

COLUMBIA GAS OF PA, INC.
UNIVERSAL SERVICE PROGRAM
IMPACT EVALUATION

An Independent Analysis of Universal Service

Prepared for:

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FOREWORD

Data sources for the Universal Service evaluation included Columbia Gas of Pennsylvania's Finance, Revenue Recovery, Customer Programs, and Regulatory and Compliance department reports, Bureau of Consumer Services preliminary 2003 Universal Services reports, and other company ad hoc reports as requested by the evaluator.

The evaluation included a comprehensive review of all former evaluations, program materials, on site assessments of Columbia's Contact Center and Dollar Energy administration, and extensive interviews of Columbia staff and outside contractors. The company is to be complimented on employing five third-party evaluations while CAP was still in the pilot phase.

This evaluation is uniquely approached from a design, management and implementation perspective. With over 30 years of practical experience overseeing utility customer programs, my goal is to provide useful information relevant to both the daily hands-on manager and the long-term Universal Service Program strategist. Providing balance between the business of operating a utility and serving the needs of its low-income population in a cost effective manner is the ultimate goal of this evaluator.

Many thanks to Patty Terpin, Director of Customer Programs and Compliance, Deb Cochenour, Manager Universal Service, Dee Fletcher, Program Analyst, Larry Nowicki, Manager Regulatory Compliance, Elizabeth Focer-Repman, Coordinator Community Outreach and Education, Gary Folden, Revenue Recovery, and Columbia's IT department who together assisted me in transforming this data into useful information.

The Columbia Gas Universal Service programs have long been recognized by the Bureau of Consumer Services as a model for other utilities within the Commonwealth. It has been a pleasure to evaluate a company that exemplifies both excellence and continuous improvement.

Melanie K. Popovich
Utility Business Consultant
July 12, 2004

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1. Effectiveness and Efficiency

- **In general, the evaluator finds the Columbia Gas of Pennsylvania CAP and Universal Service programs to be cost effective and efficiently managed.** The company's CAP program is deemed the most affordable when compared to its gas company peer utilities in Pennsylvania. In addition, the CAP program ensures the customers' health and safety by maintaining gas service more consistently than with Non-Cap customers.
- **Administration costs for CAP are significantly below the allowable 20% of total program costs.**

See Section 5 *CAP Component Performance*

See Section 7 *Cost of Universal Service*

2. Opportunities Exist for CAP Program Cost Savings

- **The Columbia CAP aggregation model proves to be a successful alternative to traditional CHOICE.** CAP customers benefited from the economies of scale gained through the aggregation of their volumes into the larger CAP group by \$1,695,108 over the last five years. The company and customers benefit from the CAP aggregation since it serves to reduce customer shortfall and write-off costs
- **Currently, in 2004, there is no marketer participating with CAP aggregation.** Company rules for participation are cited as the reasons for the decline in interest.

See Section 5.1.1 *Gas Transportation*

See Section 5.1.2 *Gas Transportation*

- **CAP shortfall of \$11,072,312 accounts for 70% of total CAP costs in 2003(After removal of one time accounting costs).** In order to keep customers' rates as low as possible, it is in the company's best interest to actively control shortfall costs through effective energy assistance outreach and advocacy, and through timely collections activity to discourage customer default.

See Section 7.2.1 *CAP Shortfall*

3. Universal Service Programs Serves Appropriate Population

- **The company is to be complimented on the thoroughness of its needs assessment for CAP and LIURP.** The company effectively continues to meet its projected enrollment goals with little outreach effort or expenditure involved. Enrollment success is directly linked to the early identification of potential CAP customers, a methodology that Columbia has certainly mastered with its “first point of contact” approach at its customer Contact Center.

See Section 4.1 Establishing the Need for CAP

See Section 5.2 Contact Center

4. Customer Distribution for Universal Service Program Components Consistent

- **Level 1 CAP customers experience the most hardship and higher levels of delinquencies, within all payment options, over Level 2 income customers. The largest category for enrollment in CAP is customers with incomes between 51% and 100% of poverty.**
- **Level 1 customers make up the largest category for enrollment in LIURP, CARES, and Hardship Funds.** The gap that occurs with Federal LIHEAP funding (over 135% of poverty income) is met with CAP up to 150% of poverty income and with Dollar Energy Funds up to 200% of poverty income.

See Section 5.5 CAP Enrollment

See Section 5.7 Default and CAP Removal

See Section 5.8 Energy Assistance Grants

See Section 9.2 CARES Scope and Customer Profile

See Section 10 LIURP

- **The company is experiencing a growing trend of increased number of payment-troubled customers throughout its service territory.** With this growth, existing state social service programs, which partner with Columbia’s Universal Service programs, may become unmanageable and depleted in adequate resources. Columbia might consider a leadership role in establishing targeted pilot initiatives with interested stakeholders.

See Section 4.1.2 Establishing the Need for CAP

5. Opportunities Exist to Improve CAP Program Participation

- **Increased Universal Service training is expected to clarify benefits of the programs.** New hires at the Contact Center have not received comprehensive Universal Service program training since 2000. The training would clarify the guidelines and benefits of the programs improving the CSRs level of understanding and directly affecting their quality of referrals to the programs.

See Section 5.2.3 Contact Center

- **Some improvements to the enrollment and reverification were identified.** Streamlining the application process with one unified application for LIHEAP, CAP, and CAP reverification is the major item for consideration. Agencies would benefit from one consistent application, eliminating duplicate customer information gathering from program participants.

See Section 5.4 Essential Energy

- **CAP program changes require effective and timely communications between the company and the CAP screening agencies.** The company recognizes this issue and is challenged to find the best solution for improved communications with agencies.

See Section 5.4.1 Essential Energy

- **Failure to reverify income continues to be a barrier to uninterrupted CAP program participation.** More customers are removed from CAP for failure to reverify compared with customers removed for non-pay. Further evaluation studies and customer surveys might reveal causes for customers' failure to reverify.

See Section 5.7.1 CAP Default and Removal

6. Columbia Ranks First in CAP Payment Plan Affordability Compared With PA Gas Industry Peers

- **Multiple CAP payment options provide Columbia customers with affordability. More Columbia CAP customers are enrolled in the percentage of bill plan than other payment options.** Of the 18,811 active CAP customers reported by the company, year-end 2003, 39% were enrolled in Option #3, the percentage of bill plan. This plan offers a flat rate of 50% of the budget bill and is especially advantageous to families with multiple household members. For larger sized families, this plan's benefits usually outweigh those of the percentage of income plan.

See Section 5.5.1 Enrollment

See Section 5.6.1 Affordability

- **More than 50% of those CAP customers who were removed from the program in 2003 were due to finaled accounts. Less than 5% of all customers active in CAP were removed for non-pay, which relates, once again to affordability.**

Other reasons for customers leaving CAP were as follows:

Finaled Accounts*	2,421
Failure to Reverify	914
Removed For Non-Pay	848
Removed By Customer Request	60
Deceased	9
Failure to Provide Access To Meter	2
Other	173
Total Removed	4,424

*Customers moved to a new address or may have changed the name on the account to another household member in 2003.

See Section 5.7 Default and CAP Removal

- **Pre-program arrears for active CAP customers are reduced by 27%.** In addition to their monthly payment, CAP customers are required to pay a five-dollar monthly co-pay towards reducing their pre-program arrearage. The average pre-program arrearage is \$771 per CAP customer.

See Section 6.1.3 Arrearages

- **Percentage of on time CAP payments increased to 73%.** In 2003, Columbia changed the methodology for calculating payment rate and utilized a monthly snapshot of all active CAP customers, as opposed to a six-month snapshot. In addition, the company accelerated its collection efforts towards the delinquent, non-pay CAP customers, significantly improving the CAP payment rate from 60% to 73%.

See Section 6.2 CAP Payment Rate

- **Percentage of CAP bill paid at 87% compared with Level 1+2 non-CAP customers at 45% tariff bill paid.** The company cites affordability of payment options, as the primary reason for successful percentage of bill results. Stable CAP participants have the best payment record and pay a greater percentage of their bill, compared to those customers who are CAP eligible, but never enroll or from those CAP customers who drop out after one year of participation.

See Section 6.3.1 Percentage of Bill Paid

7. Effective Links Between LIHEAP and CAP Reduce Shortfall By \$1.835 million

- **Energy assistance funds directed to CAP customers were effective in reducing CAP shortfall. LIHEAP 2003 dollars increased by 12% over the previous year.**

See Section 5.8 Energy Assistance Grants

8. CAP and LIURP Link Effectively to Weatherize High Usage Customers

- **All customers weatherized in 2003 were high usage CAP customers.** Projected consumption reduction for these customers is ~24%, which in turn reduces CAP projected shortfall significantly. Annual LIURP funding levels of \$1.3 million do not adequately address weatherizing ~10,000 potentially eligible CAP customers.

See Section 10.2 LIURP Program Costs and Savings

9. CAP Termination Rate is Less Than 5% of Total Active CAP With Reconnect Rate at 57%

- Columbia's total active CAP customer count, year-end 2003 was 18,811 customers. Of those, 848, or approximately 5% were terminated.
- Columbia terminated 6,057 residential customers year-end 2003. Cap shut off expenses totaled \$29,410 for 848 CAP customers: \$47,619 for 1,454 Level 1+2 customers; and \$122,976 for 3,755 Level 3 +4 customers.

See Section 8.2.2 Terminations Non-pay

10. Opportunities Exist For CAP Program Savings

- **Prioritized and accelerated collection cycle for CAP Results in 2003 savings. CAP savings at a minimum of \$196,930 and \$4,376 increase in available funds for cash working capital are a result of prioritized and accelerated collection cycles for CAP customers in 2003.** This study represents CAP customers who are on average, two payments behind @ \$94. Customers who are behind three or more payments would reflect additional potential savings. However, there are no net savings, but a redistribution of collection expenses to non-Cap customers with orders never worked.

See Section 8.4 Collections Expense

- **No significant difference in consumption reduction between CAP agency enrolled vs. CAP telephonic enrolled customers.** Agency enrolled CAP customers receive a fifteen minute conservation review at an additional cost to the company of \$10 per applicant, while telephonic CAP enrolled receive a brief overview of conservation with no additional cost to the company. Eliminating the conservation component at the agency reduces the application fee at a net savings of \$100,000 to the company.

See Section 5.4.5 Essential Energy

- **Increasing CAP telephonic enrollment ratio to 75% telephonic 25% agency on site, results in savings of \$81,250.**

See Section 7.1.2 CAP Administration Costs

- **CAP mediation costs are double non-CAP mediation costs.** Department costs for answering CAP complaints total \$33,768 with 98% of costs allocated to mediations and 2% to informal complaints. In 2004 there has been an increase in activity on CAP mediations that have been more labor intensive. The documentary required by BCS on CAP mediations doubles in scope from non-CAP mediations. Company costs could reduce by half if BCS would consider the mediations as inquiries.

See Section 7.4.1 CAP Compliance

11. Potential Uncollectible Account Expense Associated with CAP Masked by Weather and Economic Conditions

- **Columbia has experienced continued growth in the number of customers who are experiencing difficulties in paying their bills, including customers whose income exceeds CAP eligibility guidelines.** This increase in payment-troubled customers and the resulting effect upon arrearage charge-offs, has masked the benefits of CAP in terms of reducing uncollectible accounts expense

See Section 8.5 Gross & Net Charge-Off

12. Company Benefits from CAP Programs

- **After enrollment in CAP, customers more than doubled their number of payments and increased the average payment amount by more than \$20.** The study utilized a sample size of 3,200 Level 1+2 pre- and post-CAP customers with twenty-four months of continuous gas service.

2003	Average # Payments	\$ Amount
Pre-CAP	4.0	\$33.16
Post-CAP	8.9	\$54.17

See Section 6.4 Frequency of Payments

- **Recovery treatment unique to CAP customers provides the company with additional benefits.** Quicker arrearage write-off of \$2,614,819 million on 2003 active CAP customers vs. Non-CAP customers who are finaled with arrears write-off delayed for 90 days after the account is finaled. Shortfall is recovered through the CAP Rider.

2.1 OBJECTIVES

The objectives of the third party evaluation of CAP was outlined by the Bureau of Consumer Service (BCS) at a BCS/Energy Association of Pennsylvania (EAP) discussion meeting held in May 2001 and further revised based on comments to an October 2001 "Evaluation Questions" letter sent to Dave Eppel, Energy Association of Pennsylvania.

A utility universal service program must meet the following goals of Universal Service:

- To protect consumers' health and safety by helping low-income customers maintain affordable utility service.
- To provide for affordable utility service by making available payment assistance to low-income customers.
- To help low-income customers conserve energy and reduce residential utility bills.
- To ensure utilities operate Universal Service and energy conservation programs in a cost-effective and efficient manner.

This document addresses all Universal Service goals combining both process and impact analysis and suggested recommendations by program component and type.

2.2 BCS STANDARD EVALUATION QUESTIONS

- Is the appropriate population being served?
- What is the customer distribution for each universal service program component by poverty guidelines, 0-50%, 51-100%, and 151-200%?
- Identify barriers to program participation.

- What is the customer distribution by CAP payment plan? Generally, do participants' energy burdens comply with the CAP Policy Statement at section 69.265(2) (i) (A)-(B)?
- Identify barriers to program recertification.
- What are CAP retention rates? Why do customers leave CAP?
- Is there an effective link between participation in CAP and participation in energy assistance programs (LIHEAP, hardship funds, and other grants)?
- How effective is the CAP and LIURP link?
- Does CAP participation improve payment behavior? (Number of payments, percentage of bill paid, \$ amount paid) Compare CAP payment behavior to pre-CAP enrollment payment behavior.
- Does participation in Universal Service programs reduce arrearages?
- Does participation in Universal Service programs decrease service terminations?
- Does participation in Universal Service programs decrease collection costs?
- How can Universal Service programs be more cost-effective and efficient?

2.3 SUPPLEMENTARY EVALUATION

The evaluator was also contracted to perform an analysis of Columbia's pre-CAP and post-CAP costs as they relate to Credit and Collections, Bad Debt, Connects and Disconnects, and BCS Informal and formal CAP Commission Complaints.

3.1 CAP PILOT	1992-1999
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Columbia's Customer Assistance Program (CAP) was developed in collaboration with the Bureau of Consumer Services (BCS) and the Office of the Consumer Advocate (OCA) pursuant to the Pennsylvania Public Utility Commission's order in Columbia's 1989 general rate case. Originally established as a pilot program in 1992, enrollment was capped at 1000 eligible, payment troubled, low-income customers. The purpose of the pilot was to test the concept of affordable payment options linked with customers' percentage of household income. The pilot offered a proving ground to examine alternatives to expensive and labor-intensive revenue recovery methods.

During the CAP pilot years, Columbia hired numerous third party evaluators to assist in shaping future program design and policy.

See Appendix C: Evaluation Summaries

A chronology of those evaluations is as follows:

October 1992

XENERGY Inc. provided feedback on the strengths and weaknesses of the CAP Pilot as observed in the earliest stages of implementation. The evaluation served as an initial assessment of start-up and process activities with a focus on optimizing program success.

November 1994

A&C Enercom conducted a preliminary assessment of Columbia's CAP comparing CAP vs. Non-Cap payment behavior.

November 1996

A&C Enercom and Debra L. Steckel Consulting prepared a final pilot evaluation assessing the overall effectiveness and efficiency of the CAP pilot.

September 1998

Abacus Custom Research, with Debra Steckel, explored CAP participants' perceptions of the program. Two focus groups were conducted, one with transportation pilot participants and one with the original pilot program participants.

January 1999

H. Gil Peach & Associates/Scan America provided an impact assessment and Debra L. Steckel Consulting provided a process assessment of the one-year extension of the Columbia Gas CAP pilot. Data gleaned from successive years of the pilot provided Columbia CAP management with the information necessary to modify and improve CAP.

TABLE 1
TOTAL ACTIVE CAP ENROLLMENT PILOT YEARS¹

PROGRAM YEAR	ACTIVE CAP ENROLLMENT
1992	564 ²
1993	723 ³
1994	770
1995	616
1996	585
1997 ⁴	753
1998	896
1999	1,376

¹Customer Programs Database: Dee Fletcher

²Start of program: 6 months of data

³Reached 1000 customer goal: no replacement of defaulted or removed customers

⁴Pilot included language to maintain enrollment at 1000

3.2 CAP PHASE I 1999-2001

Columbia submitted its Universal Service plan in August 1999 as part of its Restructuring Filing as required by the Natural Gas CHOICE and Competition Act in Case No. R-00994781. The plan's provisions included an enrollment target of 22,000 customers for the Customer Assistance Program (CAP), a funding level for the Low Income Usage Reduction Program (LIURP), and a temporary funding source for Columbia's Universal Service Program using revenues already contained within existing rates. These provisions were approved as part of settlement agreements in October and December 1999.

TABLE 2
TOTAL ACTIVE CAP ENROLLMENT PHASE I¹

¹Customer Programs Database: Dee Fletcher

PROGRAM YEAR	ACTIVE CAP ENROLLMENT
2000	8,402
2001	9,561

3.3 CAP PHASE II 2001-2002

In August 2001, the Commission approved a joint petition of Columbia, the Office of Consumer Advocate, the Office of Small Business Advocate and the Office of Trial Staff, which resulted in changes to enrollment targets, modifications to the CAP funding mechanism, and changes to the treatment of customer pre-program arrears. Because of continued increasing customer enrollment into CAP, Columbia filed another petition in 2002 seeking additional interim funding for the program. The Commission approved Columbia's 2002 interim funding petition, which directed Columbia and the regulatory parties to meet and develop a permanent funding proposal, and to file the proposal with the Commission no later than September 1, 2003.

3.4 CAP PHASE III 2002-PRESENT

An amended Universal Service Plan was submitted and approved by the Commission in November 2002. Revisions to the former plan included the following efficiencies to program administration:

- Modified the reverification for continued CAP participation.
- Credit- Scoring CAP enrollment.
- Joint utility CAP enrollment.

TABLE 3
TOTAL ACTIVE CAP ENROLLMENT PHASE II, III¹

YEAR	ACTIVE CAP ENROLLMENT
2002	12,869
2003	18,811

¹Customer Programs Database: Dee Fletcher

May 2003

Marcia Lehman, Essential Energy, was contracted to perform a telephone survey on customers' reasons and responses as to why they were not able to enroll in the Columbia Gas CAP program within the 30-day CAP-pending window. The company was concerned about the growing number of CAP-pending customers who seemingly dropped out of the process prior to enrollment.

Appendix C: Third Party Evaluation Summaries

3.5 ONGOING CAP FUNDING MECHANISM 2003

In August 2003, Columbia petitioned the Commission for approval of consensus agreement to establish an ongoing funding mechanism for CAP. The Commission approved a CAP Rider, adjusted quarterly, effective November 2003, to quarterly adjust residential rates to provide for recovery of the CAP shortfall (the difference between current residential rates and CAP customer payments) and CAP customer application costs, based on the number of customers in CAP and the cost of gas. The CAP Rider does not recover the CAP customers' pre-program arrearage nor does it recover any of the other administrative costs of CAP. Columbia remains responsible for those costs. Additionally, Columbia agreed to provide an additional credit to the CAP Rider, in an amount approximating \$1,000,000, which is subject to change based upon actual pension trust expenses.

Expansion of the CAP participation level was projected at 27,100 customers.

4.1 ESTABLISHING THE NEED FOR CAP

FINDINGS**4.1.1 Comprehensive Needs Assessment Verifies CAP Eligibility
Establishing the Target at 27,135 customers**

Upon reviewing Columbia's projected needs assessment to identify low-income, payment-troubled customers eligible for CAP, the evaluator found the company's process extremely comprehensive. Customer groups were identified by the company's DIS customer information system to segment those currently on a payment plan from those not current, both having a payment-troubled history within the past twelve months.

The company's data points included:

- Census household low income by county.
- Estimated Columbia low income by county @ 21.45% of census.
- Verified Columbia payment troubled, low income (those currently on a payment plan, with one or more failed payment arrangements within a one year period).
- Estimated Columbia payment troubled, low income (those not currently on a payment plan, but once were, with one or more failed payment arrangements within a one year period).

Table 4
Needs Assessment¹

CPA Cust Count Residential	Census Household	% CPA Customer	Census Households Low- Income	Estimated Low- Income CPA	Verified Low- Income CPA	Current Pay Plan Within 12 mo. Period	Previous Pay Plan Within 12 mo. Period	Estimated Fail Rate @ 67%
354,852	1,653,971	21.45%	232,726	67,830	58,672	17,831	13,887	9,304
Total						17,831		9,304

¹ Compiled data from Columbia Gas of Pennsylvania Universal Service and Energy Conservation Plan Projected Needs Assessment

4.1 ESTABLISHING THE NEED FOR CAP

4.1.2 Significant Increase in Total Number of Payment Troubled Customers Since Inception of CAP

Despite the expansion of Columbia's CAP, the number of customers on Budget Plus payment arrangements has shown an increase in participants, as well, giving rise to the total number of payment-troubled customers.

Table 5
Customer Participation

Year	Budget Plus	CAP	Total
Dec. 99	19,025	1,326	20,351
Mar. 00	21,013	2,241	23,434
Mar. 01	17,942	9,794	27,736
Mar. 03	15,587	9,614	25,201
Mar. 04	16,264	15,417	31,681

The rise in budget plus customers reveals a growing trend of payment-troubled customers within Columbia service territory. The issue relating to increased revenue recovery costs and lack of sufficient energy assistance resources to counter balance this effect is of great concern to the evaluator.

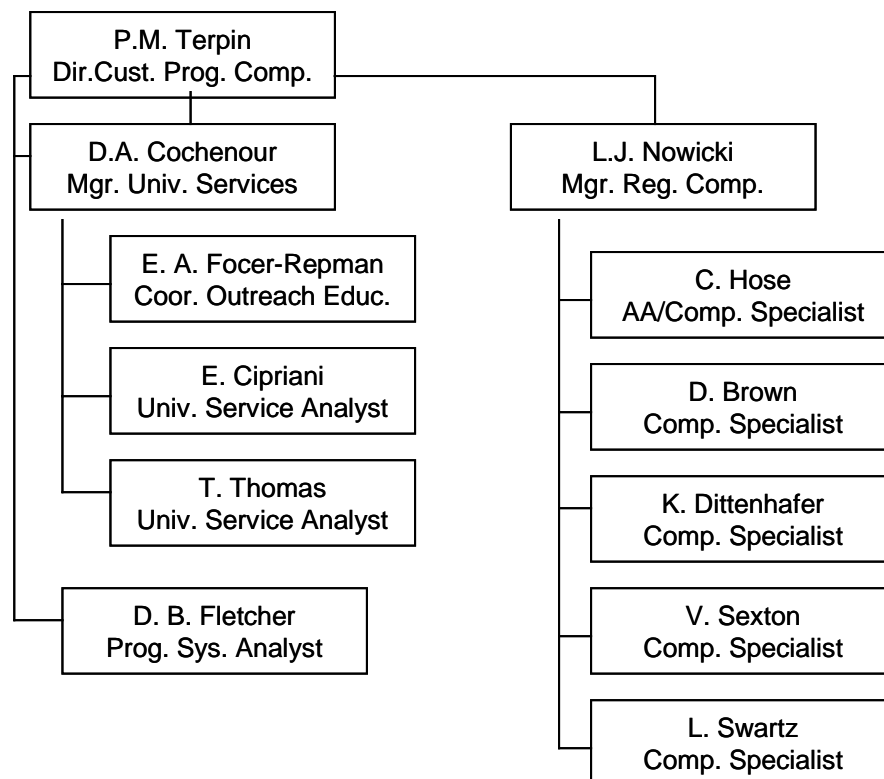
Recommendations:

- Columbia to analyze all available energy assistance programs, identify barriers to customer participation, recommend solutions, and partner with public stakeholders to provide solutions and implementation strategies.
- Columbia to establish key initiatives with stakeholders to include:
 - 👉 Bureau of Consumer Services (Universal Service Programs)
 - 👉 Department of Health and Welfare (LIHEAP: CRISIS)
 - 👉 Department of Community and Economic Development (State funded Weatherization Programs)
 - 👉 Department of Energy (Funds for Weatherization Projects/Pilots)
 - 👉 Department of Housing (Repair Funds for Substandard Housing)
 - 👉 Dollar Energy (Hardship Funds)

Staff and Agencies**SUMMARY**

Columbia utilizes a mix of in-house CAP management personnel and external contractors/agencies to administer CAP including:

1. Director of Customer Programs and Compliance.
2. Manager Universal Services.
3. Program Systems Analyst (compiles statistics and internal/external reports).
4. Coordinator Outreach Education.
5. Two Universal Service Fund Liaisons (located at the Contact Center).
6. Six Universal Service Agents (located at the Contact Center to prescreen potential customers for CAP).
7. Fifty-four Community Based Organizations (CBOs) perform CAP application and intake.
8. Dollar Energy, Inc. coordinates CAP intake agency processes.
9. Essential Energy, Inc. conducts refresher training and provides agency quality assurance feedback to the company and to Dollar Energy.

Universal Service Organization

5.1 CAP ADMINISTRATION

Payment Plan Options

Flexible payment options are offered to potential, eligible CAP customers to ensure affordability and maintain payment of at least the average bill amount received over the previous twelve months.

Table 7
CAP Payment Plan Options*

Option #1	% of Income 0-110% 110-150%	7% of income 9% of Income
Option #2	Average of last 12 months of customer payments	Must have 6 months of uninterrupted service
Option #3	Percentage of Bill Flat Rate	50% of Budget Billing (annual adjusted August promotion)
Option #4	Minimum Payment	\$25
Option #5	Senior CAP Percentage of Bill Flat Rate	75% of Budget Billing for Customers over 60 years and zero arrears and/or payment plan default

*The CAP customer is required to pay \$5 co-pay towards pre-program arrears

The CBO intake agency determines the appropriate payment plan option for each potential CAP customer, from the prescreen form submitted by the company's Universal Service Agents. The payment recommended is never less than the average of the previous 12 payments, unless significant hardship occurred impacting the customer's ability to pay. Confirmation of the recommended payment occurs at the Dollar Energy central office, after thorough review of eligibility and payment appropriateness.

5.1 CAP ADMINISTRATION

Customer Responsibilities

Dollar Energy enters the payment option selected into Columbia's customer information system (DIS). A letter of confirmation with the payment terms is mailed to the customer.

Customer Responsibilities

- The initial application and reapplication are subject to agreed upon conditions that serve as a contract between the customer and the company.
- Income verification is required.
- The monthly payment amount and the customer five-dollar co-pay must be paid by the due date.
- The customer must apply for all available energy assistance to be applied to the shortfall balance on their Columbia account.
- The customer must apply for any eligible free weatherization service offered through the Department of Community and Economic Development state weatherization agencies and Columbia LIURP.
- The customer must agree to appoint Columbia as the customer's purchasing agent for CAP Choice aggregation, if offered.

5.1 CAP ADMINISTRATION
Gas Transportation**SUMMARY**

Columbia began its low-income aggregation program for CAP customers in 1997. These customers are grouped together volumetrically, for the purpose of obtaining lower cost gas from a marketer/supplier who is contracted to deliver agreed upon volumes to the aggregate. Columbia serves as the appointed agent for CAP customers, acting in their best interest.

A Request For Proposal (RFP) is sent out every 12-18 months to marketers interested in the CAP aggregation program. The company sends out a RFP every three months when there is no contracted supplier for a given quarter. Typically, the RFP is sent out two-three months in advance to any existing contracted marketer with an expiring contract. The RFP is mailed to an average of forty marketers who often times are the same marketers who contract with any of the five Columbia companies, both CHOICE and GTS.

Benefits of CAP aggregation are grouped into three categories:

Customer

- Non-CAP customers see overall benefits from the program by reduced shortfalls and reduced write-offs.

Company

- Columbia benefits from reduced shortfall and write-off costs.

Marketer

- Guaranteed income to the marketer based on deliveries.
- No customer billing, customer service, collections interaction.
- No credit risk.
- The delivery amount is clearly understood. Columbia specifies the volume to be delivered.
- There is no cash out as there is with CHOICE. (With CHOICE there is an annual cash-out based on the variance between customer consumption and marketer deliveries.)

FINDINGS**5.1.1 Marketer Interest in CAP Aggregation Suffers Decline In 2004**

Currently, in 2004, there is no marketer participating with CAP aggregation. Company rules for participation are cited as the reasons for the decline in interest, which includes the following:¹

- Requirement to set volumetric amount twice annually, based on Columbia's projections of the number of customers active in CAP. Marketers are not willing to take the risk of fluctuating estimates. If the company could guarantee their projections, the marketers would not have an issue. Their annual complaint is that the company reserves the right to change the delivery volumes with only 30 days notice.
- Marketer bids must be below Columbia's quarterly Price To Compare (PTC). Columbia must project the PTC ahead of the quarterly filing in order to determine if the marketer bid is in the best interest of the customer. This becomes a very difficult projection for the company and marketer alike.

This is the #1 complaint from every marketer that has looked at the program; marketers say they cannot buy gas any cheaper than Columbia.

Recommendations:

- Columbia to award contract no later than 12:00 Noon the day after the bids are due. Currently suppliers must hold the price of gas for an entire week, until the contract is awarded. The price volatility of the gas market creates much risk to the marketer.
- Reduce the contract period from two years to three months and match it to the quarterly PTC price change. The company would announce the PTC and offer a two-three day window for returned bids. This gives more assurance for CAP savings and eliminates the supplier's unknown volume requirements for future periods.
- Institute bids and executed contracts electronically via the Internet to accommodate the two-three day bid window.
- Eliminate monthly bidding requirement. Currently the marketer must submit a rate for each month (absent a "price to compare") in the form of a flat dollar discount, a percentage discount, or a variable discount rate.

¹Interview with Erich Evans, CHOICE Manager; Shirley Hasson, Manager Regulatory

Gas Transportation

- Mail out RFP electronically and separately from other company sponsored programs. (PIP, CHOICE). Marketers may be dissuaded from participating in a smaller volume aggregation Pennsylvania program when receiving bundled information the same day on a much larger volume Ohio PIP program.

5.1.2 CAP Aggregation Resulted in Five-Year Net Savings of \$1,695,108

The Columbia aggregation model proves to be a successful alternative to traditional CHOICE. CAP customers benefited from the economies of scale gained through the aggregation of their volumes into the larger CAP group by \$1,695,108 during the period 1998-2002.

During October 2002 through March 2003, there was no supplier contracted for CAP aggregation. As a result, this period showed a decrease in savings of \$1,384 million and reflects in the overall five-year net.²

²Monthly PA CHOICE Savings Report 1998-2003

FINDINGS**5.2.1 Columbia Utilizes First Point of Contact Approach
With Universal Service Call Group**

Columbia's CAP administrative process provides a customized approach to address Level 1 and Level 2, low-income, payment-troubled customers at the Smithfield, Pennsylvania, Contact Center ("Contact Center"), the customers' first point of contact. It is here that the Universal Service Agents refer customers into a menu of assistance programs and/or payment options tailored to meet the customers' needs. In addition, customers who are first time applicants requesting service from Columbia Gas, are further identified as potential CAP eligible utilizing Credit Scoring.

It is the evaluator's opinion that CAP prescreens performed at the point of first contact is the best choice for program assessment. Not all payment-troubled customers are appropriate for CAP.

Many payment-troubled customers are offered the Budget Plus program and are not low income. Conversely, not all low-income customers are payment troubled nor are they suitable for CAP. Substantial efficiencies can be gained here since over income, ineligible customers stand the best chance of being screened out at the first point of contact eliminating labor-intensive agency intake visits.

**5.2.2 Routing of Customer Calls Inappropriate for CAP Causes
Unnecessary Transfers**

A review of the remarks section on 50 CAP customer accounts revealed that over half of the time, customers were transferred an average of three times before reaching resolution both from NCO and from internal routing from Customer Service Representatives (CSRs). Typical NCO scenario:

1. Call routes through Contact Center IVRU.
2. IVR routes to NCO (Outsourced collections contractor).
3. First transfer to Contact Center Representative.
4. Second transfer to Universal Service Agent.

The company reports that NCO has a direct transfer number to Universal Service Agents. The above transfer scenario was an issue earlier in the year, however now should be the exception. Routing of calls that are not CAP program eligible may be more of an issue.

Contact center**Recommendation:**

- Contact Center Quality Assurance department to develop monitoring reports to capture first call resolution statistics for CAP customers and review appropriateness of referrals from internal CSRs and NCO to Universal Service agents.

5.2.3 Increased Universal Service Training at Contact Center Expected To Clarify Benefits of Programs

With the influx of new hires at the Smithfield Contact Center, new CSRs receive training on identifying customers eligible for assistance programs and access information and program guidelines through an on line reference tool. The most recent large group comprehensive CAP training was held in the year 2000. Since then, 141 Contact Center representatives have been either newly hired, or converted from temporary to regular part-time employees, due to turnover and/or addition to complement.³ Additional training would improve CSR understanding of program benefits.

Recommendation:

- Provide educational communications of CAP program benefits and refresher training for all Contact Center employees on as needed basis. Include NCO (outside contractor) with all scheduled communications and training.

5.2.4 Contact Center Key Link To Universal Service Administration Efficiency

One team leader, providing daily operations guidance, supervises six core Universal Service Agents who are dispersed throughout the Contact Center on various call group teams. Typically, the agents remain on the Universal Service line for two to four hour intervals. When not responding to the Universal Service line, the agents return to the general customer service line (connects, disconnects, disputes, transfer of service, etc.).

Overall, this system works well; however, both the team leader and agents stated that the company would be better served if the Universal Service agents were segmented as a call group, to maximize efficiency.⁴

³ Interview Jeff Williams, Manager Contact Center Smithfield, PA; Elizabeth Focer-Repman

⁴ Interview Carmelita Clark, Universal Service Team Leader; Sharon Brock and Dawn Copeland, Universal Service Agents

Contact center**Recommendation:**

- Evaluate economies of scale, segmenting a specialized call group (internal to the Contact Center), to handle Universal Service and/or special assistance programs for multi-states in Columbia service territory.

5.2.5 Universal Service Process Improvement Team Provides Real Time Solutions to Emerging CAP Administration Barriers

In January 2003, the Universal Service Department organized a Process Improvement Team, which partnered representatives from Columbia's Contact Center, Performance Solutions Group, Performance Management Group, and Universal Service management. This team focused on Universal Service and Contact Center performance metrics.

- Performance and productivity
- Process improvements
- Workforce effectiveness

Table 6
Performance and Productivity
Statistical Findings: January 2003 vs. January 2004¹

Statistics	2003	2004
Available or Handling Calls	49%	70%
Unavailable associated with "special projects"	55%	28%
Average # calls per day	378	393
Average Handle Time	343	346
Average Speed of Answer	252	133
Abandon %	26.46%	15.85%
Staffing FTE	6.5	6.8

¹Contact Center Database Mike Davidson Manager Performance Management

A review of all Universal Service Agent paperwork and non-call work identified that approximately 90% of all paperwork was generated by the CAP prescreen process. Improvements included:

Contact center

- Six out of eighteen steps were eliminated in the CAP assessment process creating a 30-second prescreen.
- Fourteen out of twenty-five data elements were eliminated.
- Mail fax feature was automated.
- Master forms were designed.

An analysis to determine the number of Universal Service “core” agents needed daily was based on call volume, average handle time, average speed of answer, abandon percentage and available agents. As a result, the following changes were made:

- Core schedules were established for six agents to allow consistent coverage for call volume.
- Agreement by call center management that core agents would not be arbitrarily moved to other lines.
- Other necessary non-call work was scheduled (message retrieval, return calls, etc).
- Lunches and breaks scheduled for efficiency.
- Additional agents trained for support and coverage.

Recommendations:

- Utilize partnership built with the development of the CAP Process Improvement Team to establish a continuous improvement environment to respond quickly to emerging issues and to project manage the implementation of recommendations as outlined in this CAP evaluation.
- Prepare an implementation schedule for recommended CAP improvements 30 days post evaluation filing.

5.2.6 Universal Service Agents Are Multi-Skilled and High Performing

Typically, the Universal Service Agents are responsible for obtaining \$1000 per CAP customer in LIHEAP, Crisis, and Dollar Energy grants. Due to the administrative hand holding, required prescreening to determine eligibility, and detailed explanation of programs and services available to eligible customers,

Contact center

call handle time for a Universal Service Call is 346 seconds, 38 seconds longer than the average call handle time of 318 seconds.⁵

The agents are very committed to CAP and remarked that they are making a positive contribution to the bottom line of the company. In addition to their Universal Service skills, most of the agents are also trained to handle routine contact center calls for multiple states, handling 100 calls on average per day.

Recommendation:

- Evaluate the development of a rewards/incentive program and skills-based wage scale for high performance.

5.2.7 Universal Service Liaison Ensures Continuous Workflow

The Universal Service Liaison is a full time position located at the Contact Center, accountable for the myriad of manual transactions and billing adjustments necessary for accurate and real time CAP transactions. She also serves as the point of contact for Dollar Energy.

Duties include:

- Correcting CAP billing problems.
- Reviewing CAP disconnects/connects to assure accuracy in billing.
- Manually reentering accounts for non-automated transferred accounts.
- Acting as a liaison with Dollar Energy Central and the Contact Center.
- Assisting with CAP employee awareness.

⁵Interview Jeff Williams Manager Contact Center

Contact center

In a review of three months of transactions by the evaluator, problems were identified as the result of Dollar Energy errors and/or misinterpretation of guidelines indicated on table below:

Table 7
Problem Log
December 2003-February 2004

Problem Identified	Number of Occurrences
Failure to follow up with customer	40
Incorrect payment plan entered	10
Duplicate telephonic application mailed	8
No removal letter mailed	7
# Customers with lost reverification income information	Unable to verify or track

A previous problem with a particular former Dollar Energy representative who remarked accounts but never entered the customer into CAP was discovered causing a delay of over two months on the accounts.

Other errors included customers being entered on the wrong payment plan option, telephonic CAP applications mailed out after the customer was already entered in CAP and failure to mail out removal letters.

The evaluator believes that this position is key to the successful administration of the CAP process both at the Contact Center and Dollar Energy. However, there is no process in place for back up when the liaison is absent from work, creating obstacles for real time, CAP billing issue resolutions⁶

Recommendations:

- Cross train a Columbia representative for CAP back up work.
- Automate the manual CAP transactional function.
- Implement routine refresher training to Dollar Energy to resolve errors in CAP administration.

⁶ Interview Eva Cipriani, Universal Service Liaison

SUMMARY

Dollar Energy, Inc. is a non-profit agency that administers two programs for Columbia: CAP and the Dollar Energy Fund Grant program. The Dollar Energy staff complimented Columbia management on their receptivity to new ideas, willingness to lead change, and for their creative problem solving.

The Executive Director attributes the success of Columbia's Universal Service programs to the support of top management. Columbia was also cited as the only utility company that searches for proactive ways to increase its customer contributions for the Dollar Energy Fund grant program.

Dollar Energy dedicates two staff personnel to run the administration portion of Columbia CAP. (Recently, Dollar Energy has experienced turnover with representatives dedicated to Columbia CAP.)

Dollar Energy is responsible for administration of the fifty-four screening agencies designated for outreach and intake. Their duties include:

- Review the CAP intake application (agency and phone) for accuracy and completeness. Provide all necessary follow up.
- Administer the customer reverification process.
- Communicate regularly with the Columbia CAP Liaison to update manual transactions on DIS.
- Update and maintain training manual with revised process and procedures for Dollar Energy Central and Dollar Energy CBO screening agencies.
- Responsible for all training for new agencies.

Typically, Dollar Energy has been quite responsive to Columbia feedback for administrative improvement. The agency has addressed their turnover issue by hiring an additional CAP representative-in-training. The remainder of the staff, the senior CAP representative and the Contact Center Manager is experienced and well versed with the administrative components of CAP.

However, turnover issues have created gaps with CAP program administration with no current procedural training manual in place to address new hires. CBO quality control oversight is minimal and requires attention.

Suggestions for Dollar Energy improvement are as follows:

- Increase accountability for the oversight and management of the CBO screening agencies.
- Improve communications/training with CBOs to address CAP procedural changes.

FINDINGS**5.3.1 Incomplete Agency CAP Applications Creates Lag Time**

Dollar Energy reports that information provided by screening agencies on the Columbia CAP application is incomplete and inadequate to qualify them for the program. Agencies routinely miss critical information necessary to verify income, causing Dollar Energy to hold the application for two weeks to one month until the customer is reached and provides the needed documentation. On average, three to four phone attempts are made before Dollar Energy reaches the customer.⁷

The lag time created, from the time of the customer on-site visit, until completed documentation, causes confusion and disruption in the CAP process. Columbia's Contact Center is often flooded with customer calls inquiring about the status of their CAP application creating unnecessary call volume.

Recommendations:

- Dollar to conduct refresher intake training for all Dollar Energy screening agencies annually and on an as-needed basis during agent turnover.
- Dollar and Columbia to design and utilize a PROB-LOG to track problems and follow-up resolutions associated with data entry/program errors and misapplication of administration guidelines.
- Dollar to design a comprehensive training manual for Columbia CAP to ensure process flow during their own employee turnover/reassignment.

⁷Interview: Columbia Gas CAP Representative Dollar Energy

5.3.2 CAP Customers Dropped For Failure to Reverify Is Major Issue

With the growing number of enrolled CAP customers increasing each year, a growing number of CAP customers dropped, for failure to reverify is experienced. Although the customer is noticed by letter, and typically has 60 days in which to reverify their income, many are not complying before their designated “dropped from the program” deadline date.

Table 8
Failure to Reverify vs.
Reinstated¹

Program Year	Failure to Reverify	Reinstated within 30-60 days	Reinstated within 12 months	Customers Unaccounted
2001	733	5	10	718
2002	424	7	11	406
2003	914	34	78	601

¹Customer Program Database: Dee Fletcher

In the initial step of income verification for the first time CAP participant, the customer generally complies oftentimes in order to stop a termination. When existing CAP customers are removed from CAP for non-pay, this may also lead to termination. When imminent danger has passed of shut-off, reverification of income one or two years later does not appear to be as critical to the customer.

In some cases, customers simply self-remove from CAP; other customers, due to the demographics in Western Pennsylvania, move from one gas distribution company to another. However, controlling program costs are critical to Columbia. The company experiences costs for CAP removal and \$20 per customer CAP reinstatement charge from the agencies.

The company has taken major steps to streamline the reverification process, waiving the requirement for customer income verification for those receiving LIHEAP or Dollar Energy grants within the most recent 12-month period.

The evaluator reviewed the “Reverification Reminder Letter” and found the language contained within less than compelling to motivate immediate action on the part of the customer.

Recommendations:

- Include in CAP Customer Acceptance Letter a due date field for reverification of income.
- Include on CAP bill a date field and message noticing the customer 60 days prior to their reverification due date.
- Redesign customer “Reverification Reminder Letter.” Example: Stamp mailing envelope with “Urgent! Immediate Attention Required.”

5.3.3 Stricter Company Enforcement of CAP Re-instatement Policy**CAP Removals**

Company CAP policy states that customers who self-remove from CAP must adhere to a one-year stay out provision. Typically, customers are self-removing during the summer months, when payments are lowest, only to be reinstated by winter. The company attempts to convince the customers to remain in CAP, however, in many cases, they are unsuccessful. Columbia is allowing customers back into CAP after self-removal at inconsistent time periods (i.e., two days, two weeks, two months, etc.).⁸

Columbia states that the company’s automatic reverification process was erratic and unreliable for a period of time in 2002 and subsequently remedied in 2003. Customers were being removed inappropriately and Dollar Energy was behind in performing reverifications. Inappropriately removed customers were allowed back into CAP without reverification. Currently, these programming errors have been resolved.

Customers with Zero Income

Company policy states that customers with zero income must reverify every 90 days. In one case, a customer has remained in CAP for four years, without being required to reverify their income.

Columbia states that during the ramp-up of CAP enrollment, this policy was not enforced due to the otherwise good payment behavior of the customer.

Recommendations:

- Company to enforce stay-out provision of self-removed CAP customers if found that they are abusing the system.
- Company to enforce reverification of zero income customers.

⁸Interview Columbia Gas CAP Representative Dollar Energy

SUMMARY

Essential Energy has been providing energy conservation educational services to the fifty-four CBOs performing CAP intake for Columbia customers since 2000.

Essential Energy provides a “train the trainer” program to the agencies that teaches the intake workers the essential of energy conservation. The agencies educate Columbia customers at CAP enrollment to encourage energy conservation for consumption reduction that ultimately should serve to reduce customer shortfall. Typically, this takes an intake worker 15 minutes per customer. Agencies charge an additional \$10 per application for this service.

In addition to conservation training, Essential Energy visits each CBO twice annually to observe and audit their intake performance with Columbia CAP customers.

Dollar Energy trains all new agencies that participate with Columbia CAP.

Essential Energy’s approach to agency conservation training is well organized, thorough, and user friendly. Contracted responsibilities include conservation intake and all other quality control monitoring which either Dollar Energy should subsidize or be held solely accountable.

FINDINGS**5.4.1 Incomplete Communications Between Columbia and Agencies On CAP Program Changes**

Columbia distributes a well-written informational CAP quarterly newsletter to CBO Executive Directors, however information on new or revised changes to CAP is not passed down to the agency intake workers, who most need it (i.e., when the new CAP application was launched, intake workers continued to use the old application due to the communications gap with their directors). The company recognizes this issue and struggles to find a solution for improved communications.

Recommendations:

- Enforce quality control measures currently existing as part of the contract between Dollar Energy and CBOs mandating agency executive director involvement in communicating CAP changes to intake workers.
- Columbia and Dollar Energy to contract with Essential Energy to conduct routine conference calls to communicate changes to CAP in real time.

- Columbia, Dollar Energy, and Essential Energy to organize group meetings on an annual basis to review CAP program changes with CBO intake workers and directors.

5.4.2 Multiple CAP Applications Confusing to Agencies

Columbia's CAP procedures utilize three applications:

- Initial Intake Application
- Reinstatement Application
- Reverification Application

Most Columbia CAP intake agencies are also Dollar Energy Fund agencies, which screen applicants for multiple utility CAPs, hardship funds, and LIHEAP assistance. In reviewing these applications, most of the information required is the same, with very minor differences. Intake workers have become overwhelmed with managing the paper flow for multiple utility programs.

Currently, Columbia benefits from a partnership with Allegheny Energy for a joint enrollment CAP process streamlining the intake process between utilities.

Recommendations:

- Company to consider joint DPW pilot, utilizing the LIHEAP application for CAP intake, reinstatement, and reverification, eliminating the three applications currently designated for CAP. Modified application to include customers at 135%-150% of poverty guidelines. Streamlining the application process would also serve to lower agency costs.
- Company to include Duquesne Light and First Energy with its joint enrollment CAP process.

5.4.3 Quality Assurance Compromised with Outdated CAP Training Manual

The CAP Team consisting of Columbia Gas, Dollar Energy and Essential Energy continues to utilize outdated CAP materials and procedures.

In 2001, a Dollar Energy representative dedicated to Columbia CAP began the massive project of designing a video, as well as an electronic self-train workbook. This representative has since left Dollar Energy with the project left unfinished.

During 2002 and 2003, materials have been revised on an as needed, individual basis with no collective process in place.

Recommendation:

- CAP Team to delegate revision assignments to its members with Dollar Energy acting as project manager.

5.4.4 Many Prescreened Customers Are Over Income

The company states that the Universal Service Agents have refined their income script verbiage to obtain the most accurate income information possible. Customers oftentimes believe they are income eligible until they are asked to submit verification. The CBOs are instructed to ask for income a second time over the phone before setting the appointment for CAP intake.

In reviewing Dollar Energy reports, averages of 12-15 customers per month were over income, were deemed ineligible for CAP, and inappropriately visited intake agencies. (This does not include customers who were identified as over income by the local agencies, via telephone, prior to the actual visit.)

Recommendation:

- Intake worker to verbally list all sources of income (as a reminder to the customer), at the time of the phone call to schedule the appointment.

5.4.5 No Significant Difference in Consumption Reduction Between CAP Agency Enrolled vs. CAP Telephonic Enrolled

In reviewing the consumption effects of agency enrolled CAP customers who received a fifteen minute conservation review at intake compared to telephonic enrolled customers receiving a minimum conservation review, the results were negligible.

One hundred CAP customer accounts (agency enrolled) and one hundred CAP customer accounts (telephonically enrolled) were compared. Both groups were CAP active during the winter season November 2002-April 2003. Results indicated no significant difference in consumption reduction between the two groups.

Table 9
Consumption Comparison Nov 2002-Apr 2003¹

	Pre-CAP Mcf	Post-CAP Mcf	% Change
Agency Enrolled	115.16	111.22	(3.54%)
Telephonic Enrolled	109.15	105.55	(3.41%)

¹Customer Programs Ad Hoc Report Dee Fletcher

Recommendation:

- Eliminate conservation component from Columbia's CAP intake which would reduce the application intake costs from \$30 to \$20 per application and reduce the conservation training costs from Essential Energy.

FINDINGS**5.5.1 CAP Annual Enrollment Targets Successfully Met**

The company reports its annual CAP enrollment goals have been met with little or no difficulty. The first point of contact approach was cited as the critical factor leading to a seamless enrollment. (See Section 5 Contact Center). All customers who are first time applicants for gas service on Columbia lines, are identified as CAP eligible through Credit Scoring.

The customer calls the Contact Center, connects with IVRU, and is placed into the credit and collections queue. If the customer is determined to be Level 1 or Level 2 income, the call is routed to the designated Universal Service Agent. The agent prescreens the customer and qualifies them for other energy assistance. If he is a LIHEAP recipient, the customer is automatically enrolled into CAP. If he is not, the customer is advised to contact their participating intake agency within 30 days for an appointment to apply for CAP and to verify income.

TABLE 10
ACTIVE CAP CUSTOMERS¹

Program Year	Total # Active CAP*	Total # Applicants
1992**	564	***
1993	723	***
1994	770	2,214
1995	616	1,441
1996	565	1,441
1997	753	1,654
1998	896	1,947
1999	1,376	2,463
2000	8,402	9,877
2001	9,561	15,223
2002	12,869	19,410
2003	18,811	29,175

¹Customer Program Database Dee Fletcher

*All these totals include initial and pending CAP

**Only six months data – start of program

***No data available.

Levels of CAP participation	Income at or below 50% of poverty	3,633	23%
Total mo average 2003	Income between 51% and 100% of poverty	6,938	44%
	Income between 101% and 150% of poverty	5,040	32%

5.5.2 Multiple Payment Options Provide Columbia Customers Affordability

Columbia's program attempts to maximize the CAP customer payment utilizing a formula programmed for use at eligibility prescreen.

- First, the Average Payment Option is selected if it is a higher payment than the Percentage of Income or Percentage of Bill.
- Second, if the Percentage of Income Option or the Percentage of Bill Option is a higher payment than the Average Payment Option, the three options are averaged together. The option closest to the average is selected.
- Third, if all the other options require lower payments, the Minimum Payment Option is required.
- Extenuating circumstances identified by agencies during the enrollment interview might result in a reassignment to a more affordable option.

TABLE 11
CAP PARTICIPANTS BY PLAN OPTION¹

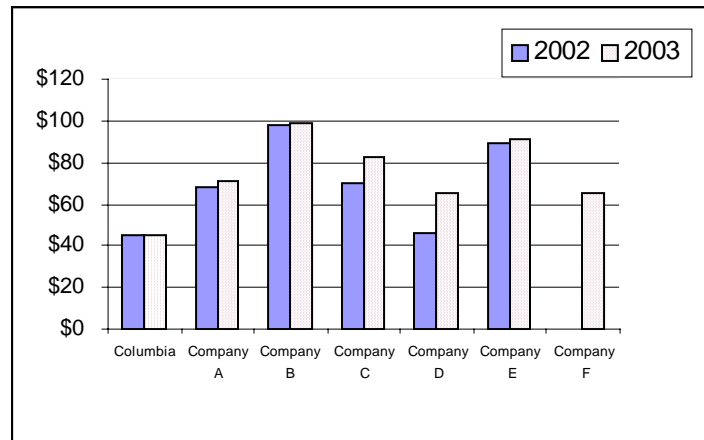
Payment Plan	Total	Percent	Avg Payment
CAP Option #1 (% of Income)	4,346	24%	\$47
CAP Option #2 (Avg 12 mo Pay)	4,279	23%	\$44
CAP Option #3 (% of Bill)	7,080	39%	\$51
CAP Option #4 (Min Payment)	2,524	14%	\$26
CAP Option #5 (Senior CAP)	9	<1%	\$60

¹ Number of active CAP customers 18, 238 as of December 31, 2003 (Does not include pending customers)
Customer Programs Database: Dee Fletcher

FINDINGS

5.6.1 Columbia Ranks First In CAP Payment Plan Affordability with PA Gas Industry Peer Group

Table 12
2003 CAP Payment Plans by NGDC


5.6.2 CAP % of Bill Customers Hedge Risk for Cold Weather

Of the 18,238 active CAP customers who were billed by the company, year-end 2003, 39% were enrolled in Option #3, the percentage of bill plan. This plan offers a flat rate of 50% of the budget bill and is especially advantageous to families with many household members. For larger sized families, this plan's benefits usually outweigh those of the percentage of income plan.

TABLE 13
CAP PARTICIPANTS BY PLAN OPTION¹

Payment Plan	Total	Percentage	Avg Payment
CAP Option #1 (% of Income)	4,346	24%	\$47
CAP Option #2 (Avg 12 mo Pay)	4,279	23%	\$44
CAP Option #3 (% of Bill)	7,080	39%	\$51
CAP Option #4 (Min Payment)	2,524	14%	\$26
CAP Option #5 (Senior CAP)	9	<1%	\$60

¹ Number of active CAP customers 18, 238 as of December 31, 2003 (Does not include pending customers)
Customer Programs Database: Dee Fletcher

However, much like variable mortgage interest rates, the advantage is lost during the annual August budget reconciliation following a colder than normal winter. Upon investigation in April 2004 of thirteen Columbia customer complaints enrolled in Option #3, the BCS expressed concern that these customers, due to the cold winter, increased consumption and resultant increased budget bill were paying more than the recommended ceiling of 10% of income as stated in the CAP Policy Statement.

The evaluator takes exception with the CAP Policy Statement interpretation and suggests that the 10% of income ceiling restriction is an intended application towards the percentage of income option only.

CAP Policy Statement, Chapter 69.265. CAP Design Elements, Section (ii) Percentage of Bill Plan, states, "When a utility determines subsequent CAP payment amounts, a participant will continue to pay the same percentage of the total bill even if annual usage has changed."

A more recent development in determining affordability interprets the CAP Policy Statement as suggesting that customers who are 50% or less of poverty income should not be required to pay more than eight percent of their income while in CAP. The evaluator also takes exception to this interpretation as being outside of the language of the company's approved plan.

Recommendations:

- Company to offer Percent of Bill customers with complaints of high payments, the opportunity to be re-evaluated for enrollment during the year in an optional plan.
- Company to add high bill disclaimer statement for Percent of Bill customers to discourage plan switching.
- Recommended language change in CAP Policy Statement to clarify 10% of income ceiling to apply solely to percentage of income option.

FINDINGS**5.7.1 More Level 1 CAP Customers Default for Non-pay than Level 2 Customers within All Payment Plans**

More customers default for non-pay in Level 1, within all payment options, than Level 2 income customers. In 2003, of the 8,024 CAP customers with one, two, or three late payments, only 848 or 11% were terminated and removed from the program.

CAP customers can default from the program for non-compliance with program guidelines and customer responsibilities.

Default for non-payment is defined as one missed payment or partial payment, which includes the five-dollar co-pay towards the customer's pre-program arrears.

Steps in the CAP Default Notification Process are as follows:

TABLE 14
DEFAULT FOR NON-PAY

Letter of delinquency	Day 5 after missed due date
10 Day Termination notice	Day 15
2 Phone Attempts	Day 22
48 Hr Termination Notice/Premise Visit	Day 23
Shut Off	Day 25
Final Bill/ Customer Removed from CAP	Day 30

During the winter heating season (December–March), non-pay defaulted CAP customers remain in CAP; however, they are requested to make CAP catch-up payments. If payments due are not paid in full by April 1st, the customer will be targeted for termination and removed from CAP. A full payment of the catch-up amount will stop termination at any time.

Other reasons for CAP removal include those listed on the table below:

TABLE 15
REMOVED CAP 2003¹

Finale Accounts*	2,421
Failure to Reverify	914
Removed For Non-pay	848
Removed By Customer Request	60
Deceased	9
Failure to Provide Access To Meter	2
Other	173
Total Removed	4,424

¹Customer Program Database: Dee Fletcher December 31, 2003

*Customers who have moved from Columbia Gas lines and/or may have changed the ratepayers name on the account to another household member.

The company has the best opportunity for CAP retention improvement by applying more resources to customer payment delinquency and customers who fail to reverify. Greater CAP retention rates help reduce Columbia's shortfall and credit and collection costs. (See Section 8 Credit and Collection Analysis)

Recommendations:

- Evaluate a plan to increase resources towards payment reminder and soft core dunning activities directed towards delinquent CAP customers.
- Evaluate reasons for customers failing to reverify and implement appropriate actions.

Energy Assistance Internal Process

Columbia's Universal Service staff includes a Universal Service Hardship Fund Liaison, Terri Thomas, who is responsible for expediting LIHEAP, CRISIS, and Dollar Energy Fund grants to customer accounts. She is located at the Contact Center where she can easily interact with and handle referrals from the Universal Service Agents. Terri also processes customers' Dollar Energy Fund pledge donation cards, monitors customer accounts, and manually reconciles accounts to Heat Share.

Assisting her efforts is a seasonally staffed Energy Assistance Hotline, operating during the heating season months of October through April. During the months of May through September, an answering system records the calls with the Universal Service Agents returning the calls as they become available. The Energy Assistance Hotline telephone number is operational twelve months out of the year.

Dollar Energy Fund

Columbia and Columbia customers contribute up to \$125,000 in a matching fund program and \$375,000 through a special gas purchasing agreement with Citizens Energy Corporation to the Dollar Energy Fund. These dollars are distributed to Columbia Gas low-income customers who are screened for income eligibility at or below 200% of poverty by Dollar Energy screening agencies.

CAP customers are eligible to receive Dollar Energy Fund grants when the following conditions occur:

- Customers at 136%-150% of poverty income
- LIHEAP and Crisis programs are closed
- CAP payment owed is delinquent
- Threat of termination

At the end of the 2002-03 program year, \$560,140 was distributed to 2,178 customers with an average grant of \$256. Of those, 1063 customers were active CAP participants.

Dollar Energy Levels of Participation	Level 1	1360
2003	Level 2	263
	Zero	535

Dollar Energy and Crisis grants are posted against the customers' CAP payment amount owed, while all LIHEAP grants are posted against the customer shortfall.

LIHEAP/ Crisis

The energy assistance programs supporting Columbia's low-income customer population, LIHEAP and Crisis, are both federally funded programs administrated by the state Department of Public Welfare (DPW). Each year the new federal poverty guidelines and program start and end dates are communicated to eligible customers, screening agencies, and utilities prior to the start of the new winter heating season. Due to the increased demand for these programs but limited funding, only those customers at or below 135% poverty guideline level are eligible for assistance grants creating a funding gap for those families at 136%-200% of poverty.

Between November 15 and November 30, 2003, DPW accepted termination notices and included the customers' current bills in the shut-off process. This first time change in procedure greatly benefited customers in obtaining money for their account, stopped the termination, and eliminated the requirement of the company to perform a dormant account survey.

FINDINGS**5.8.1 DPW Processes Create \$500K Lag in Monthly Grant Postings**

DPW sends electronic transfers to the company on a daily basis. Problems occur when a Crisis transaction is incorrectly coded as a LIHEAP cash transaction. The liaison must adjust each account manually and refund the grants back to the state, where they must be reentered correctly. Despite company notification to DPW of these errors, there has been little change.

Other problems with DPW include:

- Awarding grants on inactive accounts
- Entering incorrect/invalid customer account numbers
- Incorrect sequence number on customer account numbers

Recommendation:

- Company to prioritize automation methods to correct problems eliminating time consuming, manual processes.

5.8.2 LIHEAP 2003-04 Revenue Increased by 12% and Number of Customers Receiving Grants by 7% Compared to 2002-03.

5.8.3 Crisis 2003-04 Grants Decreased by 25% and Number of Customers Receiving Grants Decreased by 4% Compared to 2002-03.

TABLE 16
LIHEAP ENERGY ASSISTANCE¹

LIHEAP/CASH	2003-04	2002-03	DIFFERENCE	% INC
# of Grants	18,845	17,605	1,257	7%
Grant Dollars	\$4,511,286	\$3,949,166	\$562,120	12 %
Average Grant	\$239	\$224		

¹Customer Program Compliance Report Program June 2002-03; June 2003-04

TABLE 17
CRISIS ASSISTANCE¹

CRISIS	2003-04	2002-03	DIFFERENCE	% INC
# of Grants	2,537	2,548	116	4%
Grant Dollars	\$603,726	\$799,890	(\$196,164)	-25%
Average Grant	\$227	\$314		

¹Customer Program Compliance Report Program June 2002-03; June 2003-04

The company cites expedient payment processing and aggressive internal outreach efforts for the LIHEAP increases. In addition, the evaluator noted the 2003 Goals and Objectives of the Universal Service Department included increasing energy assistance receivables by five percent reflecting a high priority placed on initiatives to assist low-income customers.

However, the average Crisis grant per customer was reduced due to DPW policy to issue lower grants for the 2003-04 program year.

5.8.4 2003 LIHEAP Grants Reduced Shortfall by \$1.835 Million
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TABLE 18
2003 CAP SHORTFALL W/O GRANTS¹

CAP CREDITS	2003 WITH LIHEAP	2002 WITH LIHEAP	2003 W/O LIHEAP	2002 W/O LIHEAP
Total Annual Shortfall	\$11,072,587	\$6,004,631	\$12,907,691	\$6,617,436
Avg Monthly Shortfall Per Customer	\$65	\$53	\$75	\$59

¹Cochenour Report 2003 Shortfall

Due to a colder than normal 2003-04 winter, the average CAP bill increased from \$101 to \$114 or a total of \$156 annually.

Controlling company shortfall is a major objective at Columbia. Significant efforts are made by Universal Services to capture available LIHEAP to offset the increased CAP enrollment numbers and the effects of negative weather.

Recommendations:

- Continue company advertising efforts for LIHEAP outreach to maximize customer participation and minimize CAP shortfall.
- Continue to advocate for improved changes to LIHEAP at the federal and state levels (i.e., funding levels/allocations, administrative guidelines, funding formulas for state allocations, etc.).

The Universal Service and Energy Conservation Reporting Requirements requires gas and electric utilities to report CAP enrollment numbers on a monthly basis and benefits on an annual basis. Average CAP credits and arrearage forgiveness benefits are calculated on the average monthly number of CAP participants rather than the number of CAP participants enrolled at the end of a program year, due to the monthly fluctuation of participants.

CAP benefits and definitions are as follows:

- Average CAP Bill --Total CAP billed amount of the expected monthly CAP payment divided by total number of CAP bills rendered.
- Average CAP Credits --Total amount of the difference between the standard billed amount and the CAP billed amount divided by the average monthly number of CAP participants.
- Arrearage Forgiveness --Total preprogram arrearages forgiven as a result of customers making agreed upon CAP payments divided by the average monthly number of CAP participants.

6.1 CAP BENEFITS

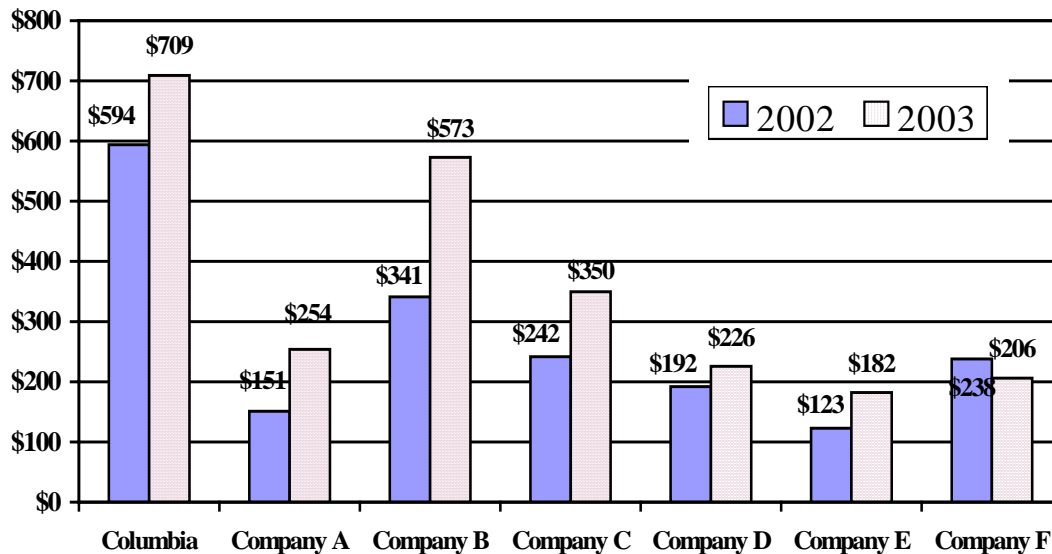
CAP Credits
CAP Bills

FINDINGS

6.1.1 Columbia's CAP Credits Are Higher than Gas Industry Average**6.1.2 Columbia's CAP Bill Is Lowest in Gas Industry**

Columbia's monthly average CAP bill at \$47 is significantly lower than the gas industry average of \$70.⁹ It is not surprising to see a direct correlation between higher CAP credits and lower CAP bills. Columbia's intent to offer affordable payment options to their customers conforms to the CAP Policy statement.

Table 19
2003 CAP Credits¹



¹ BCS Preliminary 2003 Universal Service Report Janice Hummel

⁹ BCS Report on 2002 Universal Service Programs & Collection Performance

6.1 CAP BENEFITS

Arrearages

FINDINGS

6.1.3 Customers Enrolled in CAP Reduced Pre-CAP Arrearages by 27%

In addition to their monthly payment, CAP customers are required to pay a five-dollar monthly co-pay towards reducing their preprogram arrearage. The average preprogram arrearage is \$771 per CAP customer.

Upon enrollment into CAP, the customers' co-payments are spread out over a six-year period. In order to receive a monthly arrearage retirement benefit, consistent monthly payments are expected including the co-pay.

The table below represents the average pre and post CAP arrears for the 18,811 customers active in CAP as of December 31, 2003. Positive arrearage retirement performance was reported after twenty-one months of active participation in CAP. The result was an average benefit of \$205 or 27% reduction.

Table 20
2003 Average Arrears Pre CAP vs. Post CAP¹

Average Arrears Pre CAP	\$771
Average Arrears CAP Active	\$566
Average No. Months Active	21
Average % Change	27%

¹Customer Program Database Dee Fletcher

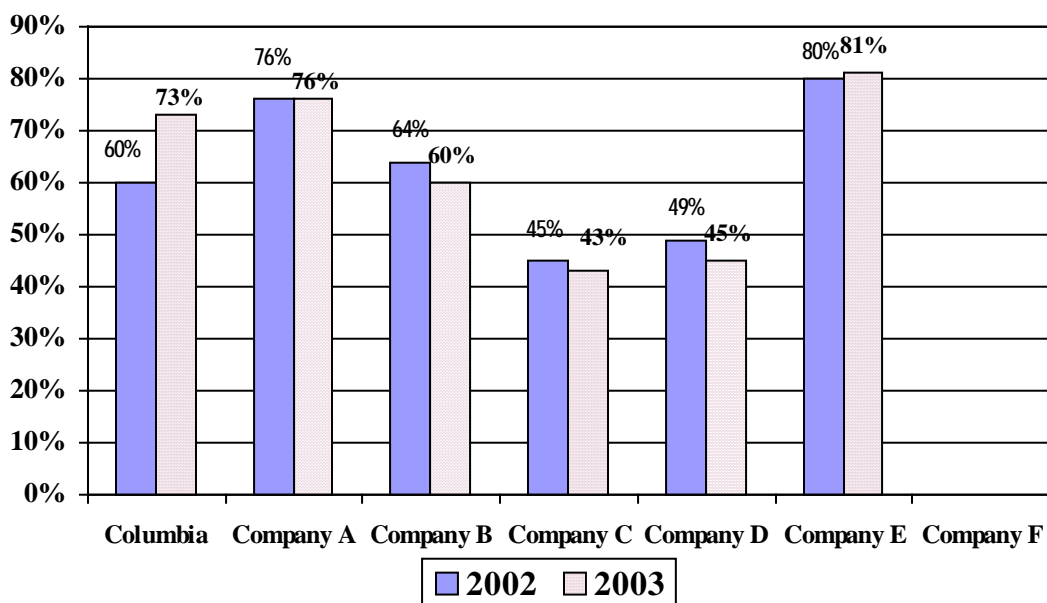
CAP payment rate is defined as the total number of full CAP monthly payments received from participants in a calendar year divided by the total number of monthly bills issued to CAP participants in the same period. CAP payment affordability and timely collections affect the rate at which customers pay.

FINDINGS

6.2.1 Columbia's 2003 CAP Payment Rate Significantly Improved Over 2002

CAP payment rate in 2002 was lower due in part, to customers catching up on missed payments. Payment delinquencies exist with one, two, or three missed payments, within all income levels, and all plan options.

In 2003, Columbia changed the methodology for calculating payment rate and utilized a monthly snapshot of all active CAP customers, as opposed to a six-



month snapshot. In addition, the company accelerated its collection efforts towards the delinquent, non-pay CAP customers, significantly improving the CAP payment rate from 60% to 73%.

Table 21
2003 Percentage on Time Payments¹

¹BCS Preliminary 2003 Universal Service Report Janice Hummel

SUMMARY

CAP billed is the annual total of the expected monthly CAP payment. This amount is not the tariff rate amount but the actual amount companies bill CAP customers. Percentage of CAP bill paid is the total amount of payments by CAP customers divided by the total dollar amount of CAP billed

When the CAP payment rate is combined with CAP percentage of bill paid, a more accurate performance of the total program is reflected.

FINDINGS
6.3.1 Columbia Ranks First Among Pennsylvania Gas Industry Peers with Highest Percentage of Gas Bill Paid

Columbia consistently averaged a 90% of CAP bill paid in 2002 and 87% of CAP bill paid in 2003. In 2002, the Pennsylvania gas industry average was 80%. The company cites affordability of payment options, as the primary reason for successful percentage of bill results.

Below is a breakdown by payment plan option:

Table 22
2003 Percent of CAP Bill Paid by Customers¹

	Payment Plan	Billed	Paid	% of Bill Paid
1	% of Income	\$2,161,372	\$1,848,324	86%
2	Average Payment	\$2,293,809	\$2,132,993	93%
3	% of Bill	\$3,410,829	\$2,869,382	84%
4	Minimum Payment	\$705,312	\$613,428	87%
5	Senior CAP	\$5,591	\$5,300	95%
	Total	\$8,576,913	\$7,469,427	87%

¹Customer Program Database Dee Fletcher

FINDINGS**6.4.1 Customers Payment Behavior Improves by Both Payment Frequency and Average Payment Amount**

A sample size of 3,200 Level 1+2 customers, pre- and post-CAP with twenty-four months of continuous gas service was utilized to compare payment frequency before CAP enrollment and after

Pre-CAP	Avg # Annual Pmts	4	\$ Amt	\$33.16
Post-CAP	Avg # Annual Pmts	8.9	\$ Amt	\$54.17

Recommendation:

- Develop tracking mechanism to identify full and partial payment of pre-CAP and post-CAP customers.

SUMMARY

According to the Universal Service and Energy Conservation Reporting Requirements, CAP spending for administrative costs should not exceed twenty percent of total CAP program costs. The following is a partial list of items included in the administration category:

- Contract and utility staffing
- Account monitoring (includes collection expenses and other O&M)
- Intake
- Outreach
- Consumer Education and Conservation
- Training
- Telephone line maintenance
- Recertification
- Computer programming
- Evaluation
- Other fixed overhead costs

FINDINGS**7.1.1 CAP Administration Expenses Significantly Below Allowable
20% of Total Program Expenses**

Columbia's \$768,788 in CAP administrative expenses are categorized into contact center labor and overhead, Universal Service staff labor and expenses, materials and supplies, and outside services. Based upon the total CAP program costs of \$21,869,084 for 2003, Columbia's administrative costs equate to only 3.5% of total CAP program costs. As stated earlier, Columbia does not recover these administrative costs through the CAP Rider.¹⁰

¹⁰ As per Columbia's Universal Service and Energy Conservation Plan approved by the Commission at Docket No. M000021682, Columbia's estimated CAP program costs for 2003 were estimated to include \$350,000 in CAP administration and application costs, \$7,160,273 in shortfall costs; and \$2,256,440 in arrearage retirement costs for a total of \$9,766,713. These estimates will vary substantially from actual results based upon the number of customers enrolled in CAP, gas costs and other factors. For instance, Columbia's actual CAP costs for 2003 totaled \$21,869,084. As stated elsewhere in this evaluation, this total included a one-time write off of CAP pre-program arrears. If the one-time write-off is removed, Columbia's total CAP costs for 2003 amount to \$14,557,056.

Missing from the categories are expenses relating to IT programming for CAP. Administrative costs, which are all inclusive, allows for a better comparison among industry peers, and assists the company with capturing true program costs.

The company reports that IT costs were significant during start-up of CAP. These costs are tracked, currently charged to corporate undistributed, and would need to be segmented for CAP reporting.

Recommendation:

- Track and include all IT costs in 2004 Universal Service reporting as they relate to CAP programming going forward.

FINDINGS

7.1.2 Outside Service Costs Represent 62% of Total Administrative Costs

Outside services (Dollar Energy Fund Administration, Agency Intake Screening, and Essential Energy) make up approximately 62% of total administrative costs.

There remains additional opportunity for cost savings in this category while maintaining program effectiveness.

Recommendations:

- Eliminate conservation component of CAP intake and substitute with customer conservation literature and handouts. This reduces the intake on-site visit from \$30 to \$20 per application. (See Recommendation Section--Essential Energy)
- Consider CBO telephonic enrollments for 75% of CAP customers with remainder 25% as in-person on-site visits to intake agency. Agency costs would reduce from \$20 per application to \$15.

SECTION 7

COST OF UNIVERSAL SERVICE

7.1 CAP ADMINISTRATION COSTS

Current Rate Structure	Proposed Rate Structure
\$30 Intake with Conservation	\$20 Intake w/o Conservation
\$20 Reinstatement Application	\$20 Reinstatement Application
\$15 Reverification Application	\$15 Reverification Application
\$15 Telephonic Application	\$15 Telephonic Application

Reduced Application Fee	
5,000 Enrollments in 2004	
Current Rate	Proposed Rate
5,000 X \$30 = \$150,000	5,000 X \$20 = \$100,000

75:25 Telephonic Enrollment Ratio	
5,000 Enrollments in 2004	
Current Ratio 90:10	Proposed Ratio 75:25
4,500 X \$20 = \$ 90,000	3,750 X \$15 = \$56,250
500 X \$15 = \$ 75,000	1,250 X \$20 = \$25,000
Total \$165,000	\$81,250

FINDINGS**7.2.1 CAP Shortfall Accounts for 70% of Total CAP Costs With Similar Percentage Projected for Future Years (After One Time Accounting Adjustment is Removed)**

Columbia's shortfall costs increase proportionately as CAP enrollment and gas costs increase. Columbia recovers the shortfall through its CAP Rider, which is adjusted quarterly to account for changes in enrollment and gas costs. The company has the best opportunity for retaining customers in CAP due to its affordable payment options. However, lower payment options oftentimes result in higher shortfall costs.

Shortfall costs will continue to account for 70% of total CAP costs going forward.

Table 23
CAP Gross Costs¹

PROGRAM YEAR	TOTAL CAP COSTS	AVG CAP ENROLLMENT	AVG PROG COSTS PER CAP CUSTOMER
2003	\$21,869,084 ²	15,613 ³	\$1,401*
2002	\$8,894,938	10,101	\$ 881

¹ BCS Preliminary Report CAP Natural Gas Gross Costs 2003 Janice Hummel

² Shortfall Costs	\$11,072,587
Arrearage Forgiveness	\$ 2,715,681
Accounting Adjustment	\$ 7,312,028
Administrative Costs	\$ 768,788 includes salaries, outside contractors, contact center

³ Average monthly active CAP

* Includes one time accounting adjustment. If the historical asset of \$7,312,028 is removed, Columbia's total CAP costs would be \$14,557,056 resulting in an average cost per CAP customer of \$932

Recommendation:

- In order to keep customer rates as low as possible, it is in the company's best interest to actively control shortfall costs through effective energy assistance outreach and advocacy (LIHEAP grants are applied directly to shortfall) and timely collections activity (timely collections discourages customer default and encourages CAP retention).

7.3.1 Columbia's 2003 Average Annual Arrearage Forgiveness is Significantly Higher than in Previous Years

Because of changes made to the CAP funding mechanism, Columbia's auditors made a decision to write-off all of the pre-program arrears in 2003. Of the \$10,027,709 arrears write-off, \$7,312,028 represents a one-time historical asset write-off on the balance sheet, which reconciled all CAP participants active in the program as of November 2003. Typically, Columbia forecasts that it will write off \$2,700,000 in CAP preprogram arrears each year because preprogram arrearages are not recovered through the CAP Rider.

In 2002, Columbia's average annual arrearage forgiveness amount per CAP customer at **\$222** was the second highest in the gas industry (UGI being the highest at \$223). With the significant increase in write-offs in 2003, Columbia's average arrearage forgiveness per customer at **\$642** is the highest within the Pennsylvania gas industry peer group.

Table 24
2003 Arrearage Write-Off¹

PROGRAM YEAR	ARREARAGE WRITE-OFF
1998	\$ 67,362
1999	\$ 72,809
2000	\$ 100,042
2001	\$ 581,051
2002	\$ 2,242,716
2003	\$10,027,709 ²

¹Customer Programs Database Dee Fletcher

²One time accounting adjustment of \$7,312,028 is included in the total.

Recommendation:

- The arrearage forgiveness write-off amount is expected to return to a historical company average in 2004 of approximately \$2,700,000 with no further recommendations offered.

Complaint Type Definitions:**Payment Arrangement Requests (PAR's /Mediations)**

Customers contact the PUC or BCS regarding requests for payment terms due to pending suspension or termination of service, restoration of service payment terms, or payment arrangements of a final billed owed to the utility."

Consumer (Informal) Complaints

Customers contact the BCS regarding complaints about a specific utility action including billing, service delivery, repairs, metering, service quality, property damages, service extensions, rates and other payment issues.

Formal Complaints

Customers who request a formal hearing before the PUC to appeal a decision rendered on a consumer complaint or payment arrangement request (PAR/Mediation)

FINDINGS**7.4.1 CAP Mediation Costs are Double Non-Cap Mediations Costs****7.4.2 Department Costs for Answering CAP Complaints Total \$ 33,768 with 98% of Costs Allocated to Mediations and 2% to Informal Complaints**

Table 25
2003 CAP Complaint Costs¹

Complaint Type	Time Allotment	# CAP Complaints	\$ Allocated by Complaint	Cost per Complaint	Credit Related Cost
Mediation	1 Hour	553	\$30,968	\$56	\$17,048
Informal	5 Hours	10	\$2,800	\$280 ²	
Formal	1.5 Hours			\$1,500 ³	
Totals		563	\$33,768		

¹ Columbia Gas Revenue Recovery Gary Folden

² Does not include costs for outside investigation

³ Cost per formal complaint litigated, does not include +2 hours for settlement time

The documentary required by BCS for CAP mediations doubles in scope from non-CAP mediations. Affordability is closely looked at as well as chronology of collections activity, explaining why the customer was not terminated. It is a full report requiring double the labor hours compared to a regular mediation. Most of the company's mediations are complaints of "I can't pay".

See Appendix D: Checklist for CAP PAR Full Report

In 2004, there has been an increase in activity on CAP mediations that have been more labor intensive. The company anticipates that this will continue to increase costs.

Recommendation:

- Non-defaulted CAP payment customers with the chief complaint of "I can't pay" should not be considered by BCS for another payment arrangement. These complaints could be considered as "inquiries" and not mediations by the BCS, which would serve to cut the company's mediation costs in half. Company to consider appealing to BCS for change in definition.

Dormant Account Winter Survey

Each November the company surveys its residential customers who remain without service in an attempt to restore service for the winter.

In 2003, a combination of 11,508 phone calls and 1,173 premise visits were made to a total of 4,513 customers.

FINDINGS

7.4.3 CAP Customers Comprise an Average of 23% of Costs for 2003 Dormant Account Winter Survey

Table 26
2003 Dormant Account Survey Residential Cost Distribution¹

23%	32%	45%	Total
CAP	Level 1,2	Level 3,4	
\$6,440	\$8,960	\$12,600	\$28,001

¹O&M Cost Associated with Collection Report Gary Folden

Of the 11,508 phone calls made, 3,107 were CAP customers and of the 1,173 premise visits, 223 were made to CAP customers.

SECTION 8 CREDIT AND COLLECTION ANALYSIS

8.1 CAP REVENUE RECOVERY CYCLE

Residential Customer Groups

SUMMARY

Section 8 attempts to focus on comparing program costs associated with CAP collections with collection costs from a comparative group of residential low-income customers

In order to analyze the Columbia's collections measures and performance, it is important to understand the size of the company's population most affected, residential low income and residential non-low income.

FINDINGS

8.1.1 Columbia's Estimated and Confirmed Number of Low Income Higher than Pennsylvania Gas Industry Average

The company's low-income customer numbers are important not only to establish the need and continued benefits of low-income programs, but also when comparing peer company collection activities and costs. It is reasonable to correlate higher collection activity and costs with a higher proportion of customers on payment agreements.

Table 27
Residential Low Income Population¹

# RESIDENTIAL CUSTOMERS	# CONFIRMED LOW INCOME	% OF CUSTOMERS	# ESTIMATED LOW INCOME	% OF CUSTOMERS
348,725	69,855	20.0%	72,584	20.8%

¹ Universal Service Programs & Collection Performance Report 2002

Table 28
Customers on Payment Agreements¹

YEAR	ALL RESIDENTIAL ON PMT AGREEMENTS	ALL LOW INCOME ON PMT AGREEMENTS
2003	35,298	23,207
2002	33,392	23,291

¹Customer Program Database

Field Collections

FINDINGS

8.1.2 Innovative Field Collections Technology Prioritizes High Write-Off Risk Customers

Since 1998, CAP defaulted accounts were prioritized with field collections, regardless of dollar amount. Notices were coded with an "X" to flag CAP accounts.

MDTs

In April 2003, Columbia's Field Collections transitioned to Mobile Data Terminals (MDTs) as an effective tool to manage daily collections activities.

Benefits realized by this technology included:

- Orders are only created for available manpower.
- Orders are automatically prioritized by dollar amount.
- DIS posting of completed field collection orders is real time and is seen immediately by Contact Center.
- Orders can be recalled by Contact Center at any time throughout the day (Medical, energy assistance grants, CAP disputes).
- Collection orders are deleted as payment post or as payment receipts are called into the Contact Center IVRU in real time.
- Tracking reports on individual collections performance made possible.

SCORE

In the first quarter 2004, Columbia implemented the "Prioritization Initiative for Field Collections." The purpose of the project was to determine residential customer segmentation by credit risk and properly align field collections activity accordingly replacing the MDT prioritization activity that was based solely on dollar amount.

A prioritization "Score" was developed to rank field collections orders by highest write-off risk utilizing a technically dynamic process for incorporating useful up-to-date customer data via control tables. The model suggests compiling all relevant data the company maintains on each customer who has generated a shut-off order and producing a single "probability of write-off" equation. These results are then incorporated into DIS and MDT processes.

SECTION 8 CREDIT AND COLLECTION ANALYSIS

8.1 CAP REVENUE RECOVERY CYCLE FIELD COLLECTIONS

Integrating the new “Score” method, a Field Collector's scheduled day would look like the following:

<u>First Priority</u>	<u>Leave 72-Hour Notices</u>
<u>Second Priority</u>	<u>Work Third Trips to Premise (Shutoffs or Collect \$\$'s)</u> Non-Access CAP by Score Non-Cap by Score
<u>Third Priority</u>	<u>Work Second Trips to Premise</u> Non-Access CAP by Score Greater than four months in arrears by Score Non-Cap by Score

Expected benefits realized from Columbia's initiative include:

- Increased number of positive contacts.
- Automated and consistent prioritization of collection orders.
- Consistent scheduling of collections orders.
- Executing collection orders automatically: Decreasing calls to Contact Center.
- Decreased write-offs.

Uncollectible CAP 2000-2003 bad debt expense reports show increases in each program year. Increased enrollment increases shortfall and preprogram arrearage amortization costs.

In 2003, preprogram arrears write-offs represented more than one-half of the total CAP costs due to one time accounting reconciliation.

Table 29
CAP Uncollectible Expense

	2003*	2002	2001	2000
CAP Uncollectible	\$21,100,000	\$8,247,000	\$6,333,000	\$2,278,000

* Includes 2003 accounting adjustment of \$7,312,028

SECTION 8 CREDIT AND COLLECTION ANALYSIS

8.1 CAP REVENUE RECOVERY CYCLE **FIELD COLLECTIONS**

Recommendations:

- Maintain high priority for CAP collections with continued scrutiny on cost effectiveness.
- Utilize” probability of write-off score” for existing Columbia residential customers already within the collection cycle as early indicator for potential CAP.
- Identify new score methodology for existing residential customers not already in the collection cycle.

8.1.3 With More Resources and Off Cycle Terminations, Can Columbia Accomplish Decreased Write-offs?

In 2003, a total of 43,726 shutoff orders for residential and commercial customers, were issued with 7,987 of the shutoffs executed compared with 37,563 shutoff orders and 7,923 shutoffs executed in 2002.

As the number of residential customers who are on failed payment arrangements increase, more collection activity is generated; however, manpower dictates the ability to actually work collections. Ability to work collections, off cycle, is next to impossible.

With new MDT and prioritization “score” technology, resource planning continues to be a high priority. Collections related activities peak during the summer months of April through July, when terminations are high.

Recommendation:

- Columbia to conduct an economic analysis on field collection resources as they impact write-offs.

SUMMARY

The company's residential termination rate is calculated by dividing the number of service terminations by the number of residential customers. Those customers, who reconnect, either pay the debt in full, or they make a significant upfront payment and agree to enter into a payment agreement for the balance owed.

FINDINGS**8.2.1 Columbia Has One of Lowest Residential Termination Rates at 1.67% and Highest Reconnect Rates at 80% Within Pennsylvania Gas Industry Peer Group****All Residential Customers**

Utilizing the most recently collected industry data from 2002, Columbia terminated 5,832 residential customers, a termination rate of 1.67% of 348,725 total residential customers. Of those terminated, 4,670 customers reconnected with a ratio of 80% reconnects to terminations.

Confirmed Low-Income Residential

However, when the confirmed low-income residential group is segmented, the company's termination rate increases from 1.67% to 4.76% with the reconnect ratio dropping from 80% to 57%.

In 2002, Columbia terminated 3,322 confirmed low-income residential customers, a termination rate of 4.76% of the total confirmed low-income residential customer group of 69,855. Of those terminated, 1,908 confirmed low-income customers were reconnected with a ratio of 57% reconnects to terminations.

In Western Pennsylvania, customers frequently move to other local gas distribution lines (Equitable, Dominion Peoples, T.W. Phillips), or customers change the name on the ratepayer's account to avoid bill payment and/or termination. Pennsylvania regulation allows customers to re-establish service under other household occupants' names, the customer name switches and the account is reconnected. In these scenarios, the company loses track of the original customer and finds it difficult to accurately reflect reconnection numbers.

Recommendation:

- See Section 8.2.2

8.2.2 CAP 2003 Termination Rate is a low 5% of Total Active CAP Customers Representing 15% of Total Termination Costs

Columbia's total active CAP customer count, year-end 2003 was 18,811 customers. Of those, 848, or approximately 5% were terminated.

Columbia terminated 6,057 customers year-end 2003. CAP shutoff expenses totaled \$29,410 for 848 CAP customers: \$47,619 for 1,454 Level 1+2 customers; and \$122,976 for 3,755 Level 3+4 customers.

Table 30
2003 CAP Shutoff Costs¹

CAP	LEVEL 1+2	LEVEL 3+4	TOTAL
15%	24%	61%	
\$29,410	\$47,619	\$122,976	\$200,004

¹Revenue Recovery Report @\$32.75 per termination Gary Folden

Recommendation:

- Maintain low level of CAP terminations and associated costs.

8.2.3 Would Additional Soft Core Dunning Reduce CAP Non-Pay Terminations?

Currently, the CAP revenue recovery cycle includes only one step, which differs from the regular residential cycle (five days past due). All other steps remain the same.

Five Days Past Due

The CAP collections process begins five days after one missed or partial CAP payment, including the five-dollar co-pay towards the arrears.

At this point collection activity for CAP differs slightly from the regular collection cycle for all other residential customers as follows:

CAP Residential

Five days after missed due date, a "Late Payment Reminder" notice is issued.

Ten Days Prior to Termination

A ten-day termination notice issued if missed payment is not received.

72 Hours Prior to Termination

Two outbound customer phone attempts are made to quote amount required to retain gas service and avoid termination. Seventy percent of these phone calls are left as voice mail messages, according to outsourced contractor, NCO.

48 Hours Prior to Termination

48-Hour notice is issued and premise visit is made.

Turn Off Gas* (Exception December-March for CAP Non-pay)

CAP Non-pay customers targeted first for termination April 1st.

Five Days Post Shutoff

Final bill is issued: CAP customer is removed from program.

*Company considers termination as a last resort when customers fail to make their CAP or Non-Cap payment.

Recommendation:

- Company to conduct feasibility study to determine effects on additional soft core dunning activities.

SUMMARY

Reinstatement into CAP is possible after the customer is removed from the program, both when gas service is terminated and retained.

Reinstatement: Gas Service Terminated

Customer Catch-Up Payments

All CAP catch up payments must be made; including the five-dollar co-pay for the month's gas service was retained.

Customer Payments After Removal

All customer payments after removal from CAP will reduce the amount required for CAP re-entry.

Customer Incurred Charges After Default

All charges incurred after the customer defaulted, and remains unpaid, are treated in the current bill shortfall amount.

Reinstatement: Gas Service Retained

Customer Catch-Up Payments

Entire balance of missed CAP payments including the five-dollar co-pay.

Customer Payments After Removal

All customer payments after removal from CAP will reduce the amount required for CAP re-entry.

Pre-program Arrearage

The balance of the preprogram arrearage at the time of default will be brought forward.

Customer Incurred Charges After Default

All charges incurred after the customer defaulted, and remains unpaid, are treated in the current bill shortfall amount.

FINDINGS

8.3.1 Twenty-four Percent of CAP Active Total Are CAP Reinstated

Program-to-date statistics are as follows:

CAP Active total 18,811 customers.
CAP Reinstated total 4,439 customers.
24% were reinstated CAP customers after removal.¹⁰

Recommendation:

- Increase CAP retention rates and reinstatement rates by targeting soft core dunning efforts in the largest categories for removal.¹¹
- | | |
|---------------------|-----------------|
| Non-Pay | 2,098 customers |
| Failure to Reverify | 2,067 customers |

¹¹Customer Program Database as of Program to Date Summary Cap Dec 2003

FINDINGS**8.4.1 CAP Net Charge-off of \$774 per Active CAP Customer Represents the Most Chronic in Arrears. Early Write-off of These Accounts Benefits the Company.**

For this comparison, Columbia's annual CAP net charge-off includes 1,162 customers active in CAP, with finalized arrears upon enrolling in CAP. Shortfall dollars are not included since these amounts are recovered through the company's CAP distribution charge.

Early write-off of these arrears benefits the company vs. the write-off for non-CAP customers. CAP customers are still active when the entire arrearage is written off, with no lag time. Non-CAP customer accounts must first be inactive, finalized, and at ninety days post-finalized, written off, creating significant lag times in recovery.

Table 31
2003 Net Charge-Off All Customer Levels¹

INCOME LEVEL	NET CHARGE-OFF FROM BALANCES ONLY	NUMBER OF CUSTOMERS	AVERAGE NET CHARGE-OFF PER CUSTOMER
CAP	\$2,614,819²	3,378	\$774
1+2	\$2,248,370 ³	5,149	\$436
3+4	\$3,249,977 ³	10,220	\$318

¹ Revenue Recovery Report Gary Folden

² Active CAP customer arrears written off at enrollment (includes customers finalized, removed for non pay, deceased)

³ Non-CAP customer arrears, finalized, written-off 90 days post-finalized

SECTION 8 CREDIT AND COLLECTION ANALYSIS

8.4 COLLECTIONS EXPENSES

8.4.2 CAP Savings of a Minimum \$196,930 From Prioritized and Accelerated Collection Cycle and \$4,376 Increase in Available Funds for Cash Working Capital

This analysis assumes each delinquent account is two payments behind (although many accounts are three payments behind) and is worked 30 days, or one cycle sooner than normal collections. Although there is a savings on the accelerated collection cycle of CAP customers, this savings is offset by the increase in write-offs of the non-CAP customers, which did not get worked.

The net effect is no reduction, but a different distribution, since the percentage of total shut off orders worked for all Columbia customer income levels is 20%.

Table 32
CAP Collection Cost of Money Analysis

CAP AVG # DELINQUENT	AVG MO BILLING CAP	TOTAL AVG MONTHLY BILLING	2% COST OF MONEY ANNUALIZED	8 MOS SHUT-OFF SEASON
6,982	\$47	\$328,154	\$6,563	\$4,376

Table 33
CAP Reduced Write-Offs From Accelerated Collections

TOTAL # CAP COLLECTIONS	30% WRITE-OFF FACTOR	AVG 2 MO CAP BILLING	REDUCED CAP WRITE-OFF
6,982	2,095	\$94	\$196,930

Recommendation:

- Increase percentage of shut off orders worked to realize advantage of overall reduced write-off expenses.

SECTION 8 CREDIT AND COLLECTION ANALYSIS

8.5 GROSS & NET CHARGE-OFFS

FINDINGS

8.5.1 Columbia Experienced Significant Increase in Gross and Net Charge-offs from 2002

The company increases in 2003 gross and net charge-offs can be explained, in part, by the poor economic conditions for the past several years rising gas prices and colder temperatures during the winter of 2002-03. Columbia has experienced continued growth in the number of customers who are experiencing difficulties in paying their bills, including customers whose income exceeds CAP eligibility guidelines. This increase in payment-troubled customers and the resulting effect upon arrearage charge-offs has masked the benefits of CAP in terms of reducing uncollectible accounts expense.

See Section 4.1.2 Establishing The Need For CAP

Table 34
2002-03 Charge-Off & CAP Write-Off¹

INCOME 2003	GROSS CHARGE- OFF	NET CHARGE- OFF	CAP CREDITS WITH ENERGY GRANTS	ARREARS FORGIVEN	TOTAL CAP CREDITS
Level 1&2	\$6,344,233	\$4,863,189			
Level 3&4	\$4,188,149	\$3,236,446			
Total	\$10,532,382	\$8,099,635	\$11,072,587	\$10,027,709 ²	\$21,100,296
2002					
Level 1&2	\$4,502,183	\$2,821,038			
Level 3&4	\$2,783,030	\$1,753,013			
Total	\$7,285,213	\$4,574,051	\$6,004,631	\$2,242,716	\$8,247,347

¹Finance Report 2003 Chris England, Gary Folden

²Includes 2003 accounting adjustment of \$7,312,028

SUMMARY

Columbia created the first utility CARES program in 1986 in response to the downturned economy and massive unemployment in Western Pennsylvania. Customers who were willing to pay, but did not have the means, were interviewed, assessed, and placed into a short term protective program from termination. In addition, special payment terms were arranged to provide an affordable payment while customers improved their financial situations and payment behavior.

Columbia hired six degreed social workers to manage the expansive program. Their responsibilities included personalized intervention using office/home visitation and case management activities in conjunction with referrals to community based human service agencies.

In 1987, Columbia quantified the benefits of the CARES program. Since the inception of the first full year of CAP in 1993 through 2003, the following statistics report on the success of CARES:

**12,825 customers have been assisted by the CARES program,
14,923 customers have been "quick fixed"
\$2,208,049 indirect dollars benefited the customers (weatherization, food stamps, and other social service programs)
\$1,729,304 bottom line benefits to the company in the form of LIHEAP and other energy assistance grants.
\$1,635,679 in CARES customer payments were received.**

With the inception of the CAP pilot in 1992, the company shifted its focus from short term to long-term program benefits. Most of the CARES caseload was deemed appropriate for CAP and customers were enrolled into one of the affordable payment options.

The need for home visit interviews was minimized, causing the department to reassess its current staff and responsibilities. CARES representatives were reduced from six to four, responsibilities were embedded into other job classifications, and restructuring became an annual event to meet the challenges of Universal Service.

Currently, the company retains four former CARES representatives. One is Director of Customer Programs and Compliance, the second is Manager Universal Service, the third is Consumer/Community Outreach and Education Coordinator and the fourth is Team Leader for Universal Service Agents, Contact Center.

9.1 HISTORY

Today's Consumer/Community Outreach and Education Coordinator serves in the role of the traditional contact person for CARES. She is a member of the Universal Service Team providing services to low-income and/or special needs customers, maintaining a small caseload for short-term, payment-troubled customers. In addition, she coordinates statewide community outreach efforts throughout Columbia's service territory to include Hardship Funds, CARES, and LIHEAP outreach as mandated by statutory and regulatory requirements.

The Emergency Repair Fund (ERF) is a rate based funded program with an annual budget of \$250,000 targeted to assist low-income customers with repair or replacement of gas furnaces, water heaters, and gas service lines.

CARES manages this program for income eligible CAP, LIURP, and Level 1+2 customers. Where possible Crisis grants must be applied first to the repair or replacement.

Since 1997-2003, of the major expenditures, 1,281 customers have been assisted with \$47,692 for water heaters, \$257,730 for furnaces, and \$153,775 for line repairs.

Eligibility Criteria for CARES

- Payment troubled with missed payments or personal crisis resulting in financial hardship and loss of income.
- Income at or below 200% of Federal poverty income guidelines.
- Short-term (18 months or less) financial difficulty.

FINDINGS

9.1.1 Referral Linkages From Universal Service Agents to CARES Are Effective With Few Barriers

The list of referral sources into the CARES program reveal that most referrals originate from the Universal Service Agents in the Contact Center. Customers who do not qualify for CAP during the preliminary prescreen by the Universal Service Agents, may refer customers into CARES.

Table 35
2003 CARES Referral Source¹

REFFERAL SOURCE	PERCENTAGE
Universal Service Agents	36.0%
Agencies	16.0%
Self Referred	9.5%
LIURP	8.0%
Columbia Service	7.5%
Columbia Other	5.0%
Legislative	6.5%
Dormant Survey	5.0%
Heating Contractor	4.5%
Other Utility	3.5%
Total	100.0%

9.2 SCOPE AND CUSTOMER PROFILE

SUMMARY

The CARES role has dramatically changed within the Universal Service department. Current responsibilities include crisis intervention utilizing social work principles, LIURP, special projects, outreach training and comprehensive training of the Universal Service Agents on CAP/CARES. Not all referred customers are eligible for CARES; however, there is a need within the company to maintain a buffer or ombudsman for the customer who is the outlier, providing personalized individual assistance for those in need.

Oftentimes, referrals are made for quick human needs response to customer emergencies (i.e., catastrophic disasters, gas line leaks, entire neighborhoods without heat, or for customers suddenly faced with a life crisis). CARES provides that troubleshooting link for the quick fix. In other instances, CAP vulnerable customers who are enrolled in CAP and subject to receiving a termination notice are contacted by CARES for intervention.

In general, today's CARES customer is truly short term, payment-troubled with most graduating within one year. Other CARES customers, deemed longer term, are transferred into the CAP program. During 2003, there were 27 customers active in Columbia's CARES program.

FINDINGS
9.2.1 Typical CARES Customer Spend 87% of Household Income On Shelter Costs

The company defines shelter costs as expenses maintaining the household, which includes rent or mortgage, property taxes, electric, gas, telephone, water, sewage, and food. The majority of 2002-03 CARES customers are Level 1 or zero income customers.

Table 36
CARES Level of Income Distribution¹

CARES	2003	2002
Level 1	60	109
Level 2	17	26
Zero	64	123
Total*	141	258

¹CARES Ad Hoc Report 2002-03 Elizabeth-Focer Repman

* Includes CARES quick fix customers who are not CARES enrolled

9.2 SCOPE AND CUSTOMER PROFILE

Other noteworthy demographics of 2003 CARES customers are listed in the chart below:

56% have incomes solely from Social Security, SSI or a pension
 22% live alone with the average age being 62
 60% are renters and 40% own their own homes
 30% are minorities
 31% are married, 27% are widowed and 29% are single
 50% graduated from high school
 16% have a post secondary education
 80% were listed as having a long-term problem

The top three reason for referrals into CARES: occupational training/ development needs, mentally disabled, and unemployed.

CARES continues to be beneficial for a specialized segment of Columbia customers, who otherwise would be at risk for termination and/or personal safety. Although the 2003 CARES report reveals that no customer was weatherized, other benefits were listed as follows:

Number of CARES Active in 2003	27
Number of CARES Made Active in 2003	22
Once CAP Now CARES	3
Once CARES Now CAP	8
Number of CARES Weatherized	0
Number of CARES w/LIHEAP	5 (\$1,067)
Number of CARES w/Crisis	3 (\$1,300)
Number of CARES w/\$ Energy	3 (\$1,200)

Recommendations:

- Maintain CARES role and focus within Universal Service department.
- Consider LIURP or other weatherization services for CARES customers if eligible.

10.1 HISTORY

The Low Income Usage Reduction Program (LIURP) has been in effect since 1988. Columbia has weatherized over 4,000 low-income customer homes to date, reporting 244 completions in 2003 with a total job cost per home at \$5,614. Even with Columbia typically having the highest total job cost per home, over the past decade, customer consumption savings have historically ranked highest within their peer group of gas utilities in Pennsylvania at 25-29%. Overall, the program is well managed and meets the goals of usage reduction.

Eligibility Criteria

- Income at or below 150% of Federal poverty level. Up to 20% of annual. LIURP budget eligible for special needs customers as defined in Section 58.2.
- High usage: Minimum consumption level of 180 Mcf. Prioritization to high consumption, CAP customers.
- Renters and homeowners.
- Dwelling must be in proper condition prior to weatherization.

Home Energy Audit

Columbia contracts with Kinetechs, Inc., Mincin Insulation, and Lancaster Community Action to perform energy audits and install prescribed measures. During the audit phase, the dwelling is inspected for safety violations and necessary repair work. Referrals are made to other housing development agencies if needed. The blower door is utilized to identify recommended air sealing measures.

Energy Education

The Energy Auditor also performs energy education during the audit to advise the customer of conservation techniques and review the next steps in the LIURP process.

Gas Furnace Safety Inspection

The heating system is inspected, cleaned and repaired as needed prior to weatherization treatment. A combination of Columbia Gas Service and outside heating contractors are utilized for this phase. If a furnace is considered unsafe, it is red tagged, shut off, and if the customer is the homeowner, considered for furnace replacement funds through Crisis, LIURP and/or Emergency Repair Funds. If the customer is a renter, the responsibility is with the landlord to repair/replace the furnace. During this phase, if the furnace or water heater is deemed unsafe, all further weatherization activity is halted until the situation is remedied.

Weatherization

Program measures are installed on a seven-year simple payback recovery basis, in general. However, there are exceptions that increase the payback recovery to twelve years. These exceptions include:

- Sidewall insulation
- Attic insulation
- Furnace replacement
- Water heater replacement

Post Inspections for Quality Control

Columbia contracts with Conservation Consultants to perform post inspections on a total of 25% of weatherized homes completed by Kinetechs, Inc. and Mincin Insulation combined.

Columbia contracts with Pure Energy to perform post inspections on 25% of weatherized homes completed by Lancaster Community Action.

FINDINGS**10.1.1 Guidelines for Lancaster Community Action and Pure Energy
Need Clarification for Audit and Prescribed Measures**

It appears that there are conflicting philosophies on weatherization treatment for attics and basements in residential dwellings between Lancaster Community Action and Pure Energy. In addition, communications gaps were identified between Pure Energy and the sub contractors with respect to missing data points relevant to weatherization treatment.

Recommendation:

- Company to establish clear, yet flexible LIURP guidelines to provide direction to the administering agency, their subcontractors and the post inspector.

10.2 PROGRAM COSTS AND SAVINGS

FINDINGS

10.2.1 Most 2003 LIURP Participants Are Level 1 Income Customers

The company reports that 99% of the LIURP participants were CAP Level 1 customers. Company policy recommends that CAP customers receive eligible weatherization services as a priority if they meet the criteria of high usage, in order to help reduce shortfall. Over 10,000 CAP customers were identified with consumption over 180 Mcf making them eligible for LIURP if funding were available.

Table 37
LIURP Participation by Income Level¹

LIURP	2003	2002
Level 1	165	156
Level 2	57	52
Zero Income	22	19
Total	244	227

¹Cochenour Ad Hoc Report

10.2.2 Average Job Costs Per Customer Home Highest Within Pennsylvania Gas Industry

The average job cost in 2003 was \$5,614 compared to \$6,603 in 2002, showing a slight decrease. Despite this, the company historically ranks first with highest total job costs/customer home when compared to their peers within the gas industry in Pennsylvania. The company reports that homes weatherized are larger and weatherization more comprehensive in an attempt to employ the whole house concept of weatherization (Columbia has no ceiling or cap on expenditures per household.)

A growing trend of red-tagged, unsafe heating equipment was also reported with furnace and water heater replacement costs adding to overall costs.

Recommendation:

- Review total job costs within each program component: Audits, inspections, weatherization measures, administration, etc., to test for cost effectiveness and appropriateness of measure costs by contractor.

10.2 PROGRAM COSTS AND SAVINGS

10.2.3 Columbia's 2002 Annual LIURP Spending Highest Among Pennsylvania Gas Companies

The most recent industry data in 2002, reports the company spending \$1,376,403 on LIURP. Columbia's budget for LIURP is the highest of their peer companies. The company bases their spending on the established funding as detailed in their 2000 restructure settlement and on the verified needs assessment of eligible participants.

Table 38
2002 LIURP Spending Natural Gas Utilities ¹

COMPANY	2002 ACTUAL SPENDING
Columbia	\$1,376,403
Dominion	\$610,856
EQ	\$393,834
NFG	\$943,743
PECO-Gas	\$883,171
PG Energy	\$335,481
UGI-Gas	\$460,208
Total	\$5,003,696

¹2002 BCS Report

10.2.4 Columbia's % of Consumption Savings Decreased Slightly in 2002

Consumption savings decreased slightly from 25.52% to 23.29% comparing program year 2001 and 2002. The company states that warmer than normal temperatures affected the overall savings percentage creating the downward shift.

Table 39
2001-2002 LIURP Consumption and Percentage of Bill Savings¹

2002		Contractor A	Contractor B	Contractor C	TOTALS
	# of Homes	100	36	69	205
	% of Consumption Savings	24.94%	19.63%	25.29%	23.29%
	Average Cost by Contractor	\$3,307	\$3,218	\$2,567	\$3,031

2001		Contractor A	Contractor B	Contractor C	TOTALS
	# of Homes	71	52	126	249
	% of Consumption Savings	28.51%	23.62%	24.43%	25.52%
	Average Cost by Contractor	\$4,108	\$3,057	\$3,669	\$3,611

¹Customer Programs Ad Hoc Report based on accounts with complete reported data Deb Cochenour

Recommendations:

- Consider combining high usage and high bill as companion LIURP criteria.
- Investigate 2002 annual consumption savings percentages among the three contractors to determine reasons for variances.