STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

NEW ENGLAND GAS COMPANY

REBUTTAL TESTIMONY

OF

KAREN CZAPLEWSKI

Docket No. 3476

January 15, 2003

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I. *INTRODUCTION*

This testimony is filed in rebuttal to the direct testimony of Richard W. LeLash on behalf of the Division of Public Utilities and Carriers (the "Division") on November 22, 2002.

Q. Please state your name and business address.

A. My name is Karen M. Czaplewski. My business address is 100 Weybosset Street, Providence, RI 02903.

Q. What is your position and responsibilities?

A. I am Vice President of Customer Service for the New England Gas Company ("NEGC" or the "Company"). For purposes of this testimony, the New England Gas Company includes the operations of the former Providence Gas Company, Valley Gas Company, and Bristol and Warren Gas Company.

Q. What is your experience with the development and implementation of service-quality programs?

A. Prior to becoming the Vice President of Customer Service for NEGC, I managed the customer-service operations for other operating divisions of Southern Union, located in Texas and Missouri. In Missouri, I worked closely with the Missouri Public Service Commission to design and implement a performance-based service-quality program. I also belong to several trade organizations and professional associations relating to the customer-service field, including AGA, Northeast Gas, and Customer Society of Southeast New England.

Q. Have you submitted direct testimony in support of the Company's proposed service-quality program?

A. Yes. On September 30, 2002, I submitted joint testimony with Charles K. Meunier, Senior Vice President of Operations, wherein we discussed a proposed Service Quality Plan ("SQP") that the Company developed in collaboration with the Division. Although the Company and the Division did not reach agreement on a final SQP, the Company filed a proposal by the September deadline that reflected the consensus reached with the Division on a number of service-quality components.

Q. What is the purpose of your rebuttal testimony?

A. On November 22, 2002, Richard LeLash submitted testimony on behalf of the Division wherein he described a proposed service-quality plan that differed in several major respects from the proposal under discussion between the Division and the Company prior to the Company's filing. As I discuss below, the Division's revised proposal presents an unworkable system that will undermine the Company's ability to plan for and invest in long-term customer care initiatives. Most importantly, the design of the Division's proposal is not in the best interest of customers because it lacks consistency and mathematical integrity, and therefore, does not create a workable mechanism by which the Company's service-quality performance can be objectively measured and evaluated so that any deterioration (or improvement) in service quality is identified and addressed. The Company has retained the services of Dr. Lawrence Kaufmann of the Pacific Economics Group for the purpose of reviewing and evaluating the theoretical and mathematical underpinnings of the SQ plans filed by the Company and the Division, particularly in terms of the benchmark and deadband calculations. The purpose of my rebuttal testimony is to provide the Commission with information concerning the deficiencies in the Division's proposal and to offer additional information in support of the Company's proposed SQP.

Q. Please describe how your rebuttal testimony is organized.

A. My rebuttal testimony is organized as follows: (1) Section II responds to Mr. LeLash's comments on the "Service Quality Framework;" (2) Section III discusses the Division's proposed changes to the performance measures and benchmarks contained in the Company's SQP; and (3) Section IV discusses the Division's proposed penalty structure.

II. *SERVICE-QUALITY FRAMEWORK*

Q. In your opinion, what is the key objective of the service-quality plan that will result from this proceeding?

A. The development of a service-quality plan for the New England Gas Company is a requirement of the mergers between Southern Union, Providence Energy Corporation and Valley Resources, Inc. Specifically, as part of its Merger Settlement Agreement with the Division (and other settling parties not listed here), which was approved by the Division in Dockets No. D-00-02 and D-00-03, the Company agreed that "the quality of service experienced by customers must not be diminished as a result of the mergers" (Division Order at 71).

It is my understanding that, although the Company and the Division met several times subsequent to the Division's approval of the Merger Settlement Agreement, the final details of a service-quality plan were not resolved by the Division and the Company prior to the Company's rate-case filing on November 1, 2001, and that, therefore, both parties agreed to postpone the filing and continue to pursue a settlement arrangement. In the settlement agreement approved by the Rhode Island Public Utilities Commission (the "Commission") in the base-rate proceeding (Docket No. 3401) (the "Rate Settlement"), the Company confirmed its intent to develop the merger-related service-quality plan to be filed with the Commission by September 30, 2002 (Rate Settlement Agreement at 19).

As stated in the Merger Settlement Agreement, the key objective of the service quality plan that will result from this proceeding is to ensure that service quality does not diminish as the Company moves forward with its post-merger consolidation efforts.

Q. Why is it important to identify the objective of the SQ Plan?

A. It is important to identify the objective of the SQ plan because it serves as the touchstone for the design of the overall program. Here, the Company has proposed a service-quality measurement system that bases the performance benchmarks on historical performance and that will impose financial penalties if and when the Company's performance falls below historical levels. The Company's proposed SQ plan also provides the incentive for the Company to improve its level of service quality going forward.

This design meets the stated objective of ensuring against a deterioration in service, while going one step further than the settlement commitment and promoting service-quality improvements.

Mr. LeLash states in his testimony that the objective is to "ensure reasonable performance and to identify and fix any service deficiencies" (LeLash Testimony at 5). Aside from the fact that this objective is not consistent with the settlement commitment, this objective is problematic to the Company because Mr. LeLash has not presented a SQ program that would achieve his stated objectives. Mr LeLash has not presented a consistent theoretical or mathematical basis for the determination of "reasonable performance," nor is Mr. LeLash familiar with the nature of the Company's operations and the inherent deficiencies in his proposal to measure and penalize service quality on a monthly basis and to require remedial plans that will force the Company to institute short-term, temporary fixes, rather than focusing on permanent and long term customer-care initiatives.

Q. Is it reasonable or appropriate to evaluate and apply service-quality penalties to the Company's performance on a monthly or even quarterly basis?

A. No. For several reasons, it is not reasonable or appropriate to evaluate and apply penalties on a monthly or quarterly basis. First, I know of no other service-quality program that applies penalties on a monthly or quarterly basis, and to my knowledge, such an approach would not be consistent with industry practice. Many jurisdictions, including Massachusetts, do require performance data to be reported on a monthly basis (at the end of the year) and the Company has no objection to reporting data on a monthly or quarterly basis to the Division and the Commission. However, the Company is not aware of any jurisdiction that assesses penalties for gas utilities on anything less than an annual basis. The annual approach recognizes that there will be variations in the Company's level of service from month-to-month, often due to factors beyond the Company's control, and that it is the Company's <u>overall</u> level of service on specific performance measures throughout the year that is being measured.

Second, Mr. LeLash has not provided any analysis to support his claim that the monthly evaluation of service-quality is necessary to achieve the objectives of the SQ plan, whether the objective is to avoid deterioration in service or to "ensure reasonable service on a consistent basis" (LeLash Testimony at 7). Since the Company has indicated that it will provide monthly data to the Division and the Commission (either on a monthly or quarterly basis), month-to-month changes in performance during the annual period will be "identified" shortly after they occur.

Application of the penalties, or the formulation of a remedial plan, is not appropriate on monthly (or quarterly basis) because the Company may experience a change in the performance level in one or more months during the year, which does not necessarily indicate the service has deteriorated from historical levels, or even that the service is not "reasonable." There are many factors outside the Company's control that affect the Company's performance in any given month, especially where there are external factors that may cause differences from month to month in the number of customer calls, the number of requests for service appointments, and the number of gas-odor (or "leak") calls, relating to seasonal changes. Mr. LeLash has not addressed how these factors would be accounted for in his SQ program, although he recognizes that "most service measures will have some allowance associated with the benchmark to address performance variation that is not material" (LeLash Testimony at 5). In the Company's SQ Plan, these factors are accounted for through deadbands that recognize that there are variations in the performance data on a month-to-month basis.

Moreover, Mr. LeLash has not shown how the annual calculation of penalties under the Company's proposal (especially in light of the more stringent deadbands proposed by Dr. Kaufmann), would undermine or counteract the plan objectives. As noted above, under the Company's plan, monthly service "deficiencies" would be identified through monthly reporting to the Commission and the Division. To the extent that Mr. LeLash means that an annual measurement interval would make it less likely that penalties will be incurred, this is not necessarily true.

In fact, with respect to the call center as referenced by Mr. LeLash, it is the varying volumes of calls in each month of the year that would make it difficult to avoid the imposition of penalties under the Company's plan. This is because it is most likely that the Company would have difficulty in meeting its benchmark (which represents the average of historical performance) in a high call-volume period. If the Company misses the mark in a high call-volume period, it is very difficult to make up for that performance in the remaining months of the year, especially if those months encompass a low call-volume period. In fact, because the Company has computed its benchmarks to be the average of 12-months of performance, the calculation treats the Company performance in high-call volume months on the same basis on low-call volume months, which means that the resulting benchmark is more stringent than it would be if the Company weighted each month for the change in call volumes.

In addition, the greater the number of months of "deficient" performance, the less likely it is that the Company can turn things around and have no calculated penalty by the end of the year. If it is possible at all, it would only be because the Company provided extraordinarily good service in the remaining months, which certainly does not defeat the objective of the SQ plan, under any interpretation. In fact, the inherent incentives in the Company's SQ plan to correct service quality problems that may arise in a given month, and thereby attempt to avoid penalties, leads directly to efforts to "ensure reasonable service and to identify and fix any service deficiencies," which Mr. LeLash claims should be the objective of a SQ plan.

If the Company misses the mark in a low call-volume month, it is more likely that there were factors beyond the Company's control affecting the Company's performance, and therefore, the Company is not "avoiding" a penalty that should be incurred for deficient performance should the year end calculation not result in penalties.

Lastly, although Mr. LeLash is advocating that the objective of the SQ plan should be to "ensure reasonable performance," he then states that "call center staffing must be adequate to meet peak requirements, not just average 'acceptable' performance over extended periods of time" (LeLash Testimony at 7). These statements not only emphasize the inherent inconsistencies and arbitrariness of Mr. LeLash's proposals, but these statements also exhibit a fundamental misunderstanding of the link between customer service and staffing levels. The Company routinely adjusts staffing levels in relation to forecasted call volumes in order to ensure a reasonable and adequate level of service to customers during the peak period. However, if the Company is required to maintain an invariable level of service across all months within a year, especially if such service exceeds an "acceptable level" of service, then the cost of providing service to customers will be substantially increased.

Q. Could you please identify some of the external factors that affect the Company's performance and discuss why it is inappropriate to assess penalties or require remedial plans on a monthly basis given the existence of those factors?

A. Yes. As I stated above, during the year, there are many external factors that occur outside of the control of the Company, but that directly affect the Company's ability to serve customers. These factors include, but are not limited to:

- Cold or severe weather conditions;
- Weather-related flooding;
- High bill amounts resulting from cold weather;
- Problems with billing-related mail or banking services provided by third parties;
- Changes in gas costs;
- Pending or actual changes in legislation;
- Changes in regulatory policy;
- Publicized consumer advocate issues;
- Vendor recall issues;
- National energy and gas-supply issues;
- Third-party activities causing interruptions in gas service;
- Changes in low-income funding or to the procedures that affect qualifications for the funding;
- Delays in receiving funding from the state or federal government;
- Terrorism alerts and threats to distribution facilities
- Changes in policies or pricing for oil or electric companies.
- Issues relating to the winter moratorium

Fluctuations in the Company's monthly performance data is normal and expected as a result of the external factors listed above, and therefore, it is inappropriate to apply penalties on a monthly basis, especially when the monthly performance data is being compared to a single standard that applies on an annual basis, as Mr. LeLash is proposing (see LeLash Testimony at 15-26 (establishing benchmarks) versus Testimony at 27-30 (discussing quarterly penalty calculations)). This is why the Company's proposal, like other service-quality plans in place across the country, relies on the collection and reporting of monthly data and the annual comparison of performance to the benchmark. Relying on an annual comparison, in combination with benchmarks and deadbands that are mathematically computed based on actual historical data, enables a determination of the overall level of service provided by the Company on each specific measure, while accounting for the effect of external factors.

Q. Are there any other conceptual issues that Mr. LeLash has raised that you would like to address?

A. Yes. There are two additional issues that Mr. LeLash has raised that I would like to address, which are: (1) the operational realities associated with "remedial measures" to improve service levels; and (2) the need to establish an SQ plan that fixes the plan components for an adequate time period.

Q. Could you please discuss the concerns that you have in relation to Mr. LeLash's proposal to require a 90-day remedial plan at the end of the quarter whenever service levels are "deficient" in at least one month within the quarter?

A. Mr. LeLash's proposal to require plans to remedy (within 90 days) service "deficiencies" that may arise in one or two months within the quarter is infeasible, short-sighted and will be extremely burdensome for all parties involved in this process. In particular, Mr. LeLash's proposal completely disregards the operational realities involved in maintaining and improving service-quality levels. If a true service-quality issue exists, the implementation of meaningful and permanent remedial measures requires a time-period well in excess of the 90-days period proposed by Mr. LeLash. For example, the time span required to add an additional employee to the call center staff is approximately <u>eight</u> months. The steps involved in this eight-month process include recruitment, completion of background checks, hiring, and training. With respect to training, new call-center employees receive at least three months of classroom training and are not allowed to answer calls on an unsupervised basis for three months. Similarly, to the extent that technology alternatives are available to address the service issue, considerable time (and investment) is needed to plan, procure, implement and train staff on the use of the technology. To meet the Division's 90-day requirement, the Company will need to apply short-term, temporary fixes rather than focusing on the implementation of long term customer-care initiatives.

Contrary to Mr. LeLash's assertion that the Company's performance on "customer-related measures" is "directly dependent upon adequate staffing levels," (LeLash Testimony at 15). I must note that there are many steps that a company may take to maintain or improve performance on customer-related measures, even with declining staff levels. The Company has implemented a number of initiatives to improve service, which do not relate to staffing levels, and that have involved a substantial commitment of time and resources. Very few of these initiatives could have been accomplished within a 90-day time period and very few would have a large impact on service quality levels in and of themselves. In fact, the Company's efforts to maintain and improve the quality of service are part of an integrated and long-term business plan. Therefore, Mr. LeLash's suggestion that 90-day remedial plans be filed anytime that there is <u>one</u> month of sub-par performance in a quarter is unreasonable and unworkable.

Q. Could you provide some examples of the initiatives that the Company has implemented to maintain and improve service quality as the operations are consolidated?

A. Yes. Below is a partial list of the steps that the Company has taken to maintain and improve performance levels in the call center:

- Restructured the call center and established Team Leader Units with associates or lead representatives assigned to each Team Leader (this helped free up the Team Leader for employee monitoring, coaching and development and provided resource for handling common customer questions and routine paperwork);
- Increased the number of on-site call center Team Leaders in Providence from two to three. (this allowed for additional coaching and employee feedback and development, helped to improve employee contact handling skills and reduced average contact handling time);

- Established and implemented a Business Analyst position to develop and issue forecast of call volumes;
- Established new employee tour schedules to improve service and reduce abandon call rate;
- Implemented new Call Management System which generates more accurate and timely workforce schedules;
- Installed new and faster computers (November 2001) that helped improve customer service rep efficiency and response time;
- Developed specific employee measures for productivity and quality;
- Developed and conducted periodic incentive contest to encourage employees to improve contact handling skills, improve service levels and reduce abandon call rate;
- Recruited and hired new Training Supervisor to assess training needs and developed and conducted ongoing training;
- Provided on-going features and training of new methods and procedure;
- Developed and delivered contact standards training geared to help the customer service representatives focus on the quick and efficient handling of customer calls/requests;
- Implemented a results bulletin board to measure and display results thereby increasing employee awareness and importance of improving service level and reducing abandon call rate;
- Established a rotating schedule for handling the customer inquiry file and mail processing in order to improve efficiency, increase flexibility and cross training;
- Developed and implemented a new procedure for handling new applications for service, eliminating the need for all new customers to come in to fill out an application;
- Implemented an Agent Assist Line/Hot Line for service representatives, which enables service representatives to get their questions answered quickly online without having to get up and walk over to an Associate or Team Leader. (this reduced contact handling time);
- Implemented Language Line to reduce abandon call rate and enabled non-multilingual customer service representatives to handle non English speaking customers;
- Expanded office hours to 7am to 7pm Monday through Friday and Saturdays 7am to 3:30pm from the Saturday after Labor Day until the Saturday before

Memorial Day. (this helped to improve the service level and reduce abandon call rate on Monday and spread the load during the week;

- Restructured Associates jobs to increase productivity. Associates are used on line during peak calling periods;
- Provided advance initial and continuation training on new rates and tariffs associated with the last rate case;
- Implemented strategies to centralize handling of certain functions like handling Direct Deposit requests to improve service and free up other employees to handle incoming call volumes.

Q. Are there any other issues to discuss in relation to the 90-day remedial plans?

A. Yes. In addition to the unfeasibility of implementing meaningful and long-term service initiatives within a 90-day period, there is a substantial potential for a mismatch between the timing of the remedial plan and the service "deficiency" to which it is directed. Specifically, if there are one or more months within the first quarter of the year in which service falls below the deadband, that service deficiency may be related to some temporary factor (such as those listed above). Since the problem is temporary and relates to the occurrence of a specific circumstance, there would be no remedial plan that could be applied in the second quarter to "cure" the deficiency in the first quarter.

Q. Do you have any concerns regarding Mr. LeLash's proposal that an annual review proceeding should be conducted to add, revise, or delete performance measures and to alter individual benchmarks and penalties.

A. Yes. I have serious concerns about this proposal in terms of the ramifications for the Company's operations going forward. First and foremost, the Company would find this process to be disruptive and unworkable in terms of implementing the SQ plan, and in terms of complying with its requirements, if all of the components are subject to change on an annual basis. As is the case with many of Mr. LeLash's other proposals, this proposal demonstrates a fundamental misunderstanding of the commitment of time and resources that will be required to conform our operations to the SQ plan in terms of data collection, measurement and reporting requirements, and more importantly, to ensure that the established standards can be met so that customers are the beneficiary of this plan.

For example, once the terms of this plan are finalized, either in discussion with the Division, or by the Commission, the Company will devote resources to training Company personnel on the requirements and other activities to ensure that all goals and objectives are met. It will be highly disruptive and counterproductive to negate these efforts within months of implementing the initial rendition of the plan. At the very least, the Company needs to have set performance measure, benchmarks, deadbands and penalties through June 30, 2005 in order to conduct operations cost effectively in compliance with the standards.

III. *PERFORMANCE BENCHMARKS*

Q. Why is it important to define the performance measures to be consistent with the way in which data was historically collected?

A. In putting together a workable service-quality plan, it is of critical importance that the performance measures are defined to be consistent with the way in which historical data for those measures was collected. If the performance measures are not defined to be consistent with the way in which data was collected in the past, then the comparison between current performance levels and the benchmarks will represent an "apples to oranges" comparison. This mismatch will make it impossible to ascertain whether there has been a change (for better or worse) from historical levels, which means that there is the potential for the Company to be penalized when no decline in service has occurred, or for the Company to avoid a penalty when there has been a decline in service. If benchmarks are appropriately calculated based on historical data and if the performance measures are defined to be consistent with historical data-collection procedures, then changes in service quality (for the better or worse) will be apparent to the Company, as well as to the Division and the Commission. This will ensure that any deterioration in service quality is identified and addressed.

Q. Is the Division proposing changes to the performance measures proposed by the Company?

A. Yes. The Division is proposing several changes to the definitions of the performance measures that are inappropriate. Many of these changes would render the historical data and the proposed benchmarks irrelevant since the changes proposed by the Division modify the way in which data would be collected in the future and will create a mismatch between the performance data and the benchmark. As a result, it will be impossible to compare future performance to historical performance, or to identify an appropriate level of service if the benchmark were determined on the basis of something other than historical service levels. In addition, the Division has proposed changes that do not make sense in terms of the activity that is being measured. Each of these proposals is discussed in turn below.

Q. Please discuss the differences between the Company's and the Division's proposal in relation to the call-center measures.

A. There are two performance measures that are associated with call-center responsiveness, which are the Abandoned Call Rate ("ACR") and the Average Speed of Answer ("ASA"). Abandoned calls are incoming calls to the call center where the caller hangs up before being answered. The Company proposed that the ACR measure be defined as the annual ratio of the number of abandoned calls as compared to the total number of calls into the call center. The Company's proposed ASA measure is defined as the percentage of calls answered within 60 seconds, excluding abandoned calls. The Division agrees with the establishment of these two measures for the call center, but is recommending two changes to the ASA measure: (1) that the ASA measure include abandoned calls; and (2) that the ASA measure be modified to identify the percentage of calls answered in 120 seconds, rather than 60 seconds.

Since the filing of the ASA historical data on September 30, 2002, the Company has determined that the historical data for the ASA measure that was provided to the Division and the Commission does already include abandoned calls. Although the inclusion of abandoned calls in the ASA, in combination with a separate ACR measure, effectively exposes the Company to a double penalty for abandoned calls, the Company agrees that the ASA measure should be defined to include abandoned calls, since the historical data reflects the inclusion of those calls. Therefore, the Company has no objection to the Division's recommendation on this issue.

Conversely, the Company does object to the recommendation that the ASA measure be defined as the percentage of calls answered in 120 seconds, rather than the percentage within 60 seconds. The Company primarily objects to the Division's recommendation because it is not consistent with industry practice. In my experience and knowledge of the industry, the ASA is typically measured and reported at a 60 second interval or less. Also, it should be noted that defining the measure as the percent answered within 120 seconds or the percent answered within 60 seconds makes very little difference in terms of the level of service provided by the Company. The percentage of calls answered within 60 seconds will naturally differ from that within 120 seconds. So long as the benchmark percentage of calls is established based on historical data, the Company is neutral as to whether the measure is defined as within 60 seconds or within 120 seconds.

However, the Company believes that measuring the percentage answered within 60 seconds will be more germane to an assessment of the Company's speed of answer in terms of customer expectations. Moreover, the Company recently invested in a new switch to allow the ASA to measured on a consistent basis for all areas of the Rhode Island service territory on a 60-second basis. Therefore, moving to a 120-second standard would involve new costs for the purpose of delivering what the industry perceives to be a lower level of customer service.

On a related issue, I must address Mr. LeLash's statement that the Company's ASA performance is a function of the Company's staffing levels and that the Company should be "expected" to adjust its staffing levels to achieve the benchmark level (LeLash Testimony at 19). As I discussed above in detail, there are many steps that can and have been taken to improve call center performance that are independent of staffing levels. Mr. LeLash's comments ignore any technical or cost-benefit analysis to identify process changes that will result in improvements in call center performance. The Company anticipates that the identified process improvements and other potential modifications will enable the Company to meet its service-quality requirements.

Q. Please discuss the differences between the Company's and the Division's proposal in relation to Service Appointments Met.

A. There is only one difference between the Company's and the Division's proposals on the Service Appointments Met performance measure, which is that Mr. LeLash recommends that the measure should exclude instances where the Company showed up for an appointment and the customer did not (LeLash Testimony at 20). This recommendation is misguided and unfounded. First, there is no basis for excluding appointments that the Company has met from the measure just because the customer failed to meet the appointment. To meet the appointment, the Company needs to prioritize, allocate and dispatch resources to the customer's service location, and therefore, the fact that the customer is not there when the Company gets there is irrelevant to the inquiry actually under consideration, which is: Did the Company adequately organize and manage its operations in order to meet its scheduled service appointment? For the Company, the efforts required to answer that question in the affirmative are no different under the circumstances where the customer is not there.

In addition, the Company's historical data does <u>not</u> exclude these appointments, and therefore, the adoption of the Division's proposed measure would create a mismatch between the way the historical data, and the benchmark calculated using that data, and the way in which performance data will be collected going forward. Mr. LeLash does not indicate what this change would add to the measure.

Since the efforts involved in meeting an appointment that the customer does not meet are no different that those appointments where the customer shows, and since these appointments were not excluded on a historical basis, there is no basis for the Commission to adopt the Division's recommendation.

Q. Please discuss the differences between the Company's and the Division's proposal in relation to On-Cycle Meter Reads.

A. There is only one difference between the Company's and the Division's proposal in terms of On-Cycle Meter Reads. Specifically, the Division is suggesting that the measure should be modified so that the denominator in the percentage calculation is the number of active meters, rather than the number of meters "assigned to be read" (LeLash Testimony at 22-23). Mr. LeLash states that this change should be made so that the Company cannot manipulate the performance data on this measure (id. at 23). Although it is unclear what Mr. LeLash's concern is in terms of the "manipulation" of the data when calculated as meters "assigned to be read," the Company will provide the Division with its monthly meter reading schedules for the service areas where automated meter reading is not available at the beginning of each annual measurement period, so that the Division can be assured that the Company is working against a set goal. The reason that the language cannot be changed to adopt the Division's proposal is that the Company does not schedule to be read every active meter every month. A portion of the Company's meters are scheduled to be read every other month, with estimated reads coming in between, however, estimated reads are not counted in the measure as "meters actually read." This practice is long standing, especially in the Valley gas service territory, and therefore contradicts Mr. LeLash's statement that "active meters" is the appropriate definition when applied to the cycle reads processed in one month (id.). The Company's proposed definition is also consistent with industry practice. Conversely, the Division's proposal is not consistent with the Company's historical data, and therefore, no change to the measure should be made.

Q. Please discuss the differences between the Company's and the Division's proposal in relation to Leak Call Response Times.

A. The only issue raised in relation to the definition of Leak-Call Response times is that the Division is looking for the Company to define what will constitute as an "initial response." Consistent with historical practice, the Company will include in its data the time that elapses from the time a call is received until the point that qualified company personnel arrives at the scene, which does not include repair time.

Q. Why is it important to establish performance benchmarks based on historical data?

A. The only way to determine whether service quality has declined (or improved) over a given time period is to compare the Company's performance to a benchmark that is calculated based on the Company's own historical data. If the performance benchmarks are not based on the Company's own historical data, then the benchmark will be invalid, since it is highly likely that the benchmark will be set at a level that is higher or lower than the actual level of service provided by the Company on a historical basis. If the benchmark is set to be higher than historical levels, the Company could be forced to institute service-quality improvements that may or may not be cost effective and that are inconsistent with the plan objective of ensuring against a decline in service. Alternatively, the benchmark may be set too low, which means that the objective of the plan is defeated since customers are not receiving a level of service to which they are due.

Therefore, it is important to establish performance benchmarks that represent the level of service that has been provided over a historical time period. This type of computation avoids the pitfalls of establishing an arbitrary benchmark that may not represent the appropriate level of service given the plan's objectives. The theoretical rationale for this approach is discussed in detail in the testimony of Dr. Kaufmann. However, this approach is consistent with my knowledge of industry practice regarding the typical structure of service-quality plans that are put in place to ensure against a deterioration in service quality. In fact, a fundamental flaw in the Division's service-quality proposal is that the benchmarks are arbitrary, and in several cases, represent the lower boundary of historical service levels. As a result, the Division's proposed benchmarks may not achieve the plan objective of protecting against a deterioration of service.

Q. Could you please comment on the Company's new proposal for performance benchmarks and deadbands?

A. In Dr. Kaufmann's testimony, he is proposing a set of performance benchmarks and deadbands that are more stringent than those previously proposed by either the Company or the Division. Although there is less historical data than would be desirable on which to establish the benchmarks and deadbands, the Company supports Dr. Kaufmann's calculations because he has applied a systematic approach to the establishment of benchmarks and deadbands.

By comparison, however, the Division has not applied a mathematical or systematic approach to the establishment of benchmarks. Rather, in relation to each measure, the Division has arbitrarily chosen a benchmark without any consistent theory or approach. For example, in his testimony, Mr. LeLash states that "a utility with [historical] performance of 95% and an industry average of 97% might result in a 96% benchmark" (LeLash Testimony at 6). However, in relation to some measures, a one percent difference in a benchmark, as compared to the benchmark that would be computed using actual historical data, can represent a profound difference in the level of service that the Company must provide. Because it is critical that the benchmarks represent the level of service historically provided by the Company, the Company's proposed benchmarks are based on a consistent, mathematical approach that can be carried forward to future time periods, which has the effect of ensuring that service quality levels may be easily and objectively evaluated.

IV. *PENALTY RECOMMENDATIONS*

Q. Do you agree with Mr. LeLash's proposal to establish a penalty mechanism that would evaluate performance and assess penalties on a monthly or quarterly basis?

A. No. As discussed above in detail, I strongly disagree with Mr. LeLash's proposals on the penalty mechanism. First of all, the mechanism is a penalty-only structure, which is inconsistent with the Division's commitment in the Rate Settlement approved in Docket 3401, as discussed below. Second, I object to the proposals to: (1) assess penalties calculated on a quarterly basis where performance falls below the benchmark in as little as one or two months (LeLash Testimony at 29); and (2) apply penalties based on a quarterly calculation when performance falls below the Division's benchmark in just one month within the 12-month period following the "remediation" period associated with the original occurrence (id.). Third, from an overall perspective, I object to the Division's penalty mechanism because, to the best of my knowledge, it has no precedent in the industry, is completely untested and is dependent upon benchmarks that are arbitrary, fluid and insensitive to the external factors that affect our service performance.

Q. Do you agree with Mr. LeLash's proposals relating to the weighting that should be given to each performance measure?

A. No, I do not agree with Mr. LeLash's recommendations as to the penalty weighting because his proposals are not consistent with industry practice, which favor heavier penalties on safety-related measures. More importantly, the Division's proposals shift penalty dollars away from the call-center measure, which is the area in which the Division is seeking a service improvement, as well as the leak response measure, which Mr. LeLash states is of critical importance. Conversely, the Division's proposal would allocate greater dollars to meter reads, meter testing and service appointments met, which are measures on which the Company has performed well in the past, and got which there exists less reason to allocate penalty dollars to ensure adequate incentives to achieve targeted performance levels. Taken as a whole, Mr. LeLash's proposed weightings are entirely inconsistent with concerns that he has raised on behalf of the Division elsewhere in his testimony, nor are these proposed adjustments designed to be achieve some identified objective. Therefore, these adjustments should be rejected by the Commission.

Q. Are there any instances in which the Company would be exempt from the penalty mechanism?

A. The intent of including deadbands and penalty offsets is to recognize that: (1) there is limited data upon which performance benchmarks can be set, and therefore, deadbands and penalty offsets are necessary to ensure that the Company is not erroneously penalized; and (2) to ensure that the Company is managing its operations to meet the normal occurrence of external factors that are outside the control of the Company, but are reflected in historical performance data used to compute the benchmarks. This means that the deadbands are designed to account for variations in performance related to weather and other external conditions, rather than relying on an exogenous filing every time there is a storm or change in gas cost prices as the Division suggests (LeLash Testimony at 12) If performance levels fall outside of the deadband, penalties and offsets will apply, with the exception of the two safety-related indicators, where performance below the lower bands leads automatically to penalties.

However, as proposed by the Company, penalties would not be applied to its performance if the Company demonstrates that, during the 12-month performance period, the Company's service-quality performance data was materially affected by: (1) an extraordinary circumstance, including, without limitation, catastrophes, natural disasters, extreme adverse weather, extreme natural gas prices, sabotage, terrorism, work stoppage or other unforeseen events or force majeure beyond NEGC's control; and (2) the failure of other companies to provide service to NEGC customers. This provision is consistent with Narragansett Electric's in-force performance standards. Such claims would be documented as part of the quarterly reports to the Division and the Commission.

Q. Could you please discuss the Division's commitments regarding the inclusion of penalty offsets?

A. The inclusion of penalty offsets is required under the terms of the Rate Settlement Agreement in Docket 3401. Specifically, the Rate Settlement approved by the Commission on June 14, 2002, states in relevant part:

> The Company and the Division will continue ongoing discussions regarding the development and implementation of a Service-Quality Program, with the intention of submitting a proposal to the Commission no later than September 30, 2002, for review and approval in a separate proceeding. If the Company and the Division cannot agree on a Service Quality Plan, the Company will file its own proposal by September 30, 2002. Any Service Quality Plan filed with the Commission will include a system of penalties and penalty offsets.

As a result, there does not appear to be any justification for the Division's exclusion of penalty offsets.

Q. Does this conclude your testimony?

A. Yes, it does.