

# NATIONAL FUEL GAS DISTRIBUTION CORPORATION UNIVERSAL SERVICE PROGRAM EVALUATION

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*An Independent Analysis of Universal Service Programs*

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## FOREWORD

This report serves as both impact and process evaluation of National Fuel Gas Distribution Corporation's (National Fuel) Universal Service programs for 2006. The most recent redesigned Universal Service and Energy Conservation Plan was approved on September 19, 2004 and implemented on May 9, 2005. Elements in this evaluation are based on the company's most recent revisions.

### **What Makes National Fuel's LIRA Program Unique?**

The Low Income Residential Assistance Program (LIRA) has evolved from a 1,000 customer pilot program in 1991 into a full service program servicing over 11,169 LIRA participants. The major component unique to LIRA which differs from other utility Customer Assistance Programs (CAPs) is the reduced rate offered to eligible customers in the form of discounts (10%-80%) dependent upon family income, household size, available energy assistance and purchased gas cost rates. The discount program at National Fuel is intended to offer more affordable plans to participating LIRA customers in lieu of percentage of income or percentage of bill plans, and to meet the affordability requirements detailed in Title 52 Chapter 56.261 of the Pennsylvania Code.

Of significance was the inclusion of household size to the calculation of the discount rate formula. Prior to 2004, average usage by household size was not considered a variable. Typically, on average, there is a direct relationship between size of household and gas usage; larger households utilize more gas and are assigned a greater discount.<sup>1</sup> Conversely, smaller households that were previously assigned larger discounts might be assigned smaller discounts. With these changes, National Fuel anticipated significant improvement with the company's adherence to the affordability guidelines.

*See Appendix A: LIRA Analysis and Adjustment Proposal*

### **Data Sources**

The data contained in this document was obtained from staff interviews and ad hoc reports from LIRA, the Low Income Usage Reduction Program (LIURP), Customer And Referral Evaluation Services (CARES), Quality Assurance, Rates, Consumer Business and Credit and Collections. In addition, the evaluator interviewed staff from outside agencies participating with National Fuel's Universal Service Programs.

Melanie K. Popovich  
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<sup>1</sup> National Fuel Gas Study 2004: Annual Consumption of LIRA Customers by Household Size

## UNIVERSAL SERVICE EVALUATION QUESTIONS REVISED 2005

The following outline provides a quick reference for the analysis required by the Bureau of Consumer Services:

1. Is the appropriate population being served?

**See LIRA IMPLEMENTATION: NEEDS ASSESSMENT**

2. What is the customer distribution by CAP payment plan?  
Payment plans are defined at 52 Pa. Code §69.265(2) of the CAP Policy Statement.

**See LIRA IMPLEMENTATION: BUDGET PLAN**

Generally, do participants' energy burdens comply with the CAP Policy Statement at 52 Pa. Code §69.265(2) (i) (A)-(B)?  
Energy burden is defined as the percentage of household income spent on energy services (electric or natural gas).

**See LIRA IMPLEMENTATION: BUDGET PLAN**

3. What are CAP retention rates? Why do customers leave CAP?

**See LIRA PROGRAM PERFORMANCE: RETENTION**

4. Is there an effective link between participation in CAP and participation in energy assistance programs (LIHEAP, hardship funds, and other grants)?

**See LIRA PROGRAM PERFORMANCE: ENROLLMENT**

5. How effective are CAP control features as defined in 52 Pa. Code §69.265(3) of the CAP Policy Statement, at limiting program costs?

Specific questions to be answered include the following:

- Number and percentage of customers who have minimum payments

**See LIRA IMPLEMENTATION: BUDGET PLAN**

6. How effective is the CAP and LIURP link? Is the company's procedure for dealing with excessively high usage effective? If not, how can it be improved?

**See LIRA IMPLEMENTATION: ENROLLMENT**

7. Has collection on missed CAP payments been timely?  
Has the company followed its own default procedures in its Commission approved Universal Service Plan for CAP customers?

**See LIRA PROGRAM PERFORMANCE: COLLECTION ACTIVITY**

For the most recent 12-month period, provide findings for the following data requests:

- Number of CAP accounts that have missed 3 or fewer payments
- Number of CAP accounts that have missed 4-6 payments
- Number of CAP accounts that have missed 7-12 payments
- Number of CAP accounts that have missed more than 12 payments

**See LIRA PROGRAM PERFORMANCE: PAYMENT FREQUENCY**

8. Does participation in universal service programs decrease service terminations?

**See LIRA PROGRAM PERFORMANCE: COLLECTION ACTIVITY**

9. Does participation in universal service programs decrease collection costs?

**See LIRA PROGRAM COSTS**

10. Is the CAP program cost effective?

**See LIRA PROGRAM COSTS**

11. How can universal service programs be more cost effective and efficient?

**See EXECUTIVE SUMMARY**

12. Is the program sufficiently funded?

**See LIRA PROGRAM COSTS**

## **Findings and Recommendations Overview**

National Fuel's Universal Service Programs are exceptionally well administered and have proven to be efficient and cost effective. The Quality Assurance Department who manages these programs is comprised of experienced professionals who cooperatively strive for continuous improvement both in program design and implementation. The evaluator found the staff to be extremely accessible, both with interviews and the timely provision of requested data.

Of particular mention is the company's commitment to quality during the complex outsourcing transition of LIRA administration to Telatron. Major changes have been incorporated into the new administrative process. One staff member continues to be dedicated full time to this project to ensure uninterrupted and quality service to the company's LIRA customers through the completion of the transition.

Except for the reverification finding identified in the Enrollment section outlined below, National Fuel has adhered to its Universal Service and Conservation Plan as most currently filed.

## **Needs Assessment**

- The appropriate population is being served with LIRA. A total of 11,169 customers or 71% of an estimated LIRA population of 15,746 are active participants.

**Recommendation:** Continue to enroll eligible customers into LIRA at a rate consistent to reach maximum participation levels

## **Enrollment**

**Recommendation:** Explore an expedited enrollment process which eliminates LIRA income verification up front, while maintaining the integrity of properly assigning customers the appropriate discount rate.

Further explore the automation of Social Security and Department of Welfare customer lists identifying income amounts to the company for expedited LIRA enrollment.

- The majority of 2005 LIRA enrolled customers are within 51%-100% FPL  
51% of LIRA Participants (4,595) are customers within 51%-100% FPL  
28% of LIRA Participants (2,546) are customers within 101%-150% FPL  
21% of LIRA Participants (1,913) are customers within 0%- 50% FPL

- Existing Outreach and Education staff as been focused on prioritizing enrollments over monitoring and reverification of customer accounts due the growing numbers of LIRA eligible customers.

**Recommendation:** Ensure that the reverification process designed for Telatron is managed and implemented by September 2006.

Establish a schedule to reverify 25% of active LIRA participants on an annual basis, which includes a random selection of accounts in addition to those accounts with zero income, increased consumption, and customers without LIHEAP.

- The LIRA program is adequately linked to the company's LIURP and Hardship Fund.

### **Budget Plan**

- Of the 9,315 LIRA customer billings in 2005, thirty-two percent (32%) of the total received a 10% discount on their monthly bill; Twenty-two percent (22%) of the total received a 60% discount.
- The LIRA average monthly bill amount calculated from the number of customer billings year end December 2005 was \$82.
- The minimum payment rule as a cost control feature for CAP programs does not apply to the LIRA program. Numerous factors determine the customers' discount rate which excludes the need for a minimum payment amount.
- There are 111 customers with reported zero incomes who have been active in LIRA for six months or more.

**Recommendation:** Reverify customers with minimum payments/zero income for LIRA eligibility within three months of enrollment. Limit zero income customers to a maximum of six months of active LIRA participation.

- Averages of 23.70% or 105 LIRA customers from billing cycle 8 were outside the CAP affordability guidelines as established by the BCS.

**Recommendation:** Reverify LIRA accounts with zero income and non-LIHEAP recipients to determine their continued eligibility or termination from the program.

Review LIRA accounts for excessively high usage and provide appropriate energy education. Prioritize these households for the company's Low Income Usage Reduction Program (LIURP).

Revisit the budget review process and manually adjust those accounts to limit the instances whereby the timing of the review caused the monthly payments to artificially increase.

### **Arrearage Forgiveness**

- The average pre program arrearage at the time of LIRA enrollment for 2005 customers still active in the program is \$622, an increase of \$48 over 2004.

## Payment Frequency

- A total of 86% of LIRA participants either never missed a single payment or missed only one payment during the 2005 program year.
  - On average 53% (5,081) LIRA customers missed 0 payments
  - On average 33% (3,215) LIRA customers missed 1 payment
  - On average 07% (720) LIRA customers missed 2 payments
  - On average 02% (184) LIRA customers missed 3 payments
  - On average 04% (354) LIRA customers missed 11 payments
  - On average 01% (89) LIRA customers missed 12+ payments

## Customer Retention

- The majority of LIRA customers remain in the program for 12-24 months
  - On average 53% (3,649) of customers have remained in LIRA for 1-2 years
  - On average 16% (1,814) of customers have remained in LIRA for 3-5 years
  - On average 13% (1,431) of customers have remained in LIRA for >5 years
- During LIRA program years 2003-2005, the largest numbers of customers who default for non-pay are 51%-100% of FPL income.
- Most customers removed from LIRA are for non-pay.
  - 61% of 2005 LIRA customers removed was due to customer non-pay.
  - 24% of 2005 LIRA customers removed was due to moving.
    - 8% of 2005 LIRA customers removed was due to customer deceased, customer declined, and other.
  - 7% of 2005 LIRA customers removed was due to customer over income.

## LIRA Shortfall

- The average shortfall amount per average LIRA participant has more than doubled (54%) within the last three years.

**Recommendation:** Evaluate discount rates quarterly and track the associated shortfall amounts to ensure adequate program funding of LIRA. Implement changes to the service classes if necessary.

## Collection Activity

- The number of collection notices and premise visits decreased significantly in a study comparing 350 randomly selected customers pre-LIRA vs. post-LIRA.
- The number of customer service terminations increased comparing pre-LIRA and post-LIRA history.
- Cost savings from fewer notices and phone calls are minimal and zero out from increased costs from more terminations.

**Recommendation:** Continue to track LIRA customers with twenty-four months of company history (12 months pre-LIRA vs. 12 months post-LIRA) for purposes of trend and program cost analysis.

## **LIRA Program Costs**

- All allowable 2003-2005 administrative costs as defined in the CAP Policy Statement have not been reflected in the Universal Service Report-BCS (\$130,185 in LIRA collections costs and \$12,441 in compliance costs for 2005).

**Recommendation:** Track and incorporate costs relating to LIRA collections and compliance activities into Item #21 Program Costs – Administration of the annual BCS Universal Service Report.

- On average, twenty- six (26%) percent of the total annual average number of LIRA customers participate with and receive benefits from the arrearage forgiveness program. Arrearage forgiveness costs have increased in relation to the increase in number of participants and increase in the average preprogram arrearage balance at the time of customer enrollment.
- The LIRA program is not adequately funded due to under collections from warmer than normal weather and the resultant decrease in customer usage.

**Recommendation:** Minimize the company's exposure through adjusted LIRA Rider which fully funds LIRA.

## **CARES**

- The number of customers accepted into CARES is minimal. In 2005, the number accepted was twenty-five (25) customers.

**Recommendation:** Conduct refresher training for field staff, Consumer Business representatives, and all others who serve as gatekeepers for the company's special needs customers.

## **Energy Assistance**

- The company implemented a phone call project to eligible LIHEAP customers which successfully increased new funding by 1,044 applicants totaling \$257,621.

**Recommendation:** Continue outreach phone call efforts to maximize LIHEAP and Crisis customer funding.

- The company was successful in recruiting additional LIHEAP customers for the most recent three program years.  
For program years 2003-2005, the number of customers receiving LIHEAP grants increased by 2,073 customers; the average LIHEAP grant per customer increased by \$14.  
For program years 2003-2005, the number of customers receiving Crisis grants increased by 588 customers; the average Crisis grant per customer decreased by \$128.

## Neighbor For Neighbor Heat Fund

- The Heat Fund has been under funded for the past four program years. Customer contributions exceed shareholder match for the program years 2002-2005 by an average of \$11,405.

**Recommendation:** Increase shareholder funds to a minimum of the annual customer contribution amount during those years when contributions exceed shareholder funds.

Re-evaluate the 2:1 distribution of shareholder funds between New York and Pennsylvania. Consider increasing shareholder funds to meet the needs of the growing population of 30,311 low-income customers in Pennsylvania.

- National Fuel customers and non-National Fuel customers receive the same maximum Heat Fund grant amount of \$300.
- There is no responsibility on the part of the applicant to exhibit good faith payments on their energy bills.

**Recommendation:** Lower the maximum grant for non-National Fuel customers to \$150 to serve a greater percentage of the company's customers with more available dollars.

Require the applicant to have made or to make three (3) good faith payments on their account prior to receiving a grant.

## LIURP

- For program years 2003-2005, an average of 65% of all homes weatherized were high usage LIRA customers.
- Although the Energy Management Department estimates that most weatherization contractors complete LIURP jobs within a 60 day turnaround time, there is no internal tracking mechanism currently in place which confirms this.

**Recommendation:** Design a tracker which measures the lag time between customer referred to LIURP and weatherization completed.

- The company performs post inspections on 50%-75% of LIURP jobs completed.

**Recommendation:** Reduce post inspections to 25% of LIURP jobs completed to reduce costs and more closely align with industry standards.

- For the most recent three year period, the average savings for customers receiving full weatherization services is 24.3%.
- The number of annual full weatherization jobs completed has decreased along with the cost per job during the program years 2003-2005. Increase in labor and material costs have contributed to the company's efforts to manage costs and control spending within their LIURP budget.

## PROGRAM DESCRIPTION

### **Overview**

LIRA is a discounted rate program offered to eligible payment-troubled, low-income customers who have been unable to meet their monthly gas bill payment and who have unsuccessfully entered into one or more payment arrangements.

The goals of the program are to

- Increase the number of payments from low-income customers.
- Decrease the Company's collections costs.

Low-income customers can better manage their utility bills through

- Lower rates.
- Payment monitoring by company representatives.
- Conservation education.
- Linkages to all available income support programs within the Company and the community.

### **LIRA Administration**

Prior to 2006, the Outreach and Education Department performed all LIRA administrative duties and procedures with 3.5 full time employees. Due to the significant increase in LIRA participants each year, the staff was utilized primarily for enrollment of new customers in order to meet the growing demand for incoming customers. As a result, other administrative activities such as follow-up customer calls, education calls, and reverification were not performed.

In January 2006, National Fuel outsourced the back office administrative work to Telatron, an Erie-based company, which trained twenty-eight customer service reps and one project manager to implement the LIRA eligibility, enrollment, delinquent, and retention procedures. Due to the comprehensive nature of this transition as well as the anticipated learning curve of Telatron's employees, the company expects the transition to be completed by September 1, 2006.

### **Enrollment**

Low-income payment-troubled customers who call the Consumer Business Department are prescreened for income for LIRA eligibility. Those customers who are 150% or less of FPL are mailed a LIRA invitation letter and enrollment packet by Telatron. The customer is instructed to complete a LIRA application and attach verification of income of all members of the household living at the ratepayer's address. The customer has 30 days in which to respond, whereby a collection hold is placed on the account.

## PROGRAM DESCRIPTION

When the application is returned it is checked for missing information. Telatron inputs the data, establishes the appropriate service class discount and reviews the new LIRA Budget. Eligible LIRA customers receive a rate discount of 10%-80% applied to their tariff bill. This discount factors in customer income, household size, and consumption normalized for weather. Telatron mails a customer acceptance letter detailing the new LIRA Budget Plan, due date, and arrearage forgiveness component.

*See Appendix B: LIRA Discount Rate Chart.*

### **Arrearage Forgiveness**

The total amount of the customers' pre-LIRA arrearage is suspended and put into a hold account. The customer is eligible for monthly forgiveness by 1/24<sup>th</sup> on the condition that they remain current with their monthly LIRA payment. During the months of missed payments, no forgiveness occurs.

### **Other Program Benefits**

In addition, each LIRA participant is offered an energy audit which provides energy conservation education. If customers are considered high usage and are deemed eligible, they are referred to LIURP for more comprehensive installation of weatherization measures.

### **Education Call**

Telatron performs an education call to the customer once the acceptance letter is mailed and the customer is officially enrolled into LIRA. The call serves to reinforce the responsibilities of the participant, review the Budget Plan, arrearage forgiveness, and to reinforce the due date of the monthly payments.

### **Reminder Calls**

A new LIRA customer receives a reminder call seven days prior to their due date for the first three months of the program in order to establish consistent payment behavior. After the initial three months, the reminder calls are discontinued unless the customer misses a due date in the future. At that time, reminder calls are reinstated for an additional three months until the customer becomes consistent once again.

### **Reports**

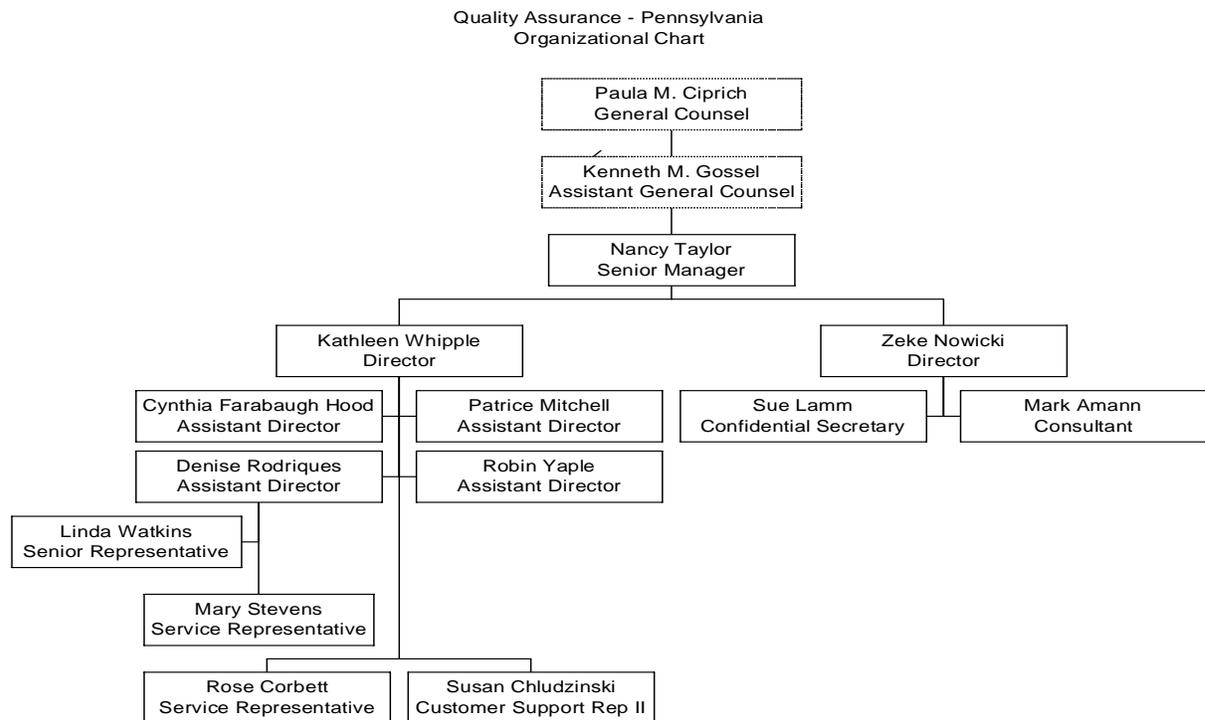
Telatron prepares daily, weekly, and monthly project management reports for National Fuel.

# LIRA IMPLEMENTATION

## PROGRAM DESCRIPTION

The Quality Assurance Department is comprised of the following staff:

- Senior Manager Quality Assurance (1)
- Director of Energy Management (1)
- Director of Quality Assurance (1)
- Assistant Director Outreach and Education (2)
- Assistant Director Quality Assurance (2)
- Energy Management Consultant (1)
- Compliance Clerical (2)
- Energy Management Clerical (1)
- LIRA Clerical (1.5)



## NEEDS ASSESSMENT

### Overview

National Fuel serves approximately 731,000 customers in western New York and northwestern Pennsylvania. The Pennsylvania Division of National Fuel headquartered in Erie, Pennsylvania, serves approximately 216,000 customers in fourteen counties.

The company's Customer Information System (CIS) has identified approximately 30,311 customers with incomes less than 150% of FPL which makes them potential candidates for LIRA. The CIS system codes all customers receiving Low Income Home Energy Assistance Program (LIHEAP) grants and those customers with known income and expenses reported through payment arrangement negotiations. The company further refined the potential number of customers likely to enroll in LIRA to 15,746 through a needs analysis performed in April 2006.

**Figure I  
LIRA Needs Assessment  
CIS Data as of April 2006**

1. Total - Identified Income Level 1 Ratepayers on CIS	<b>18,963 (a)</b>
2. Total – Low-Income Ratepayers Identified on CIS	<b>30,311 (b)</b>
3. Total of Low-Income Ratepayers Minus Level 1 Ratepayers	<b>11,348 (c) (Lines 2-1)</b>
4. Payment-Troubled LIHEAP Recipients (40% of Line 3)	<b>4,539 (d)</b>
5. Total Identified Payment-Troubled Ratepayers in National Fuel Service Area	<b>23,502 (e) (Lines 1+4)</b>
6. 50% of Line 5	<b>11,751 (f)</b>
7. 67% of Line 5	<b>15,746 (g)</b>

- (a) Identified Income Level 1 ratepayers are those who have entered into payment arrangements and who are therefore considered payment troubled. Income Level 1 ratepayers are those between 0 and 150% of the Federal Poverty Level.
- (b) "Total of Low Income Ratepayers" includes identified Level 1 ratepayers plus all those who received LIHEAP.
- (c) Represents 11,348 ratepayers who are not identified as Level 1 by National Fuel but who received LIHEAP.
- (d) The Commission's Investigation of Uncollectible Balances (Docket No. I-900002) found that 40% of the Commonwealth's low-income households are payment troubled. (Pennsylvania Bulletin, Vol. 29, No. 19, May 8, 1999)
- (e) This is a total of all Level 1 ratepayers plus those who received LIHEAP who may be payment troubled (18,963 plus 4,539).
- (f) The Pennsylvania Bulletin, Volume 29, Number 19, states ". . . current participation rates for government programs such as food stamps and LIHEAP are around 50%. We would not expect every payment-troubled household who is eligible for CAP to apply for enrollment."
- (g) National Fuel believes that a participation rate of 2/3 may be more appropriate in its service territory based on its recent experience in reaching the original enrollment cap nearly a year ahead of schedule. Participation rates may be higher since Pennsylvania Bulletin, Volume 29, Number 19 was published in 1999 due to increasing natural gas commodity costs.

# LIRA IMPLEMENTATION

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## NEEDS ASSESSMENT

In National Fuel's LIRA redesign plan filed on May 11, 2005, the cap on LIRA participation levels at 8,500 customers was removed due to the verified level of need.

As of June 29, 2006, the company reported 11,169 customers active in LIRA.

### **Finding 1**

National Fuel is serving the appropriate population with its LIRA program. A total of 11,169 (71%) customers out of an estimated LIRA customer population of 15,746 are active participants.

### **Recommendation**

Continue to enroll eligible customers into LIRA at a rate consistent to reach maximum participation levels.

## ENROLLMENT

### Overview

Eligibility requirements for LIRA participants as follows:

1. The gross household income must be  $\leq 150\%$  of FPL.
2. The customer must have an arrearage of the account.
3. The customer must have at least one current, canceled, or defaulted arrangement on the account at the time of application.

Customer income verification is the most time consuming step of LIRA enrollment. The applicant is given ten days in which to complete the application and return it to Telatron. In numerous cases information on the returned application is either incomplete or incorrect, requiring a phone call back to the customer, extending the application process by several days.

In other instances, income confirmation/verification from Social Security and the Department of Welfare extends the process causing further delays.

Currently, there are Pennsylvania utilities who have implemented automatic telephonic enrollments into CAP with verification of income following the one year anniversary of customer enrollment. If a customer continues to receive LIHEAP on an annual basis, or if the customer is on a fixed income, no income verification is required. To date this approach appears to expedite enrollment and allows the customer the benefits of CAP until such time as eligibility is reverified. Data is currently not available on the statistics of the group of auto-enrolled customers who have been disqualified at reverification.

### **Recommendation**

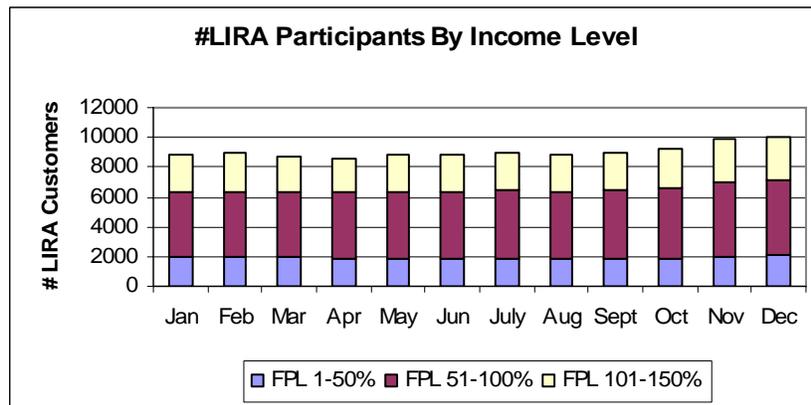
Explore an expedited enrollment process which eliminates up front customer income verification for LIRA, while maintaining the integrity of properly assigning customers the appropriate discount rate.

Further explore the automation of Social Security and Department of Welfare customer lists identifying income amounts to the company for LIRA customer enrollment.

## ENROLLMENT

Enrollment trends from the 2005 program year indicate that the majority of LIRA participants fall into the 51%-100% of FPL. In addition participation levels are at their highest in the months of November and December, when heating bills begin to rise and become less affordable.

**Figure II**  
**LIRA Participation Level Analysis**



National Fuel Ad Hoc Report

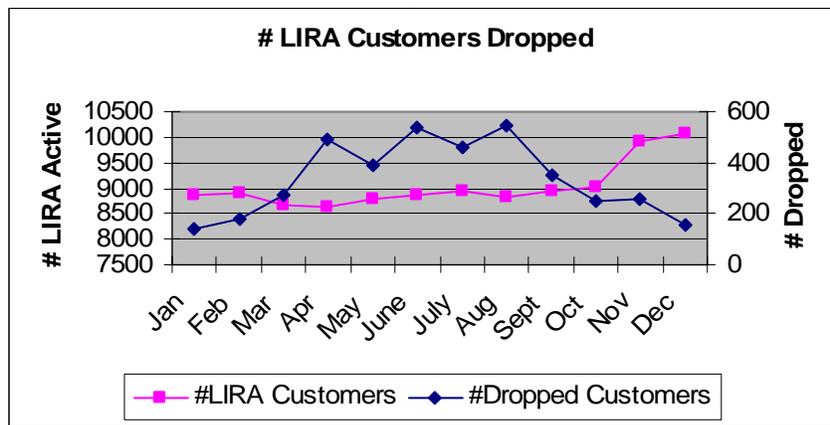
### Finding 3

51% of LIRA Participants (4,595) are customers within 51%-100% FPL  
 28% of LIRA Participants (2,546) are customers within 101%-150% FPL  
 21% of LIRA Participants (1,913) are customers within 0%- 50% FPL

### LIRA Dropped Customer Trend

In any given month the percentage of LIRA participants who remain active and who do not get dropped from the program varies from month to month. Despite National Fuel's best efforts to maintain and increase participation, customers who have been dropped from the program impact the overall number of monthly reported LIRA participants.

**Figure III  
LIRA Dropped Analysis**



National Fuel Ad Hoc Report

### Reverification

National Fuel's plan indicates that LIRA accounts are reverified periodically for changes in income or household size which may affect continued program eligibility. Upon review, it appears that reverification as a program control feature was not implemented as indicated in the company's most recently filed Universal Service Plan. This was due to staff focus on enrollments as a result of the growing numbers of potential LIRA customers. Account monitoring and reverification simply was not performed during the rapidly growing years of LIRA.

However, the Outreach and Education Department did perform a massive reverification effort in December 2005 on 1,628 accounts. These customers appeared to be particularly suspect for income eligibility (i.e., those customers who did not apply or were denied LIHEAP). Of the 1,628 reverifications, 1,411 were completed with an additional 217 completed in 2006 that resulted in active participants.

## ENROLLMENT

National Fuel has been quite aware of the gap in their reverification process and has designed a plan to implement necessary changes. Telatron will be performing outbound reverification calls from company provided outlier reports as follows:

1. Customer consumption monitoring.
2. Customers with zero income within three months of enrollment.
3. Customers due for reverification of income.
4. Customers not receiving LIHEAP.

### **Finding 4**

Existing Outreach and Education staff has been focused on prioritizing enrollments over monitoring and reverification of customer accounts due to the growing numbers of LIRA eligible customers.

### **Recommendation**

Ensure that the reverification process designed for Telatron is managed and implemented by September 2006.

Establish a schedule to reverify 25% of active LIRA participants on an annual basis, which includes a random selection of accounts in addition to those accounts with zero income, increased consumption, and customers without LIHEAP.

### **Linkages to Low Income Usage Reduction Program (LIURP)**

If LIRA customer consumption is low, the customer will receive an energy conservation packet in the mail. If LIRA consumption is high (105-120 Mcf) the customer will receive a letter offering a company provided walk-through audit and for those customers over 120 Mcf, the customer is eligible for a home audit with installed weatherization measures. LIRA customers receiving LIURP services in 2005 totaled 128 customers.

### **Linkages to CARES/Hardship Funds**

In addition to the 7,462 customers receiving LIHEAP, 102 LIRA customers received grants from the company's Neighbor to Neighbor Heat Fund.

### **Finding 5**

The LIRA program is adequately linked to the company's LIURP and Hardship programs.

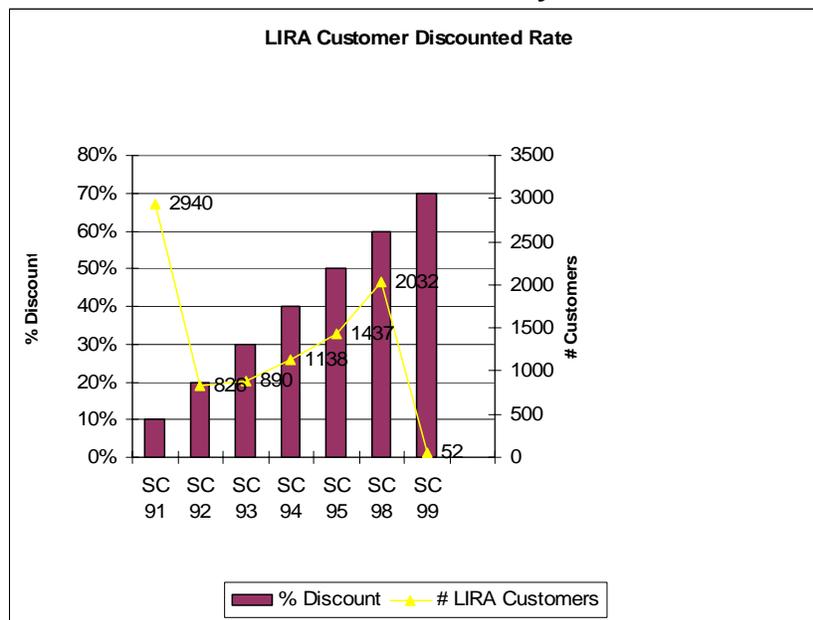
### Discounted Rates

Customers enrolled in LIRA are offered one of eight separate discounted rates ranging from 10% to 80%.

See Appendix B: LIRA Discount Rate Chart

As an example, 9,315 LIRA customers participating in the program in 2005 were categorized according to the discounted rate as shown in the graph below.

**Figure IV  
LIRA Discount Analysis**



LIRA Shortfall Worksheet 2005

Service Class 90 did not go into effect until April 15, 2005. At the time of this analysis there were no customers reported within the 80% discount rate tier.

### Finding 6

Of the 9,315 LIRA customer billings in 2005, thirty-two percent (32%) of the total received a 10% discount on their monthly bill; Twenty-two percent (22%) of the total received a 60% discount.

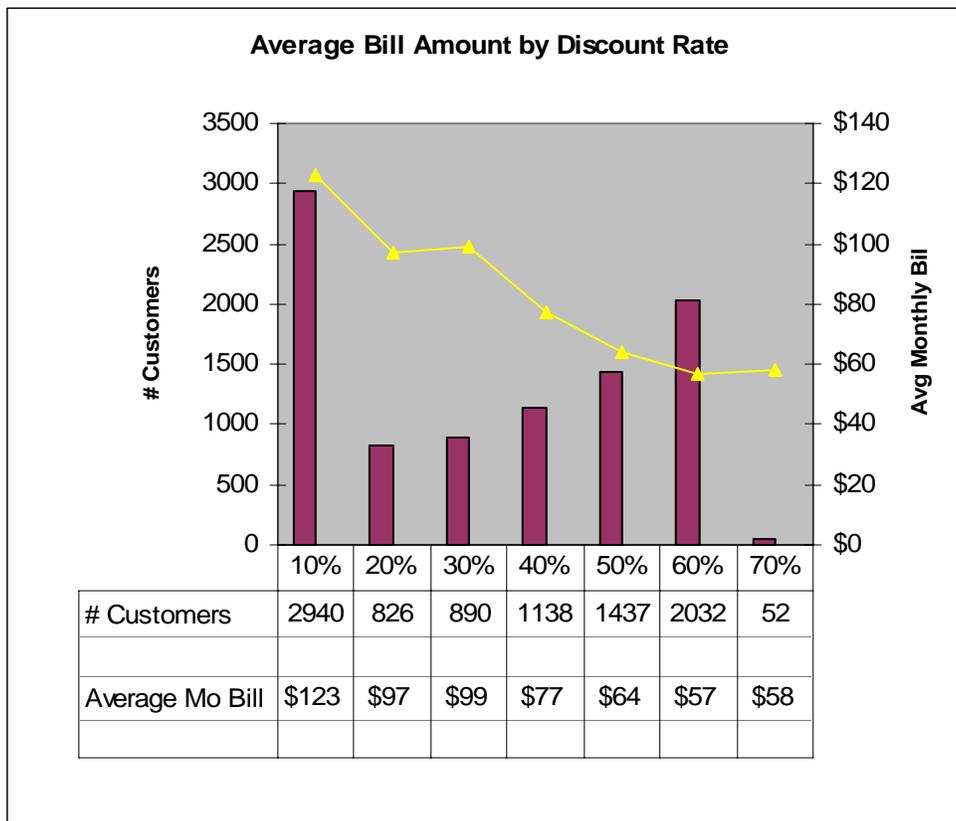
**Average Monthly Bill Payment**

The LIRA Budget Plan amount is reviewed four times per year and may increase or decrease dependent upon customer usage and National Fuel rates.

Customers are also advised to apply for LIHEAP which is applied to their Budget Plan balance. At the time the LIHEAP grant is applied to the customer account, the system reviews the status of the Budget Plan, lowers the payment amount by the amount credited to the Budget Plan balance, and restarts the plan for a full year.

Crisis grants are applied to LIRA customer account balances with no direct impact on the Budget Plan.

**Figure V  
Average Monthly Bill  
2005**



LIRA Shortfall Worksheet 2005

**Finding 7**

The LIRA average monthly bill amount calculated from the number of customer billings year end December 2005 was \$82.

### Minimum Payment

For purposes of responding to the BCS question on CAP minimum payments, the evaluator requested data on LIRA participants with monthly payments equal to or less than \$25. The table below gives a snapshot of the number of LIRA customers by payment dollar amount.

Although requiring customers to pay a minimum payment amount becomes a cost control feature for utility CAPs with percentage of income and percentage of bill plans, this does not apply to LIRA.

For example, it is quite possible that customers may pay as little as \$6 a month since their discount is based on household size, National Fuel rates, customer usage, and the amount of a LIHEAP grant. Should the amount of the applied LIHEAP grant reduce the monthly Budget Plan to \$6, then that becomes their new monthly pay plan. In other words, National Fuel cannot arbitrarily force a minimum payment of \$25 on this customer which would require them to pay more than their newly reduced Budget Plan, or for usage that the customer never occurred.

**Table 1**  
**Minimum Payments**  
**Month Ending June 2006**

# of LIRA Customers	Minimum Payment Amount
404	\$0-\$6
278	\$7-\$12
849	\$13-\$25

National Fuel Ad Hoc Report

### **Finding 8**

The minimum payment rule as a cost control feature for CAP programs does not apply to the LIRA program. Numerous factors determine the customers' discount rate which excludes the need for a minimum payment amount.

**Zero Income Customers**

Customers who report an income of zero are deemed eligible for LIRA on a short-term basis. The Bureau of Consumer Services (BCS) suggests that the customer who reportedly has no income month after month is highly suspect and should not be allowed to participate in LIRA on a long-term basis.

**Table 2  
LIRA Customers at Zero Income  
Month Ending June 2006**

# of LIRA Customers	# of Months
31	<=3 Months
21	4-6 Months
111	>6 Months

National Fuel Ad Hoc Report

**Finding 9**

There are 111 customers with reported zero incomes who have been active in LIRA for six months or more.

**Recommendation**

Reverify customers with minimum payments/zero income for LIRA eligibility within three months of enrollment. Limit zero income customers to a maximum of six months of active LIRA participation.

**Energy Burden**

In March 2004, the BCS staff brought to National Fuel’s attention LIRA customer bill affordability issues which appeared to be outside Chapter 69.265 guidelines which defined energy burdens of low-income customers. Since the problem seemed to occur with customer accounts with higher incomes and larger household sizes, National Fuel developed a possible solution which recalculated the LIRA discount incorporating household size. Prior to this, larger households received an insufficient discount to adequately reduce their bills because they typically used more gas than smaller households.

Based on a study of the average annual consumption of LIRA customers by household size, a discount adjustment went into effect on April 15, 2005 with the intent of meeting the affordability guidelines as dictated by BCS.

The following table reveals a snapshot of actual customer gas consumptions in 2004 by household size:

**Table 3**  
**Summary of Billing Information for National Fuel LIRA Customers by Household Size**

Household Size	Avg. Annual Normal Consumption (Mcf)	Avg. Annual Residential Bill
1	117.8	\$1421
2	120.5	\$1450
3	128.9	\$1540
4	134.1	\$1595
5	139.5	\$1654
6	145.4	\$1716
7	157.0	\$1840
8	171.8	\$1999
9+	191.3	\$2208

National Fuel Universal Service and Energy Conservation Plan 2005-2007

In June 2006, the first daily ad hoc report was generated to identify all households, by income level, who might continue to be outside the affordability guidelines despite the application of the new discount adjustment.

**Table 4**  
**Payment as a Percentage of Income**

0% to 50% of Income	
Monthly LIRA Budget	\$2802
# LIRA Customers	93
# LIRA Customers Out of Tolerance	47
% of LIRA Customers Out of Tolerance	<b>50.53%</b>
51% to 100% of Income	
Monthly LIRA Budget	\$5062
# LIRA Customers	215
# LIRA Customers Out of Tolerance	40
% of LIRA Customers Out of Tolerance	<b>18.60%</b>
100% to 150% of Income	
Monthly LIRA Budget	\$2996
# LIRA Customers	135
# LIRA Customers Out of Tolerance	18
% of LIRA Customers Out of Tolerance	<b>13.33%</b>

National Fuel Ad Hoc Report

**Finding 10**

Averages of 23.70% or 105 LIRA customers from billing cycle 8 were outside the CAP affordability guidelines as established by the BCS.

**Recommendation**

Reverify LIRA accounts with zero income and non-LIHEAP recipients to determine their continued eligibility or termination from the program.

Review LIRA accounts for excessively high usage and provide appropriate energy education. Prioritize these households for the company's Low Income Usage Reduction Program (LIURP).

Revisit the budget review process and manually adjust those accounts to limit the instances whereby the timing of the review caused the monthly payments to artificially increase.

## ARREARAGE FORGIVENESS

### Overview

When a customer is enrolled into LIRA, the total amount of their pre-LIRA arrearage is suspended and put into a hold account. The customer is eligible for monthly forgiveness by 1/24<sup>th</sup> on the condition that they remain current with their monthly LIRA payment. With this arrangement, a customer could potentially pay off their pre-LIRA debt over a two-year period in exchange for consistent payment behavior. An extension of a third year may be granted on a limited basis. After the third year time period, arrearage forgiveness is not offered as a program benefit, causing the customer to be responsible for those balances in addition to their monthly LIRA payment.

During periods of missed payments, no forgiveness occurs until such time as the LIRA customer makes catch-up payments and once again is current. At this time, further forgiveness resumes.

If the LIRA payment balance would zero out with a LIHEAP grant, the payment is instead applied to preprogram arrear balances, not to shortfall, as in the case with other Pennsylvania utilities who issue CAP credits.

In reviewing the preprogram arrearage at the time of customer enrollment within the last two years, data revealed that the average amount has increased, as a result of higher bills due to the increase in gas costs.

**Table 5**  
**Preprogram Balances at Enrollment**  
**And Still Active In LIRA**

	<b>Avg. Per Enrollee</b>
<b>2005</b>	<b>\$622</b>
<b>2004</b>	<b>\$574</b>

National Fuel Ad Hoc Report

### **Finding 11**

The average pre program arrearage at the time of LIRA enrollment for 2005 customers still active in the program is \$622, an increase of \$48 over 2004.

# LIRA PROGRAM PERFORMANCE

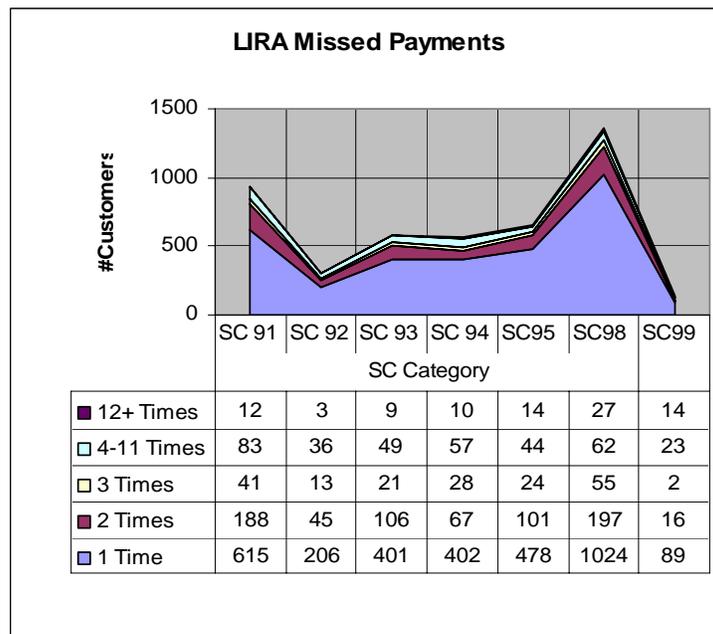
## PAYMENT FREQUENCY

### LIRA Delinquency

Providing low-income, payment-troubled customers with affordable budget plans should ensure optimal customer success with consistent payment of their LIRA budget amounts. Over half (53%) of the total of 2005 LIRA participants were considered good paying customers, never missing a single payment. Add to that 33% who only missed one payment, and you have a total of 86% of LIRA participants as consistent payers.

Figure 6 below details the number of missed LIRA payments by Service Class.

**Figure VI  
LIRA Delinquency  
2005**



National Fuel LIRA Delinquency Report 2005

### Finding 12

A total of 86% of LIRA participants either never missed a single payment or missed only one payment during the 2005 program year.

On average 53% (5,081) LIRA customers missed 0 payments

On average 33% (3,215) LIRA customers missed 1 payment

On average 07% (720) LIRA customers missed 2 payments

On average 02% (184) LIRA customers missed 3 payments

On average 04% (354) LIRA customers missed 11 payments

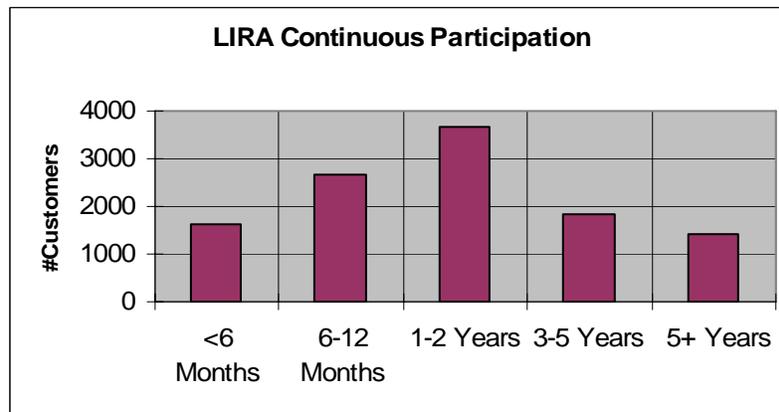
On average 01% (89) LIRA customers missed 12+ payments

# LIRA PROGRAM PERFORMANCE

## CUSTOMER RETENTION

It is to National Fuel's advantage for LIRA customers to remain in the program long term; not only to reinforce good payment behavior but also to maintain control over LIRA program enrollment costs and customer default costs. A retention history of 11,169 LIRA customers was analyzed to assess the level of continuous participation in the program from the point of enrollment to the most current month, June 2006.

**Figure VII**  
**LIRA Retention History**



National Fuel Ad Hoc Report

### **Finding 13**

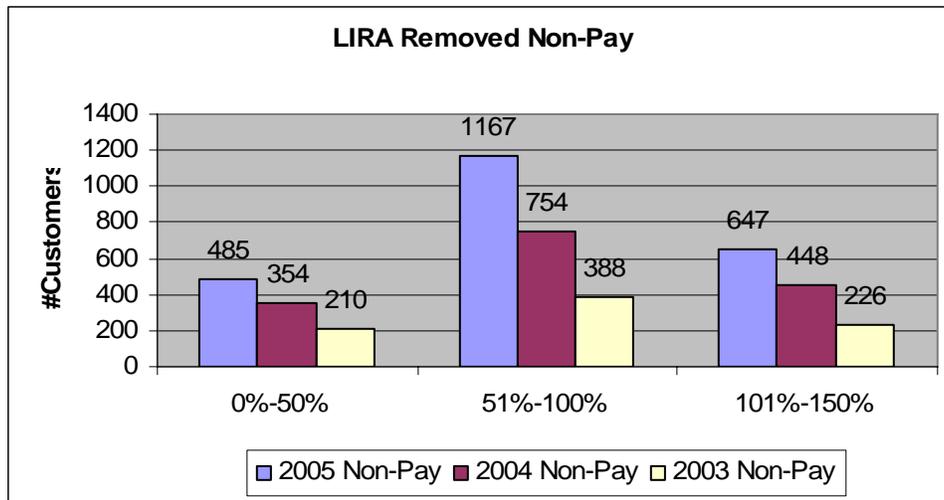
On average 53% (3,649) of customers have remained in LIRA for 1-2 years.  
On average 16% (1,814) of customers have remained in LIRA for 3-5 years.  
On average 13% (1,431) of customers have remained in LIRA for >5 years.

# LIRA PROGRAM PERFORMANCE

## CUSTOMER RETENTION

Customers who are removed from LIRA for non-pay are represented in all three income levels.

**Figure VIII**  
**LIRA Default Non-Pay**  
**2003-2005**



National Fuel Universal Service Reporting BCS 2003-2005

### **Finding 14**

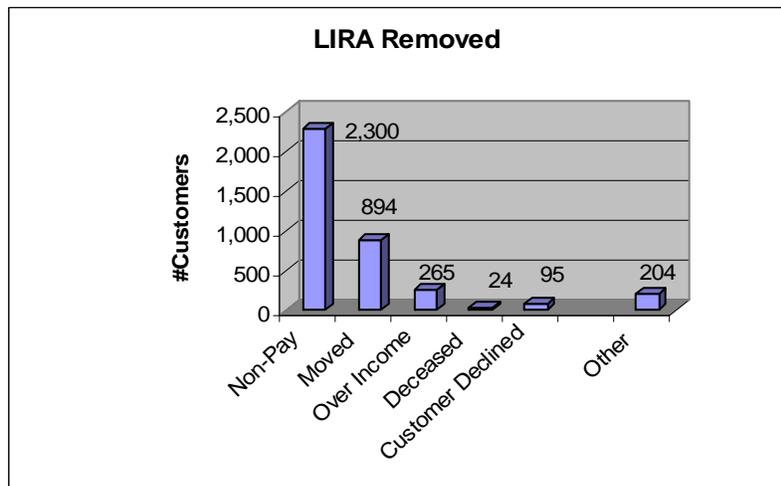
During LIRA program years 2003-2005, the largest numbers of customers who default for non-pay are 51%-100% of FPL income.

# LIRA PROGRAM PERFORMANCE

## CUSTOMER RETENTION

Although the greatest percentages of customers removed from LIRA default for non pay, there are additional reasons why customers leave LIRA. Utility low-income customers are seen as moving frequently both within and outside a company's service territory. Other customers become over income or decline the program altogether.

**Figure IX**  
**Reasons for LIRA Removal**  
**2005**



National Fuel Ad Hoc Report

### **Finding 15**

61% of 2005 LIRA customers removed was due to customer non-pay.

24% of 2005 LIRA customers removed was due to moving.

8% of 2005 LIRA customers removed was due to customer deceased, customer declined, and other.

7% of 2005 LIRA customers removed was due to customer over income.

# LIRA PROGRAM PERFORMANCE

## LIRA SHORTFALL

### Overview

LIRA customers who remain current with their Budget Plan amount receive a monthly discount from National Fuel. The difference between the tariff billed amount and the LIRA discount rate is reported to the BCS as LIRA credits in the annual Universal Service Reporting requirements. Although National Fuel does not technically issue CAP credits, as do numerous other Pennsylvania utilities, the goal is the same--to offer residential low-income customers affordable Budget Plans which are less than the regular billed tariff amounts.

The company applies LIHEAP grants to the customers' Budget Plans, which lowers their monthly payments by the amount credited to the Budget Plan balances.

**Table 6**  
**LIRA Shortfall**  
**2003-2005**

	<b>Avg. # Participants</b>	<b>LIRA Shortfall</b>	<b>Avg. Shortfall Amt. per Participant</b>
2005	9,054	\$6,931,505	\$766
2004	7,758	\$3,658,479	\$471
2003	6,947	\$2,431,028	\$349

Universal Service Reporting-BCS 2003-2004-2005

### **Finding 16**

The average shortfall amount per average LIRA participant has more than doubled (54%) within the last three years.

### **Recommendation**

Evaluate discount rates quarterly and track the associated shortfall amounts to ensure adequate program funding of LIRA. Implement changes to the service classes if necessary.

## COLLECTION ACTIVITY

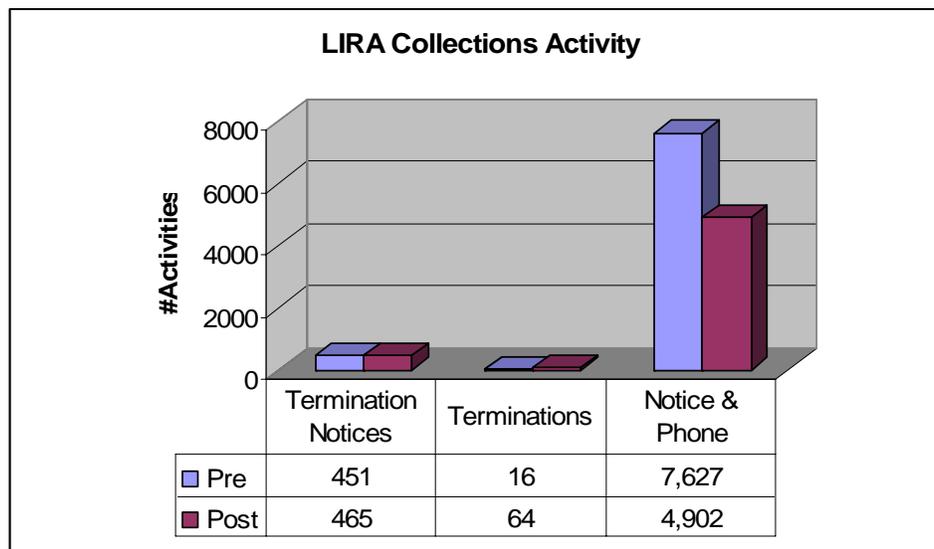
### LIRA Collection Policy

The LIRA collection policy is very straightforward and somewhat aggressive. At the time of customer enrollment into the LIRA program, a company representative explains the collection policy on LIRA accounts. Customers are required to keep accounts current. Unlike the regular collection policy, in LIRA there are no arrangements or extensions. If a customer falls behind, the account must be brought current to stay out of collection activity. If the account becomes delinquent, it will immediately go into collection action. There is no minimum dollar or time trigger for LIRA accounts. If the customer misses any full payment, the account will go into collection activity. The account will proceed to field shut-off action if it remains unpaid after the required notice procedure.

### Sampling Study: Collection Activity Comparison Pre-LIRA vs. Post-LIRA

The premise exists that once customers who are enrolled in LIRA, the number of collection activities should decrease as well as the resultant number of accounts terminated. To test this theory, a random set of 350 LIRA customers with at least a 24-month company history (12 months pre- and 12 months post-LIRA) were selected as comparisons.

**Figure X**  
**Collection Activity Comparison**  
**Pre-LIRA vs. Post-LIRA**



National Fuel Ad Hoc Report-Rates and Regulatory Affairs  
 Customer set LIRA start date range is August 6, 1997 through March 10, 2005

# LIRA PROGRAM PERFORMANCE

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## COLLECTION ACTIVITY

The number of total collection activities relating to notices, outbound phone attempts, and premise visits dropped significantly between the 12 months pre-LIRA and 12 months post-LIRA customer history. However, in the sample study, the number of actual customers terminated increased. National Fuel explains that this increase is due to the company's continued efforts to aggressively terminate delinquent LIRA customers upon default from their Budget Plan.

### **Finding 17**

The number of collection notices and premise visits decreased significantly in a study comparing 350 randomly selected customers pre-LIRA vs. post-LIRA. The number of customer service terminations increased comparing pre-LIRA and post-LIRA history. Cost savings from fewer notices and phone calls are minimal and zero out from increased costs of more terminations.

### **Recommendation**

Continue to track LIRA customers with twenty-four months of Company history (12 months pre-LIRA vs. 12 months post-LIRA) for purposes of trend and program cost analysis.

## **LIRA Default and Termination**

Upon review of the LIRA default and termination procedures as outlined in National Fuel's 2005-2007 Universal Service and Conservation Plan, the evaluator determined that the company has been strictly adhering to their collections policy.

As a control measure to minimize customer abuses and to promote payment responsibility, the following summarizes the termination process:

*April 1 through November 30*

- The Company's collection process begins immediately after a LIRA customer fails to pay a monthly LIRA Budget billing. The process follows all required regulatory notification and procedural steps.
- The LIRA customer must pay the entire amount stated in the termination notice prior to the termination date.
- No payment arrangements or extensions are offered to the delinquent LIRA customer to avoid termination.
- Medical certificates are honored for all LIRA customers.
- Service will be terminated if the customer fails to pay the notice amount on the condition that no medical certificate exists.

# LIRA PROGRAM PERFORMANCE

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## COLLECTION ACTIVITY

*December 1 through March 31*

- LIRA customers who have missed any payments over the winter months receive a reminder phone call regarding the missed payments.
- The number of missed payments will not exceed five months except in extenuating circumstances (medical certificate).

### **Service Reconnections**

Service restorations are made for customers who submit a medical certificate; however, they are not reinstated into LIRA until such time as they meet the general LIRA requirements as follows:

- The customer must pay the entire arrearage accrued while a LIRA participant (including the current bill if after the due date).
- The customer must pay a reconnection charge.

### Preprogram Arrearage Accounts

- The customer may be required to pay part or all of the arrearage prior to reconnection.
- The company may negotiate a payment arrangement of the preprogram arrearage the duration of which is dependent upon:

Size of unpaid LIRA balance

Ability to pay

Payment history

Length of time over which the balance accumulated

- In the event of a service termination after the customer negotiated a payment arrangement, the entire arrearage owed is required to be paid prior to service restoration.

## Administration Costs

As LIRA enrollments increase each year, the accompanying administrative costs generally increase as well. However, National Fuel experienced cost reductions between program years 2003-2004 due to administrative efficiencies resulting from a reduction in labor.

**Table 7**  
**LIRA Administration Costs**

Program Costs	2003	2004	2005
Administration	\$370,039	\$330,961	\$357,810
Credit and Collections	\$111,991	\$123,127	\$130,185
LIRA Compliance (Not reported in administration number above)	\$ 25,575	\$ 29,275	\$ 12,441
<b>Total</b>	<b>\$507,605</b>	<b>\$483,362</b>	<b>\$500,436</b>

LIRA collections costs calculated as percentage of collection costs for confirmed low income as reported in the Universal Service Report- BCS 2003-2005

LIRA compliance costs calculated at 1.5hrs x \$22.hrly rate x #LIRA complaints

### **Finding 18**

All allowable 2003-2005 administrative costs as defined in the CAP Policy Statement have not been reflected in the Universal Service Report-BCS (\$130,185 in LIRA collections costs and \$12,441 in compliance costs for 2005).

### **Recommendation**

Track and incorporate costs relating to LIRA collections and compliance activities into Item #21 Program Costs – Administration of the annual BCS Universal Service Report.

## Arrearage Forgiveness Costs

**Table 8**  
**LIRA Arrearage Forgiveness**

	<b>Total Preprogram Arrear Forgiveness</b>	<b>Average # Participants # Receiving Benefit/Total Count</b>	<b>Avg. Amount Forgiven By Participants Receiving Arrear Forgiveness</b>
<b>2005</b>	<b>\$747,809</b>	<b>2,468/9,054</b>	<b>\$303</b>
<b>2004</b>	<b>\$623,786</b>	<b>2,252/7,758</b>	<b>\$277</b>
<b>2003</b>	<b>\$435,020</b>	<b>1,796/6,947</b>	<b>\$242</b>

Universal Service Reporting-BCS 2002-2005

Average number of participants = customers who actually received arrearage forgiveness during the program year

### **Finding 19**

On average, twenty- six (26%) percent of the total annual average number of LIRA customers participate with and receive benefits from the arrearage forgiveness program. Arrearage forgiveness costs have increased in relation to the increase in number of participants and increase in the average preprogram arrearage balance at the time of customer enrollment.

## LIRA Funding

The evaluator reviewed and analyzed the three most current years of the following National Fuel data:

1. LIRA Billed Revenues.
2. LIRA Rider Revenues.
3. LIRA Customer Payments.
4. Energy Assistance and Neighbor to Neighbor Heat Fund Grants.

**Figure XI  
LIRA Funding Analysis**

EXPENSES	2003	2004	2005
Revenues Billed	\$6,980,242	\$8,277,413	\$9,917,866
Shortfall (unbilled)	\$2,431,028	\$3,658,479	\$5,401,775
Arrearage Forgiveness	\$ 435,020	\$ 623,786	\$ 747,809
Write-offs	\$ 328,461	\$ 528,860	\$ 663,571
Collections and Compliance Expense	\$ 137,566	\$ 152,402	\$ 142,626
LIRA Administration	\$ 370,039	\$ 330,961	\$ 357,810
<b>Total Expenses</b>	<b>(\$10,682,356)</b>	<b>(\$13,571,901)</b>	<b>(\$17,231,347)</b>
REVENUES	2003	2004	2005
Customer Payments	\$5,103,171	\$6,277,159	\$7,603,163
Grants Applied	\$1,235,063	\$1,448,541	\$1,649,222
Funding from LIRA Rider	\$2,348,785	\$3,471,095	\$4,997,874
Total Funding	\$8,687,019	\$11,196,795	\$14,250,259
<b>Net over (under) Funding</b>	<b>(\$1,995,337)</b>	<b>(\$2,375,106)</b>	<b>(\$4,510,928)</b>

Data compiled from Universal Service Report-BCS 200302005; National Fuel Collections and Rate Departments

### **Finding 20**

The LIRA program is not adequately funded due to under collections from warmer than normal weather and the resultant decrease in customer usage.

### **Recommendation**

Minimize the company's exposure through adjusted LIRA Rider which fully funds LIRA.

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## PROGRAM DESCRIPTION

### Overview

The Customer Assistance and Referral Evaluation Services (CARES) program was developed by National Fuel to assist customers who were experiencing short-term financial hardships. Eligible customers include those who are low income, fixed income, special needs, and payment troubled. Typically, referrals are made by the Consumer Business Department to the Outreach and Education Department; however, any internal department or human service agency within the company's service territory may refer potential customers to CARES.

### CARES Benefits

Important health and safety benefits are provided CARES customers upon enrollment including protection from termination of service on a temporary basis. The company takes a personalized, case management approach to the CARES program, seeking appropriate financial assistance and referring customers to specific services which also may result in cash assistance for the household. The program provides improved access to the various forms of energy and non-energy related community social services located within National Fuel's service territory.

### Enrollment

Enrollment into CARES is limited to customers with special circumstances that are temporary. A 30-day CARES hold is automatically placed on the account by the CIS system to allow the Outreach and Education Department the necessary time to process the referral. One (1) full time representative staffs the CARES function, with two (2) part time back-up staff when needed.

Upon National Fuel's in-depth analysis of household expenses and income, the customer is offered a budget plus payment plan if appropriate. If the customer is unable to pay the budget plus amount, a CARES flat payment arrangement less than budget is created for a maximum of four (4) months. Only under unusual circumstances will an account remain in CARES for more than four months. After the need is satisfied, the customer is still held accountable for the remainder of the balance on their bill. If the customer's financial situation is deemed long term, they are referred to the LIRA program.

### 62+ Program

National Fuel also offers a 62+ program which codes customers' accounts as being 62 or older and identifies a third party in the event of an issued termination notice.

PROGRAM DESCRIPTION

**Challenge of CARES**

National Fuel cites the identification of customers who are special needs and require additional assistance as a major challenge. In program years 2004 and 2005, the ratio between the number of customers referred and the number of customers accepted into CARES was 4:1. For every four customers referred, one is accepted.<sup>2</sup> Most of the customers referred to CARES are assisted with quick fixes (i.e. referrals to human service agencies) with no further action required.

In an attempt to strengthen the CARES referral network, National Fuel has benefited by remaining actively involved with human service agencies within its service territory. The agencies serve as a bridge to customers who might not otherwise be identified through traditional company interaction.

In 2005, the Assistant Director Outreach and Education participated in ten (10) senior outreach expos, gave thirteen (13) senior presentations, and appeared on two (2) local radio talk shows.

In addition, the Assistant Director represented the Company on the following community boards:

- Chairperson NW PA Alzheimer's Association
- Independent Council on Aging
- Vice-Chair Crawford County Essential Coalition
- Warren County Elder Care Council Forrest
- CARES Utility Network
- Erie Area Agency on Aging (Aging Advisory Council; RSVP)

**Finding 21**

The number of customers accepted into CARES is minimal. In 2005, the number accepted was twenty-five (25) customers.

**Recommendation**

Conduct refresher training for field staff, Consumer Business representatives, and all others who serve as gatekeepers for special needs customers.

<sup>2</sup> National Fuel CARES Interview; Universal Service Report-BCS 2005

ENERGY ASSISTANCE

**Outreach Efforts**

National Fuel routinely places advertisements in numerous local newspapers throughout their service territory announcing the opening of LIHEAP. In addition, the Outreach and Education staff regularly assists customers with completing their LIHEAP applications at senior centers during the opened months of the program.

In 2005, National Fuel initiated an annual LIHEAP phone call project with Telatron. Customer lists were provided to Telatron which identified eligible LIHEAP customers for phone or letter follow-up, prompting them to complete a LIHEAP application as follows:

- LIRA with phone
- LIRA no phone
- Non-LIRA with phone
- Non-LIRA no phone

The results of the 2005 Telatron phone call project concluded that this project was successful in obtaining new funding and provided worthwhile information regarding each account.

**Table 9  
LIHEAP Phone Call Project Results  
2005**

	<b>New LIHEAP Applicants</b>	<b>Former LIHEAP Applicants Receiving Grants as a Result of Reminder Phone Calls</b>	<b>New Crisis Applicants</b>	<b>Former Crisis Applicants Receiving Grants as a Result of Reminder Phone Calls</b>
LIRA	380 Customers \$92,528	171 Customers \$41,165	164 Customers \$37,510	70 Customers \$16,426
Non-LIRA	664 Customers \$165,093	171 Customers \$41,062	180 Customers \$46,261	52 Customers \$13,810

National Fuel Ad Hoc Report-Disposition of Calls for LIHEAP 2005 by Telatron

**Finding 22**

The company implemented a phone call project to eligible LIHEAP customers which successfully increased new funding by 1,044 applicants totaling \$257,621.

**Recommendation**

Continue outreach phone call efforts to maximize LIHEAP and Crisis customer funding.

ENERGY ASSISTANCE

**Table 10**  
**Energy Assistance Comparisons-All Customers**  
**2003-2005**

	<b>LIHEAP Dollars</b>	<b># Customers</b>	<b>Avg. Grant</b>	<b>Crisis Dollars</b>	<b># Customers</b>	<b>Avg. Grant</b>
2005	\$4,714,008	17,883	\$264	\$1,023,445	4,442	\$230
2004	\$4,394,870	17,525	\$251	\$1,134,052	4,403	\$258
2003	\$3,958,240	15,810	\$250	\$1,378,569	3,854	\$358

Universal Service Report-BCS 2003-2005

**Finding 23**

The company was successful in recruiting additional LIHEAP customers for the most recent three program years.

For program years 2003-2005, the number of customers receiving LIHEAP grants increased by 2,073 customers; the average LIHEAP grant per customer increased by \$14.

For program years 2003-2005, the number of customers receiving Crisis grants increased by 588 customers; the average Crisis grant per customer decreased by \$128.

**CARES Linkage to Energy Assistance**

CARES customers are eligible to receive both LIHEAP and Crisis benefits dependent on the income eligibility guidelines for both programs during the time period the customer is enrolled in CARES.

In 2005, twenty-four CARES customers received \$5,277 in energy assistance benefits along with \$8,504 in other direct dollars applied to CARES accounts.

## A NEIGHBOR FOR NEIGHBOR HEAT FUND

### Overview

The Neighbor For Neighbor Heat Fund (Heat Fund) is a company designed program which provides aid to qualifying individuals who require assistance to meet their energy needs. The fund is coordinated by an advisory board consisting of representation of eleven human services agencies located throughout the company's service territory. The Greater Erie Community Action Committee (GECAC) acts as the financial agency.

This is a fund of last resort, requiring the individual to apply for all applicable energy assistance grants prior to applying for the Heat Fund. The applicant may only apply for assistance once per calendar year, with the grant issued to the energy vendor, not to the individual. The Heat Fund is opened year round and available to applicants who verify need.

Applicants must meet the following criteria:

- 55 years of age or older  
or
- On a disabled or handicapped income  
or
- Able to demonstrate a certified medical emergency  
and
- A resident within National Fuel service territory but not necessarily a National Fuel customer.

The fund may be used to:

- Prevent disconnection of utility service
- Pay overdue bills for any energy
- Purchase any type of heating fuel
- Repair or replace heating equipment

### Funding

National Fuel's shareholders contribute \$100,000 annually to the Heat Fund which includes both service territories in New York and Pennsylvania. One-third or \$33,333 is directed to Pennsylvania customers with two-thirds or approximately \$66,000 to New York customers. These percentages were derived from the approximate customer counts between the two states.

NEIGHBOR FOR NEIGHBOR HEAT FUND

GECAC is issued National Fuel shareholder money once a year with each participating human service screening agency allocated a percentage of the money for screening and servicing applicants. Any unspent money becomes part of a flexible spending account and would be rolled over into the next program year.

**Customer Contributions and Shareholder Match**

Shareholder funds are used as a dollar-for-dollar (1:1) match to incoming customer contributions, up to a maximum match of \$33,333. In reviewing program years 2001 to 2005, the data revealed that the sum of customer contributions to the hardship fund, exceeded shareholder fund match capability for four years in a row. In addition, an interview conducted with the GECAC Supervisor who administers the fund confirmed the need for additional shareholder dollars from National Fuel to serve the needs of customers within its Pennsylvania service territory. As a result in the increase in gas rates, National Fuel responded in April 2006 with an additional \$20,000 for Heat Fund distribution.

**Table 11**  
**Neighbor For Neighbor Heat Fund**  
**Contributions Comparison**  
**2001-2005**

	2001	2002	2003	2004	2005
National Fuel Shareholders	\$50,000	\$33,333	\$33,333	\$33,333	\$33,333
Customer Contributions	\$45,348	\$45,352	\$46,493	\$45,090	\$42,019
Over (under) Funded	\$4,652	(\$12,019)	(\$13,160)	(\$11,757)	(\$8,686)

NATIONAL FUEL Ad Hoc Report Neighbor For Neighbor Heat Fund of Pennsylvania  
 Program year is defined as October 1-September 30

**Finding 24**

The Heat Fund has been under funded for the past four program years. Customer contributions exceed shareholder match for the program years 2002-2005 by an average of \$11,405.

**Recommendation**

Increase shareholder funds to a minimum of the annual customer contribution amount during those years when contributions exceed shareholder funds.

And

Reevaluate the 2:1 distribution of shareholder funds between New York and Pennsylvania. Consider increasing shareholder funds to meet the needs of the growing population of 30,311 low-income customers in Pennsylvania.

See Needs Assessment Page [insert page number.](#)

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NEIGHBOR FOR NEIGHBOR HEAT FUND

**Grant Amounts**

Currently all applicants eligible for the Heat Fund grants receive a maximum of a \$300 grant, including non-National Fuel customers residing in the company's service territory. Currently, there is no payment requirement prior to customers receiving a grant.

**Finding 25**

National Fuel customers and non-National Fuel customers receive the same maximum Heat Fund grant amount of \$300.

There is no responsibility on the part of the applicant to exhibit good faith payments on their energy bills.

**Recommendation**

Lower the maximum grant for non-National Fuel customers to \$150 to serve a greater percentage of the company's customers with more available dollars.

Require the applicant to have made or to make three (3) good faith payments on their account prior to receiving a grant.

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## PROGRAM DESCRIPTION

### Overview

National Fuel's LIURP is a weatherization and conservation program targeted to low income, high usage customers.

Eligibility criteria include:

- High annual usage (in excess of 132Mcf)
- Substantial arrearage
- Income at or below 150% of Federal Poverty Level (FPL) income guidelines. An exception allows for 20% of the annual LIURP budget to be spent on the income level between 150%-200%.
- One year or more residency at the customer's premise.

LIURP customer provided services include the following:

- Heating system safety check
- Energy audit; energy education
- Wall and/or attic insulation where appropriate
- Blower door guided air sealing
- Other energy conservation measures
- Post inspection by a Company representative

### Needs Assessment

National Fuel prepared a 2005 LIURP Needs Assessment which revealed that approximately 62,439 individuals or 22,300 households were below 200% of the FPL income guidelines. Approximately twenty-seven percent (27%) or 6,021 customers below 200% FPL have natural gas usage in excess of 130 Mcf annually.

*See Appendix C: LIURP Needs Assessment*

### Referrals

Eligible customers are referred to the Energy Management Department for potential LIURP services through several sources: Consumer Business Department refers identified high usage customers, Outreach and Education Department refers high usage LIRA customers; Department of Community and Education Development (DCED) agencies refer customers who

PROGRAM DESCRIPTION

have received or are about to receive state weatherization services; and Telatron refers customers identified as income eligible from their prepared LIHEAP reports.

**Pre-Check**

The Energy Management Department thoroughly prescreens the referred customer list according to eligibility requirements. Once approved, a National Fuel representative proceeds with an exterior visual inspection of the home. This eliminates any home which may be in total disrepair or in need of major rehab. It also serves to verify the housing type and determines the viability of referring the job to a DCED agency for further weatherization. This step saves valuable time and avoided costs from an agency who would otherwise charge for a pre-check visit, regardless whether or not the home qualifies.

**Pre-Screen and Enrollment**

Company provided customer lists, pre-screened for eligibility, are sorted among the six participating subcontracted DCED agencies, serving 14 counties within National Fuel’s service territory.

Typically, LIRA customers with the highest consumption receive priority over non-LIRA high usage customers.

**Table 12**  
**Full Weatherization Completions**  
**2003-2005**

	2003	2004	2005
LIRA Completions	130	142	128
Total Completions	214	202	199
<b>LIRA % of Total Completions</b>	<b>61%</b>	<b>70%</b>	<b>64%</b>

2003-2005 LIURP Spending Report  
2003-2005 Universal Service Report-BCS

**Finding 26**

For program years 2003-2005, an average of 65% of all homes weatherized were high usage LIRA customers.

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## PROGRAM DESCRIPTION

### Energy Audits

National Fuel employs 1.5 full time energy auditors who offer specific audit/education services for the following customers:

- LIRA customers with <105 Mcf annual consumption receive a conservation flyer and letter offering an on site energy audit.
- LIRA customers between 105-120 Mcf automatically receive an on site energy audit unless the customers live in an apartment house owned by the housing Authority or live in a mobile home. In these cases, the customer is sent a conservation flyer.
- LIRA customers with > 120 Mcf are sent to the Energy Management Department for potential LIURP. The customer is cross checked with the Company back log, contractor and weatherization complete lists to confirm that the referred customer is a new referral and eligible for LIURP.

In addition to LIRA audits, the energy auditors respond to high bill PUC complaints and residential requests for furnace sizing and weatherization assistance.

### Weatherization Services

Once qualified, National Fuel mails a confirmation letter to the customer explaining the weatherization process and naming the agency that will be performing the work. Within two days of receiving the company list, agencies follow-up with a customer phone call to schedule an audit.

The DCED agencies provide the following:

- Initial intake audit which includes customer education of the weatherization process and testing for air infiltration utilizing the blower door.
- Installation of attic and side wall insulation if applicable.

National Fuel also subcontracts with two private heating and plumbing contractors who provide the following services:

- Safety gas furnace and water heater checks.
- Gas furnace clean and tunes.

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## PROGRAM DESCRIPTION

After the initial audit, one of the private heating and plumbing contractors schedules a customer visit to perform a safety check on the gas appliances, and a clean and tune of the gas furnace and water heater. If either or both of the appliances are unsafe, and the customer owns the home, National Fuel will replace the appliance with money from the Heating and Water Heating Repair or Replacement Program (Emergency Fund). If the customer is a renter, the landlord of the property is contacted for furnace replacement approval.

Each year, 25% of the LIURP budget (minus administration) is set aside for the Emergency Fund. In 2005, approximately \$230,000 was spent on replacement or repaired furnaces and water heaters. The fund is opened throughout the year and does not require Crisis funds as a prerequisite

Customers who meet the income guidelines but not the required usage for LIURP may also benefit from a furnace and water heater replacement through a referral process. Approximately 25% of the Emergency Fund may be utilized for non-LIURP customers.

**Finding 27**

Although the Energy Management Department estimates that most weatherization contractors complete LIURP jobs within a 60 day turnaround time, there is no internal tracking mechanism currently in place which confirms this.

**Recommendation**

Design a tracker which measures the lag time between customer referred to LIURP and weatherization completed.

**Post Inspections**

A National Fuel representative performs inspections on 50%-75% of weatherization jobs completed. This is a high percentage compared to industry standards of 25%. Since this is a mature program with experienced subcontractors, costs could be reduced by reducing the number of homes inspected.

**Recommendation**

Reduce post inspections to 25% of LIURP jobs completed to reduce costs and more closely align with industry standards.

## PROGRAM PERFORMANCE

**Energy Reduction**

National Fuel households receiving full weatherization services benefit from reduced consumption and pre-LIURP arrearage.

**Table 13**  
**Household Consumption Savings**  
**Post-LIURP**

	2004	2003	2002
Number of Homes Weatherized	202	214	182
Average Mcf Reduction	45	42	48
Average % Reduction	25%	23%	25%

LIURP Supplemental Evaluation Questions Report 2003-2005

**Finding 28**

For the most recent three year period, the average savings for customers receiving full weatherization services is 24.3%.

**Table 14**  
**LIURP Full Weatherization Jobs Completed**

	2005	2004	2003
Number of Full Weatherization Completes	199	206	243
Weatherization Expenditures Only	\$693,407	\$731,366	\$862,430
Cost per Job	\$3,485	\$3,550	\$3,549

LIURP Ad Hoc Report 2003-2005

**Finding 29**

The number of annual full weatherization jobs completed has decreased along with the cost per job during the program years 2003-2005. Increase in labor and material costs have contributed to the company's efforts to manage costs and control spending within their LIURP budget.

## APPENDIX

## LIRA Analysis and Adjustment Proposal

### Discount Dollars By Household Size

	1	2	3	4	5	6	7	8	9+	TOTAL
Feb 2006, Old Method	2,935,955	1,973,064	1,613,032	1,046,437	494,869	197,948	75,332	19,033	8,615	8,364,286
Feb 2006, New Method	2,573,199	1,763,747	1,579,865	1,147,925	594,957	272,983	104,492	33,752	27,162	8,098,081
Difference	(362,756)	(209,317)	(33,168)	101,488	100,088	75,035	29,160	14,718	18,547	(266,205)

### Average Discount per Household Size

	1	2	3	4	5	6	7	8	9+
Feb 2006, Old Method	1,088	913	811	660	582	501	523	488	410
Feb 2006, New Method	954	816	794	724	699	691	726	865	1,045
Difference	(134)	(97)	(17)	64	118	190	202	377	634

### Annual Cost per Household Size

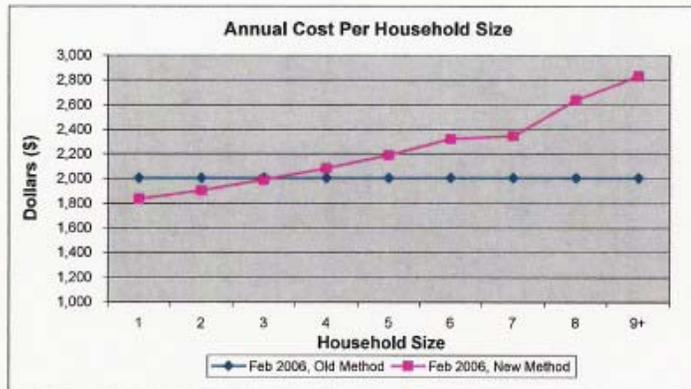
	1	2	3	4	5	6	7	8	9+
Feb 2006, Old Method	2,004	2,004	2,004	2,004	2,004	2,004	2,004	2,004	2,004
Feb 2006, New Method	1,833	1,900	1,969	2,081	2,187	2,317	2,343	2,637	2,829
Difference	(171)	(103)	(15)	77	184	314	339	633	826

\* For the Re-calculation, the average for all LIRA customers is equal to \$2003.52

### Monthly Usage (All LIRA Customers) (Mcf)

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Total
Feb 2006, Old Method	2.18	2.52	4.91	8.91	15.69	21.28	20.55	18.02	13.43	7.68	3.94	2.18	121.28
Feb 2006, New Method	2.18	2.52	4.91	8.91	15.69	21.28	20.55	18.02	13.43	7.68	3.94	2.18	121.28
Difference	-	-	-	-	-	-	-	-	-	-	-	-	-

\* Volume Normalized under New Methodology



## APPENDIX B

NATIONAL FUEL GAS  
DISTRIBUTION CORPORATION

Supplement No. 56 to  
Gas - Pa. P.U.C. No. 9  
Nineteenth Revised Page No. 37A  
Canceling Eighteenth Revised No. 37A

### MONTHLY RATE

After completion of selection of the customers to receive service under this rate schedule, the following percentage discounts shall be applied to the Residential Rate Schedule Basic Service Charge, Distribution Charge, Gas Adjustment Charge and Natural Gas Supply Charge:

80% Discount	Households with 8 or more people per household and an annual income below \$7,000. Households with 9 or more people per household and an annual income between \$7,000 and \$8,000.
70% Discount	Households with 7 people or less per household and an annual income below \$6,000. Households with 2 to 7 people per household and an annual income between \$6,000 and \$7,000. Households with 3 to 8 people per household and an annual income between \$7,000 and \$8,000. Households with 5 or more people per household and an annual income between \$8,000 and \$9,000. Households with 6 or more people per household and an annual income between \$9,000 and \$10,000. Households with 8 or more people per household and an annual income between \$10,000 and \$11,000. Households with 9 or more people per household and an annual income between \$11,000 and \$13,000.
60% Discount	Households with 1 people per household and an annual income between \$6,000 and \$7,000. Households with 2 or less people per household and an annual income between \$7,000 and \$8,000. Households with 3 or 4 people per household and an annual income between \$8,000 and \$9,000. Households with 4 or 5 people per household and an annual income between \$9,000 and \$10,000. Households with 5 to 7 people per household and an annual income between \$10,000 and \$11,000. Households with 5 to 8 people per household and an annual income between \$11,000 and \$12,000. Households with 6 to 8 people per household and an annual income between \$12,000 and \$13,000. Households with 8 or more people per household and an annual income between \$13,000 and \$16,000. Households with 9 or more people per household and an annual income between \$16,000 and \$17,000.

(C) Indicates Change

Issued: October 31, 2005

Effective: November 1, 2005

MONTHLY RATE (Con't)

50% Discount	Households with 2 or less people per household and an annual income between \$8,000 and \$9,000. Households with 3 or less people per household and an annual income between \$9,000 and \$10,000. Households with 2 to 4 people per household and an annual income between \$10,000 and \$11,000. Households with 3 or 4 people per household and an annual income between \$11,000 and \$12,000. Households with 5 people per household and an annual income between \$12,000 and \$13,000. Households with 6 or 7 people per household and an annual income between \$13,000 and \$14,000. Households with 7 people per household and an annual income between \$14,000 and \$15,000. Households with 8 people per household and an annual income between \$16,000 and \$17,000. Households with 9 or more people per household and an annual income between \$17,000 and \$18,000. Households with 10 or more people per household and an annual income between \$18,000 and \$20,000. Households with 11 or more people per household and an annual income between \$20,000 and \$22,000.
40% Discount	Households with 1 people per household and an annual income between \$10,000 and \$11,000. Households with 2 or less people per household and an annual income between \$11,000 and \$12,000. Households with 2 to 4 people per household and an annual income between \$12,000 and \$13,000. Households with 3 to 5 people per household and an annual income between \$13,000 and \$14,000. Households with 4 to 6 people per household and an annual income between \$14,000 and \$15,000. Households with 5 to 7 people per household and an annual income between \$15,000 and \$16,000. Households with 6 or 7 people per household and an annual income between \$16,000 and \$17,000. Households with 8 or more people per household and an annual income between \$17,000 and \$18,000. Households with 8 or 9 people per household and an annual income between \$18,000 and \$20,000. Households with 9 or 10 people per household and an annual income between \$20,000 and \$22,000. Households with 12 or more people per household and an annual income between \$22,000 and \$23,000. Households with 13 or more people per household and an annual income between \$23,000 and \$25,000. Households with 14 or more people per household and an annual income between \$25,000 and \$26,000.

(C)

(C) Indicates Change

MONTHLY RATE (Con't)

30% Discount	Households with 1 people per household and an annual income below \$12,000 and \$13,000. Households with 2 or less people per household and an annual income between \$13,000 and \$14,000. Households with 3 people per household and an annual income between \$14,000 and \$15,000. Households with 3 to 4 people per household and an annual income between \$15,000 and \$16,000. Households with 3 to 5 people per household and an annual income of \$16,000 to \$17,000. Households with 4 to 7 people per household and an annual income of \$17,000 to \$18,000. Households with 5 to 7 people per household and an annual income of \$18,000 to \$19,000. Households with 6 or 7 people per household and an annual income between \$19,000 and \$20,000. Households with 8 people per household and an annual income between \$20,000 and \$22,000 Households with 8 to 11 people per household and an annual income between \$22,000 and \$23,000. Households with 9 to 12 people per household and an annual income between \$23,000 and \$25,000.
20% Discount	Households with 2 or less people per household and an annual income between \$14,000 and \$15,000. Households with 2 people per household and an annual income between \$15,000 and \$16,000. Households with 4 people per household and an annual income between \$18,000 and \$19,000. Households with 4 or 5 people per household and an annual income between \$19,000 and \$20,000. Households with 5 to 7 people per household and an annual income between \$20,000 and \$22,000. Households with 6 or 7 people per household and an annual income between \$22,000 and \$23,000. Households with 8 people per household and an annual income between \$23,000 and \$25,000. Households with 8 to 13 people per household and an annual income between \$25,000 and \$26,000. Households with 8 or more people per household and an annual income between \$26,000 and \$27,000. Households with 9 or more people per household and an annual income between \$27,000 and \$29,000.

(C)

(C) Indicates Change

Issued: October 31, 2005

Effective: November 1, 2005

MONTHLY RATE (Con't)

10% Discount	Households with 2 people per household and an annual income between \$16,000 and \$17,000. Households with 2 or 3 people per household and an annual income between \$17,000 and \$20,000. Households with 3 or 4 people per household and an annual income between \$20,000 and \$22,000. Households with 3 to 5 people per household and an annual income between \$22,000 and \$23,000. Households with 3 to 7 people per household and an annual income between \$23,000 and \$25,000. Households with 4 to 7 people per household and an annual income between \$25,000 and \$27,000. Households with 4 to 8 people per household and an annual income between \$27,000 and \$29,000. Households with 4 or more people per household and an annual income between \$29,000 and \$30,000.	(C)
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(C) Indicates Change

## LIURP NEEDS ASSESSMENT

The following chart depicts the number of customers in National Fuel's service area that are likely to fall below 200% of the FPL.

COUNTY	Total Pop.	Number <=150%	Percent <=150%	Number 150-200%	Percent 150-200%	Number <=200%	Percent 200%	NFG Pop.	NFG Number <=200%
Armstrong	28,932	6,922	23.93%	3,561	12.31%	10,483	36.23%	409	148
Butler	65,929	11,159	16.93%	5,367	8.14%	16,526	25.07%	2,098	526
Cameron	2,468	514	20.83%	281	11.39%	795	32.21%	1,393	449
Clarion	16,011	4,247	26.53%	1,775	11.09%	6,022	37.61%	4,104	1,544
Clearfield	32,792	8,074	24.62%	4,171	12.72%	12,245	37.34%	6,124	2,287
Crawford	34,695	7,914	22.81%	3,983	11.48%	11,897	34.29%	17,709	6,072
Ek	14,105	2,337	16.57%	1,387	9.83%	3,724	26.40%	10,909	2,880
Erie	106,488	23,108	21.70%	10,147	9.53%	33,255	31.23%	86,917	27,143
Forest	1,996	559	28.01%	278	13.93%	837	41.93%	958	402
Jefferson	18,396	4,285	23.29%	2,274	12.36%	6,559	35.65%	6,531	2,339
McKean	18,027	4,106	22.78%	1,910	10.60%	6,016	33.37%	6,032	2,013
Mercer	46,755	9,530	20.38%	4,670	9.99%	14,200	30.37%	27,441	8,334
Venango	22,783	6,600	24.57%	2,442	10.72%	8,042	35.29%	15,061	5,315
Warren	17,700	3,314	18.72%	1,957	11.06%	5,271	29.78%	10,031	2,987
<b>Total/Avg.</b>	<b>427,082</b>	<b>91,669</b>	<b>21.46%</b>	<b>44,203</b>	<b>10.35%</b>	<b>135,872</b>	<b>31.81%</b>	<b>195,747</b>	<b>62,439</b>