.

Distribution of Persons in Avista Electric Counties By Poverty Range		
	No. of Households	Percent of Households
Under 50%	27,833	5.6%
50% - 74%	23,894	4.8%
75% - 99%	26,344	5.3%
100% - 124%	26,190	5.3%
125% - 149%	25,060	5.0%
Total below 150%	129,321	26.0%
SOURCE: Table 121, Summary Tape File 3A, 1990 U.S. Census.		

Distribution of Persons in Avista Natural Gas Communities By Poverty Range

	No. of Households	Percent of Households
Under 50%	15,974	6.7%
50% - 74%	14,488	6.1%
75% - 99%	15,154	6.4%
100% - 124%	14,834	6.2%
125% - 149%	12,626	5.3%
Total below 150%	73,076	30.7%

SOURCE: Table 121, Summary Tape File 3A, 1990 U.S. Census.

Electric Burdens at Various Levels of Poverty
Avista (Washington State) Service Territory: 1999

Poverty Range /a/	Household Size			
	1	2	3	4
Under 50	28%	21%	16%	14%
50-100	9%	7%	5%	5%
100 - 150	6%	4%	3%	3%

NOTES:

Poverty range income calculated at the mid-point. Hence, for example, "under 50%" is calculated at 25%.

Natural Gas Burdens at Various Levels of Poverty Avista (Washington State) Service Territory: 1999				
Poverty Range /a/	Household Size			
	1	2	3	4
Under 50	19%	14%	11%	9%
50-100	6%	5%	4%	3%
100 - 150	4%	3%	2%	2%

NOTES:

Poverty range income calculated at the mid-point. Hence, for example, "under 50%" is calculated at 25%.

Combined Natural Gas/Electric Burdens at Various Levels of Poverty
Avista (Washington State) Service Territory: 1999

Poverty Range /a/	Household Size			
	1	2	3	4
Under 50	46%	34%	27%	23%
50-100	15%	11%	9%	8%
100 - 150	9%	7%	5%	5%

NOTES:

Poverty range income calculated at the mid-point. Hence, for example, "under 50%" is calculated at 25%.

Exhibit RDC-5
(page 1 of 3)

Avista Collection Data: 1997					
	Accts in Arrs	No. DPAs	Ratio: DPA/Accts in Arrs	No. Defaulted DPAs	Ratio: Defaulted DPAs/DPAs
Jan	62,824	8,165	13%	3,995	49%
Feb	70,930	7,251	10%	3,663	51%
Mar	78,617	7,855	10%	3,915	50%
April	86,193	7,875	9%	3,777	48%
May	89,876	7,416	8%	3,560	48%
June	87,293	6,574	8%	3,244	49%
July	n/a	5,753	n/a	2,657	46%
Aug	n/a	5,062	n/a	2,344	46%
Sept	n/a	4,723	n/a	2,040	43%
Oct	n/a	5,235	n/a	2,290	44%
Nov	59,740	4,699	8%	2,063	44%
Dec	52,355	5,914	11%	2,662	45%
SOURCE: SNAP-01-41.					

Avista Collection Data: 1998					
	Accts in Arrs	No. DPAs	Ratio: DPA/Accts in Arrs	No. Defaulted DPAs	Ratio: Defaulted DPAs/DPAs
Jan	51,468	7,136	14%	3,202	45%
Feb	54,697	7,874	14%	3,697	47%
Mar	65,459	9,170	14%	4,320	47%
April	71,430	8,494	12%	4,035	48%
May	78,641	7,978	10%	3,669	46%
June	79,026	7,546	10%	3,453	46%
July	75,855	7,050	9%	3,122	44%
Aug	71,357	5,659	8%	2,502	44%
Sept	63,446	5,979	9%	2,655	44%
Oct	56,945	6,196	11%	2,805	45%
Nov	53,027	5,918	11%	2,589	44%
Dec	46,694	6,985	15%	3,185	46%
SOURCE: SNAP-01-41.					

Avista Collection Data: 1999					
	Accts in Arrs	No. DPAs	Ratio: DPA/Accts in Arrs	No. Defaulted DPAs	Ratio: Defaulted DPAs/DPAs
Jan	51,258	10,056	20%	4,630	46%
Feb	54,381	12,351	23%	5,970	48%
Mar	67,052	15,187	23%	7,218	48%
April	74,365	15,572	21%	7,225	46%
May	80,280	13,214	16%	6,236	47%
June	82,250	14,201	17%	6,503	46%
July	79,994	13,321	17%	5,731	43%
Aug	74,867	13,403	18%	5,702	43%
Sept	62,863	14,030	22%	5,850	42%
Oct	53,034	15,180	29%	6,310	42%
Nov	49,537	15,668	32%	6,618	42%
Dec	44,467	16,064	36%	6,564	41%

SOURCE: SNAP-01-41.

Intervention #1: Skip-a-Month (11-month levelized budget billing plan)

1. **Identify the need to be addressed:** Experience indicates that some low-income consumers have a seasonal difficulty in paying their bills. Two times of the year which have been found pose particular problems include "back to school" time (September) and Christmas time when other household expenditures impinge on the ability of the household to incorporate both these seasonal expenses into their limited income along with monthly utility bills.

2. **Design an intervention to respond to the need:**

   - Intervention needed: Skip-a-Month (11-month levelized billing plan). During an enrollment period, allow customers to select a month in which they will not receive a utility bill. The bill that *would* have been rendered in that month is pro rated over the remaining months in which bills are rendered. (Effectively, what is being offered is a 11-month levelized budget billing plan.)

   - To whom intervention directed: Skip-a-Month would be *available* to any residential customer. It would be marketed to (targeted to) low-income customers through fuel assistance agencies and other low-income service providers who find low-income customers who would benefit from the budgeting aspects inherent within it. It would be available to any customer otherwise qualifying for a levelized budget billing plan, with attention paid to not excluding customers because of the very problem which the payment option is designed to address. Skip-a-Month is not designed for consumers who just don't have enough money to pay their utility bills. It is designed as a budgeting device for customers who are economically marginal enough that they need budgeting help when other household expenses threaten their ability to pay.

3. **Identify the outcome(s) resulting from the intervention:**

   Desired/expected performance: Year-round timely payment.

4. **Relate the outcomes to program objectives:**

   Prompt, regular, automatic.

Intervention #2: Non-levelized budget billing plan.

1. **Identify the need to be addressed:** While it is generally accepted that levelized budget billing plans assist low-income households in paying their utility bills by making payments constant from month-to-month. What helps, however, is the *certainty* of the payment, not necessarily the levelized nature of the payment. For some low-income customers, levelized budget bills are not the ideal budget mechanism. Customers who use non-utility heating fuels may face high total energy bills during the heating season due to their non-utility bills. Customers who receive seasonal income may not benefit from levelized monthly bills.

2. **Design an intervention to respond to the need:**

   Ë Intervention needed: Seasonally-differentiated levelized budget bills, with higher payments during the non-heating season and lower payments during the heating season.

   Ë To whom intervention directed: The seasonally differentiated budget billing plan would be available to all residential customers. It would be marketed to (targeted to) low-income customers through fuel assistance agencies and other low-income service providers who find low-income customers who would benefit from the budgeting aspects inherent within it. It would be available to any customer otherwise qualifying for a levelized budget billing plan, with attention paid to not excluding customers because of the very problem which the payment option is designed to address. The seasonally-differentiated budget billing plan is not designed for consumers who just don't have enough money to pay their utility bills. It is designed as a budgeting device.

3. **Identify the outcome(s) resulting from the intervention:**

   Ë Desired/expected performance: Timely payment during heating season or during non-working season.

	4. **<u>Relate the outcomes to program objectives</u>:** Ë Regular, timely, automatic.

Intervention #3: Adjunct company offices/Chronicles

1. **Identify the need to be addressed:** While the Company provides CARES services to low-income consumers, CARES does not have the financial or human resources to serve a broad customer base. In addition, rightly or wrongly, utility staffperson are not viewed by low-income payment troubled customers as "helpers" rather than as creditors.

   Finally, despite the existence of dozens of federal, state and local public and private assistance programs, low-income households face many obstacles and barriers as they search for independence and self-sufficiency. Information about energy assistance programs is inconsistently distributed. The application process is often an intimidating mass of program rules and regulations that are barriers to program participation. Some of the barriers that exist to program participation include a lack of a centralized location at which to apply for public assistance, whether such assistance is cash, volunteer services, or employment and job training opportunities; different eligibility criteria, such as income and asset criteria, amongst the various programs; different methods for determining income and assets for household and family units; lengthy, repetitive and complex application forms. Many agencies have an in-depth knowledge of a few resources, but it is virtually impossible for any single agency to be proficient in the complexities and current changes in the rules and regulations of all programs. A low-income customer who is not receiving the full range of benefits he or she is entitled to often finds it difficult to make utility bill payments.

2. **Design an intervention to respond to the need:**

   Ë Intervention needed: On-line access to customer billing information by selected community-based organizations (designated as "adjunct Company offices") along with the implementation of Chronicles (BOSS) software and the delegated ability to negotiate deferred payment arrangements on behalf of the Company.

   Ë To whom intervention directed: Payment-troubled low-income customers (with no defined limits on "low-income").

3. **Identify the outcome(s) resulting from the intervention:**

   Ë Desired/expected performance: Increased resources to devote to both current bills and arrears.

4. **Relate the outcomes to program objectives:**

   Ë Full, regular, timely, automatic.

Intervention #4: Capitalized payment security fund.

1. **Identify the need to be addressed:** Low-income customers often face daunting cash security deposit requirements. Even when spread over several months, incomes are often insufficient to pay security deposits in addition to regular monthly bills. Letters of guarantee are generally accepted in lieu of a cash security deposit. A letter of guarantee offers the same protection to the utility as a cash security deposit. Low-income consumers, however, often find it difficult to obtain a letter of guarantee in lieu of a deposit.

2. **Design an intervention to respond to the need:**

   Ë Intervention needed: Capitalize a fund to be administered by SNAP to serve as the basis for a guarantee fund in lieu of deposits. Claims on the fund would be limited to the amount of what the deposit would have been. Releases on the guarantee would be granted at the time at deposit would have been subject to refund.

   Ë To whom intervention directed: Low-income consumers would face the potential continuing lack of utility service due to an inability to pay a cash security deposit.

3. **Identify the outcome(s) resulting from the intervention:**

   Ë Desired/expected performance: Increased access to utility system. Increased resources available for current monthly bills.

4. **Relate the outcomes to program objectives:**

   Ë Continuing, full.

Intervention #5: Safety Net Payment Plan

1. **Identify the need to be addressed:** Households living with incomes below a certain level simply do not have sufficient household resources to pay all their household expenses. The budget needed to meet the energy payment ability deficit, however, outstrips the ability of a utility such as Avista to meet. Because of these budget constraints, the energy bill ability to pay deficit will be coupled with an affirmative manifestation of that deficit through demonstrated payment problems.

2. **Design an intervention to respond to the need:**

   - Intervention needed: A safety net payment plan with monthly credits provided to plan participants.

   - To whom intervention directed: A budget of $2.643 million will allow Avista to serve the following number of low-income customers (given an average household size and an average home energy bill): electric (non-heating): 4,200; and gas heating: 3,200.

3. **Identify the outcome(s) resulting from the intervention:**

   - Desired/expected performance: Increased access to utility system. Increased resources available for current monthly bills.

4. **Relate the outcomes to program objectives:**

   - Continuing, full, prompt, regular, automatic.

Intervention #6: Direct Vendor Payment Plan

1. **Identify the need to be addressed:** Residents of subsidized housing frequently receive "utility allowances" to help pay their home energy bills. These utility allowances are, in effect, provided as cash payments to the customer. Given the extremely low-incomes of tenants of subsidized housing, these payments are often diverted to other necessary non-utility home expenditures.

2. **Design an intervention to respond to the need:**

   Ë Intervention needed: An incentive for subsidized housing tenants to enter into direct vendor payment agreements through which utility allowances are directly paid to the utility. A rate discount of 10% of any otherwise applicable rate is proposed.

   Ë To whom intervention directed: Avista customers who receive utility allowances through state or federally subsidized housing. If successful, persons receiving TANF benefits (as per PSEG E-Team Partners program).

3. **Identify the outcome(s) resulting from the intervention:**

   Ë Desired/expected performance: Automatic monthly payment of substantial portion of customer bill.

4. **Relate the outcomes to program objectives:**

   Ë Continuing, full, prompt, regular, automatic.

Intervention #7: Arrearage forgiveness program.

1. **<u>Identify the need to be addressed</u>:** Low-income customers frequently become behind far enough in their bills that they end up in a hole too big to get out of. The impact of these arrears yields a cascading impact, with the initial level of arrears leading to further nonpayment and even greater levels of arrears.

2. **<u>Design an intervention to respond to the need</u>:**

   Ë Intervention needed: An arrearage work-out program modelled on the Illinois "A Step-up" program. Under the Step-up program, low-income consumers are allowed to retire their utility arrears, while gaining important job experience, by working in agreed upon community service jobs. Arrears credits are earned at the rate of $10 - $12 per hour.

   Ë To whom intervention directed: Low-income consumers who could benefit from obtaining job/workplace experience as well as who have arrears substantial enough to be problemmatic without being so ssubstantial as to be out-of-reach of a workout through the Step-up process.

3. **<u>Identify the outcome(s) resulting from the intervention</u>:**

   Ë Desired/expected performance: Improved timeliness of paymen given the work-out of preprogram arrears.

4. **<u>Relate the outcomes to program objectives</u>:**

   Ë Continuing, full, prompt, regular, automatic.

Exhibit RDC-7

	Jurisdictional Revenue /a/	1% Cap on Expenditures Responding to Low-Income Payment Problems
Electric	$251,759,000	$2,517,590
Natural gas	$75,036,000	$750,360
Total		$3,267,950

SOURCE:

/a/ Avista rate filing.

Exhibit RDC-8

Universal Service Expenditures for Pennsylvania's Electric Utilities				
Electric Company Name	Residential Customers	2002 Funding Levels		
		LIURP /a/	CAP /b/	Total
Allegheny Power	581,119	$2,202,000	$5,880,000	$8,082,000
Duquesne	515,280	$1,750,000	$5,275,000	$7,025,000
Met Ed /c/	916,231	$1,826,000	$4,564,000	$6,390,000
PECO Energy	1,349,517	$5,600,000	$44,400,000	$50,000,000
Penelec	/c/	$1,962,000	$4,900,000	$6,862,000
Penn Power	129,137	$645,250	$1,613,125	$2,258,375
Penn. Power & Light (PP&L)	1,096,944	$4,700,000	$11,700,000	$16,400,000
UGI--Electric	53,822	$131,791	$150,000	$281,791

NOTES:

/a/ LIURP is the Low-Income Usage Reduction Program.
/b/ CAP is the Customer Assistance Program, a low-income discount program.
/c/ The number of residential customers for Met Ed is a figure for GPU, which includes Met Ed and Pennelec.

2. Top-Down Approach.

In contrast to the bottom-up approach, the model for the top-down approach is straightforward and simple. It is the utility annual departmental budget cycle. The difference between the two approaches can be emphasized by imagining what would happen if a departmental manager were to use the 'bottom up' approach (the only information available in many program evaluations) to determine the departmental budget for the following year. The 'bottom-up' approach begins by identifying work activities, and then breaking them into units -- similar to a time and motion study. This might include such items as numbers of letters to the average payment-troubled customer, cost per letter in time, postage, paper, etc. Yet, anyone who has managed a department or work group through the annual budget cycles of a large corporation will be familiar with the fact that working up an annual budget from the per unit costs of productive activities could easily yield a budget that would cause the department to run out of funds by the third quarter, or even by the middle of the year.

For the evaluation, what the top-down approach captures easily, but the bottom-up approach easily leaves out are:
(1) Overheads.
(2) The 'productivity factor'.
(3) Support services (traced and assigned as appropriate to the cost of traditional approaches to credit and collections). [FN67]
The best way to capture these hidden costs is to avoid the bottom-up approach and use the top-down approach if at all possible.

B. Results

For the bottom-up approach, traditional costs include all transactions such as letters, agreements (cost of setting payment arrangements), changes in agreements (cost of changing payment arrangements), high bill complaints, complaints to the Pennsylvania Public Utility Commission, bill messages, and costs associated with service termination and reactivation. For the top-down approach, costs associated with the traditional approach are allocated from departmental and company-wide budget records. Cost categories allocated are shown in Table VII-1.

Table VII-1: Cost Categories included in Top-Down Approach

COST CATEGORIES
Labor
Non-Union Union Benefits
All Other Collection Budget
Materials & supplies Transportation OCM maintenance and telephone charges
Collection fees/commissions Collection contractors PC & photocopy rental
Additional Collection Charges
Credit reports Computer -- forms Computer -- other Bankruptcy recovery -- legal fees Legal Customer Service customer negotiations Telephone Postal Meter Allocation Consumer Credit Counseling Service Reconnections BCS Complaints (Service Terminations)

In the top-down approach, because actual budget categories and accounting records serve as the basis for allocation, overheads and support services from other departments are included. Also, the productivity factor is automatically included, just as it is included in the bottom-line bid price for a service vendor. Through this method, both EAP (as a new project, with very visible costs), and the traditional approaches to collections (for which cost categories and cost amounts are not easily isolated) are treated in the same manner and there is a good chance that all costs are captured for both EAP and the traditional approaches to credit and collections for payment-troubled customers.

Results of the bottom-up and top-down approaches are shown in the contrast of Table VII-2 and Table VII-3. The bottom-up results shown in Table VII-2 are typical of the best results obtainable from utility records using this approach and are typical of administrative costs calculated for CAP-type evaluations. The top-down results shown in Table VII-3 were developed working with the Corporate Comptroller and implementing the practical cost allocations used in the annual budget cycle plus allocations of related costs identified in the budgets of support departments.

Since both the bottom-up and top-down approaches use a net cost calculation, there is some correction for the lack of adequate cost accounting in the bottom-up approach. But the corrective tendency inherent in net figures is not strong enough in this case to make the resultant bottom-up results useful. This is because, as expected, the ability to capture costs of the alternative program (EAP) are about equal in both bottom-up and top-down approaches (column 3 of each table), while the ability to capture the costs of the traditional approach to credit and collections is poor in the bottom-up approach and accurate in the top-down approach (compare column 2 of each table). Although there is some variation, the bottom-up approach captures only about one-fourth of actual administrative costs of traditional approaches to credit and collections as does the top-down approach.

Table VII-2--Bottom Up Results
Administrative Cost per Customer
(Bottom Up)

Column 1	Column 2	Column 3	Column 4
	Baseline Year	Participation Year	Difference
All New EAP Customers (Group 1, n = 221)			
Traditional Collection Costs	20.62	12.11	
EAP Monitoring	0.00	43.60	
Enrollment	0.00	28.68	
Total	20.62	84.39	(63.77)
At least Some First Year Participation in EAP (Group 1, n = 68)			
Traditional Collection Costs	31.49	27.19	
EAP Monitoring	0.00	20.18	
Enrollment	0.00	28.68	
Total	31.49	76.05	(44.56)
Stable Full Year Participation in EAP (Group 1, n = 153)			
Traditional Collection Costs	15.71	5.41	
EAP Monitoring	0.00	54.00	
Enrollment	0.00	28.00	
Total	15.71	87.41	(71.70)
Stable Second Full EAP Year (Group 3, n = 137)			
Traditional Collection Costs	15.71	0.82	
EAP Monitoring	0.00	54.00	
Enrollment	0.00	0.00	
Total	15.71	54.82	(39.11)
Qualified but never Entered (Group 2, n = 258)			

Table VII-2--Bottom Up Results Administrative Cost per Customer (Bottom Up)			
Column 1	Column 2	Column 3	Column 4
	Baseline Year	Participation Year	Difference
Traditional Collection Costs	14.56	16.76	
EAP Monitoring	0.00	0.00	
Enrollment	0.00	0.00	
Total	14.56	16.76	(2.20)

(1) Assumes same baseline cost as previous year would have applied if participation had not continued for the second twelve months.

This difference becomes important in understanding the impact of administrative costs. As shown in the top-down approach of Table VII-3, those customers who enter EAP and are stable for one full year in EAP show a net administrative cost of $15.13 above the baseline year. But those who stay two years return $12.87 in lower administrative costs in the second year, so that the net cost over two years is $2.26.

Table VII-3--Top Down Results Administrative Cost per Customer (Top Down)			
Column 1	Column 2	Column 3	Column 4
	Baseline Year	Participation Year	Difference
All New EAP Customers (Group 1, n = 205)			
Traditional Collection Costs	81.47	22.26	
EAP Monitoring	0.00	46.77	
Enrollment	0.00	28.00	
Total	81.47	97.03	(15.56)
At least Some First Year Participation in EAP (Group 1, n = 93)			
Traditional Collection Costs	114.34	72.36	
EAP Monitoring	0.00	25.90	
Enrollment	0.00	28.00	
Total	114.34	126.26	(11.92)
Stable Full Year Participation in EAP (Group 1, n = 183)			
Traditional Collection Costs	66.87	0.00	
EAP Monitoring	0.00	54.00	
Enrollment	0.00	28.00	
Total	66.87	82.00	(15.13)
Stable Second Full EAP Year (Group 3, n = 137)			

Table VII-3--Top Down Results Administrative Cost per Customer (Top Down)			
Column 1	Column 2	Column 3	Column 4
	Baseline Year	Participation Year	Difference
Traditional Collection Costs	66.87	0.00	
EAP Monitoring	0.00	54.00	
Enrollment	0.00	0.00	
Total	66.87	54.00	12.87
Qualified but never Entered (Group 2, n = 258)			
Traditional Collection Costs	84.97	80.99	
EAP Monitoring	0.00	0.00	
Enrollment	0.00	0.00	
Total	84.97	80.99	3.98

(1) Assumes same baseline cost as previous year would have applied if participation had not continued for the second twelve months.

Although this study does not extend to the third year, we can project an additional administrative net savings by EAP of $12.87 in the third year for those who remain in the program. Thus there is a net advantage to EAP of $10.61 per customer for customers retained three years. We have not measured three year program retention in this study, but we do know that retention is about 70% for one year, and drops only to 68% of the original applicants for two years. The small drop between the first and second full year suggests very strong stability. Assume the third year figure is 65%. Then, for each 100 customers entering EAP, the 65% retained for three years would return $689.65 in net administrative cost reduction (65 X $10.61). For those who remain in EAP, these savings would increment over future years.

Exhibit RDC-10

Activity	Number /a/	Unit Cost /b/	Total Cost
Service terminations	19,032	$20	$380,640
Deferred payment arrangements	168,247	$4.50	$757,112
Payment reminders /c/	774,348	$0.35	$271,022
Field visits	14,304	$10	$143,040
Field visits to deliver DNP notice	18,613	$10	$186,130
Total: /d/			$1,737,944

NOTES:

/a/ SNAP-1-9.
/b/ SNAP-1-8.
/c/ Each account in arrears (SNAP-1-41) is assumed to have received a mailed payment reminder.
/d/ These costs are likely *under*stated because of the use of a bottom-up approach as discussed above.