Exhibit RDC-9

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)			
Traditional Collection Costs	14.56	16.76	

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
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)			
Traditional Collection Costs	66.87	0.00	

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
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.