STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

NEW ENGLAND GAS COMPANY

SUPPLEMENTAL REBUTTAL TESTIMONY

OF

KAREN CZAPLEWSKI

February 21, 2003

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DOCKET No. 3476

I. INTRODUCTION

This supplemental rebuttal testimony is submitted in response to the surrebuttal testimony of Richard W. LeLash, which was filed on behalf of the Division of Public Utilities and Carriers (the "Division") on February 7, 2003.

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. Have you submitted previous 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, discussing a proposed Service Quality Plan ("SQP") that the Company developed in collaboration with the Division. On January 15, 2003, I submitted rebuttal testimony addressing a number of issues raised in direct testimony filed by Mr. Richard LeLash on November 22, 2002, on behalf of the Division.

Q. What is the purpose of your supplemental rebuttal testimony?

A. On February 7, 2003, Mr. LeLash submitted surrebuttal testimony proposing, among other things, an "alternative SQP framework" that reflects certain modifications to the Division's previous proposal. As I discuss below, notwithstanding the changes put forth by the Division, the proposal continues to be flawed from a methodological and operational perspective.

In particular, Mr. LeLash is advocating a program that decouples the performance benchmarks against which the Company's performance in the future will be measured from the Company's actual performance capabilities and operating environment. In doing so, the Division's proposed program fails to create a reliable methodology for measuring, comparing and evaluating the level of service quality being provided to customers by the Company. Moreover, the Division's proposed SQP fails to establish a correlation between future performance requirements and the Company's actual performance over a reasonably representative period of time, nor does the proposed SQP ensure that the required level of service can be achieved at cost levels that are acceptable to the Commission and, ultimately, to the Company's customers. The purpose of my supplemental rebuttal testimony is to provide the Commission with information concerning those issues and deficiencies.

Q. Please describe how your supplemental rebuttal testimony is organized.

A. My supplemental rebuttal testimony addresses the following aspects of the Division's proposal: (1) the establishment of performance benchmarks that are unrelated to historical performance; (2) the use of quarterly evaluation periods; and (3) the design and intent of the service-quality penalty/offset system.

II. DISCUSSION

Q. Do you have any general comments on Mr. LeLash's proposed performance benchmarks?

A. Yes. First, as stated in my rebuttal testimony, the purpose of the service-quality plan (the "SQP") under development in this proceeding is to ensure that service quality does not diminish as the Company implements the consolidation plan underlying the rates that have just been put into effect by the Commission. Although Mr. LeLash acknowledges this to be the case, the Division's proposed SQP is designed instead to require a significantly increased level of service to "ensure that the service performance being monitored and evaluated is adequate and reasonable," (Testimony at 2). Mr. LeLash provides no analysis or supporting documentation to show how he has arrived at the conclusion that the benchmarks he proposes represent "adequate and reasonable" levels of service, even if that were the objective of the SQP. Nor has Mr. LeLash analyzed the capabilities of the Company's existing systems, or, to the extent that system upgrades or process improvements would be required to increase service to the levels he is advocating, what the cost would be to achieve those levels.

Q. What is the rationale for basing performance benchmarks on the historical performance of the Company and why is the Division's approach to the establishment of benchmarks methodologically unsound?

A. The Company's ability to meet the service requirements of customers is a function of two primary components: (1) the systems, equipment and human resources that are available to the Company; and (2) the external factors that shape the business environment within which the Company operates. As I discussed in my rebuttal testimony (at page 10), many of the external factors affecting the Company's operating environment are beyond the Company's control, such as weather and the cost of gas. The Company must manage its available resources to respond adequately to these changes in order to meet the needs of customers. However, there are practical constraints on the Company's ability to respond to these factors in that there are limitations both on the costs that may be incurred to provide service to customers and on the Company's ability to control the external factors that affect day-to-day operations. The Company's historical performance data inherently takes into account these limitations.

In terms of cost, the Company is in the process of implementing a consolidation plan to achieve estimated cost savings that have already been incorporated into the rates that customers are currently paying. In conjunction with the consolidation plan, the Company agreed to develop an SQP that would ensure that customers do not experience any declines in the level of service historically provided by the Company as the Company works to reduce costs that were previously collected in rates, i.e., the intent of the plan is to ensure that customers receive at least the same level of service at reduced costs, all else being equal.

In this case, the Division is proposing to establish an SQP that relies on performance benchmarks that are unrelated to historical service levels, and therefore, may require significant service improvements. However, the Company's service-quality related costs are locked into current rates as a result of the rate freeze. Therefore, the Company's ability to improve service levels is constrained by the costs that underlie the rates that are currently in effect. Although there are many improvements that the Company can make (and has made) that do not require additional costs, significant increases in service levels can only occur with additional investment. Therefore, even if the intent of the SQP was to increase service levels, an investigation of the appropriate service levels and of the costs of attaining those levels would have to be undertaken to ensure that, when rates change in the future, the costs incurred to bring service to those levels is warranted and appropriate. The Division has not undertaken an evaluation as to the service levels that would represent "adequate and reasonable" service to customers, nor has the Division evaluated whether the costs of achieving these service levels are warranted and appropriate.

In addition, the Company's operating environment is directly affected by external factors that are beyond the Company's control. Using the Company's historical data to set benchmarks is appropriate because the factors affecting the Company's performance are generally reflected in that data, as long as sufficient data exists to ensure that a reasonable range of operating experience is captured in the data. The Division has not demonstrated that its proposed benchmarks are reasonable or achievable given the range of operating circumstances that the Company is likely to encounter over time.

In fact, the service levels that the Division is recommending are completely arbitrary. In some cases, the Division has opted to pick a lower level of service than proposed by the Company in an attempt to establish an absolute level of required service, rather than devising a mechanism that addresses normal, minor fluctuations in performance data caused by external factors. In other cases, Mr. LeLash is attempting to establish performance levels that would increase the level of performance required from the Company substantially beyond historical levels. Moreover, given the design of the SQP, i.e., the lack of deadbands and potential for offsets where service has been improved, Mr. LeLash's proposal actually creates a disincentive to make any process or systems changes because of the potential that a variation in the one or two months data following the implementation of those changes would cause the Company to incur a penalty.

Q. Do you have any specific comments on the performance benchmarks proposed by the Division?

A. Yes. I have specific comments on the benchmarks for two performance measures discussed in the testimony of Mr. LeLash, which are the abandoned call rate and the average speed of answer rate. The lack of a methodological approach to the establishment of these benchmarks produces several inconsistencies in Mr. LeLash's testimony. First, Mr. LeLash's proposed benchmark for the first year would allow a substantially lower level of service in the first year (20% versus the 16.8% proposed by the Company). By the third year, the benchmark is much more stringent than any level historically achieved by the Company. The only period in which the Company has had an abandoned call rate of 10 percent or less was the period beginning January 2002, which occurred during the warmest winter in over 100 years and during a period where there was a minimum level of shutoff activity. Mr. LeLash's schedules show that, during this period, the Company experienced some of the lowest call volumes in the entirety of the Company's historical data (Schedule 1, Page 3 of 3). It is not reasonable or appropriate to pick data from these isolated and extraordinary months to serve as a the basis for a performance benchmark that would be applied in the future on a quarterly basis in every quarter of the year.

Similarly, the Average Speed of Answer rate benchmarks are not consistent with the Company's historical experience. In fact, Mr. LeLash states that "it appears that the Company cannot currently meet the typical 80% compliance level," which he is proposing to apply in the third year of the SQ Plan (LeLash Rebuttal Testimony at 12). Yet, Mr. LeLash is proposing this service level without any analysis as to the cost of attaining such a level of service in the future or whether the costs of achieving this level of service would be appropriate for Rhode Island customers. In addition, it should be noted that, in the Division's direct testimony, it first advocated for a benchmark of 80% of calls answered within 120 seconds (versus 80% in 60 seconds as is now proposed), which underscores the randomness and arbitrariness of the Division's proposals on these benchmarks.

Q. Do you have any other comments on the benchmarks proposed by Mr. LeLash?

A. Yes. Although it is not my area, Mr. LeLash recommends that the benchmark for leak response times be set at 80% within 30 minutes (during business hours) and 80% within 45 minutes during off-business hours (LeLash Surrebuttal at 19). Mr. LeLash further recommends that these benchmarks be raised to 90% in the second year (id.). Mr. Meunier is best situated to address this issue more specifically, however, these benchmarks represent a significant change and Mr. LeLash's only support for these arbitrary benchmarks is that "these percentages would still be below the 95% level which is required in other SQPs." I will not address this point further, except to say that it is my understanding, that in those jurisdictions with the 95% benchmark, the standard is 95% of leak calls responded to in 60 minutes or less, and not the 30 and 45 minutes that the Company is required to measure.

Q. Isn't it reasonable for the Division to seek to increase the level of service provided to Rhode Island customers?

A. The Company does not disagree that Rhode Island customers should be provided a level of service that is adequate and reasonable as Mr. LeLash states. The Company is undertaking efforts on a number of fronts to ensure that customers receive adequate and reasonable levels of service while the Company is, at the same time, striving to achieve the cost savings that have already been passed on to Rhode Island customers through rates as a result of the settlement in Docket No.3401.

My concern with Mr. LeLash's proposals is that, although the Company is making steady progress in the call center and other operational areas of the Company, it becomes increasingly more costly and difficult to identify and make changes to improve service as that progress is made. As I stated in my rebuttal testimony (at pages 13-14), the Company has made a number of process changes to maintain and improve performance in the call center. However, at some point, the ability to increase service even by just one percent will require significant expenditures for more sophisticated systems, equipment, training and staffing. In addition, the time involved to implement changes to achieve improvements can be much longer.

Moreover, the Company's proposed structure would allow the Company, in limited cases, to get credit for performance that is above historical levels. If Mr. LeLash's intent is to design a system that will result in performance levels that are well above historical levels, then allowing the Company an opportunity to get credit for service improvements would provide an incentive to identify and invest in the resources that are necessary to bring service to those levels.

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

A. No. As I stated in my rebuttal testimony, it is not reasonable or appropriate to evaluate and apply penalties on a quarterly basis because the Company will inevitably experience variations in performance levels between one or more months during the year, and these variations do not necessarily indicate any change or deterioration in the level of service provided by the Company, or even that the service is not "reasonable" in light of these operating conditions. In that regard, the fact that the evaluation periods are quarterly rather than monthly does not change the deficiencies of the Division's proposal, because the three-month period is not long enough to account for temporary trends in the business environment, which are often weather-related. The annual period is appropriate because it represents a "business cycle" in terms of weather, financial and economic conditions, and resulting customer demands.

As an additional note, Mr. LeLash states in his testimony that New Hampshire utilizes a monthly SQP mechanism (LeLash Surrebuttal at 10). To my knowledge, New Hampshire has not adopted such an approach on a uniform basis for its gas distribution utilities. Specifically, there are two gas distribution companies operating in New Hampshire, the largest of which is KeySpan Energy Delivery New England ("KeySpan"). The New Hampshire Public Utilities Commission has in place a service-quality measurement program for KeySpan that is reviewed on an annual basis (with monthly reporting), and does <u>not</u> include any penalty provisions. The program to which Mr. LeLash apparently refers was part of a comprehensive base-rate settlement for Northern Utilities, Inc. Under the specific terms of that rate settlement, Northern Utilities agreed to implement a specialized SQP that includes the potential for monthly penalties on only five performance measures, with a maximum cumulative penalty level of $60,000 on an annual basis.

Q. The Division has proposed to allow for "Exogenous Events" to account for the effect of these external factors, do you agree with this approach?

A. No, I do not. As I discussed in my rebuttal testimony (at page 10), there are a myriad number of external factors that drive and affect the Company's performance in any given month both in relation to the call center and in relation to field activities. These factors have a continual and unavoidable effect on the Company's operations and are frequently not quantifiable in terms of presenting the existence of an "exogenous event" to the Division.

In the Company's SQP, these factors are accounted for through the computation of deadbands that permit minor variations in the performance data on a month-to-month basis, but at the same time require the Company to handle such continuing and normal events within the constraints of the deadbands over the annual period. This construct recognizes the inherent characteristics of the Company's operating environment, which is not subject to control by the Company, and accounts for these characteristics in an objective and mathematical manner. If, over a 12-month period, the Company is unable to manage its business environment and adjust its operations to account for these factors, performance will consistently fall outside the deadbands and result in penalties.

This approach stands in stark contrast to Mr. LeLash's approach, which would establish an arbitrary and "absolute" level of service (not consistent with the Company's actual performance data) and would penalize the Company for variations from those established levels, unless the Company identifies and explains how external factors have affected the Company's performance. This approach is methodologically deficient because the performance benchmarks are not derived through a mathematical calculation that takes into account the random variation that will occur in the Company's performance data as a result of external factors. In addition, Mr. LeLash's approach relies too heavily on subjective determinations of the ways in which the business environment is driving customer requirements (and affecting the Company's performance). The Company's methodology avoids these subjective determinations and requires the Company to manage these conditions. Where the Company is unable to meet this challenge, penalties will result.

To demonstrate how his proposal would work, Mr. LeLash gives the example that the average number of calls over the past three and a half years is 43,000 per month and therefore the Company could "claim" an "exogenous event" where calls exceeded 50,000 to 55,000 calls in a month. This suggestion highlights the problem with this approach. Specifically, this level of calls represents only an extreme example and does not account for a range of circumstances that could occur even with a much lesser increase in the number of incoming calls. This is because it is not the number of calls in and of itself that drives the Company's performance. Just as important is the call flow pattern and the types of calls that are incoming to the Company.

For example, it creates less of an issue if increased calls levels are balanced throughout the day and the calls are relatively brief, on average. Conversely, it is more difficult to deal with increased calls that are incoming to the Company all at the same time (i.e., within a one or two hour timeframe) and if the types of calls require the call center representatives to take additional time on the telephone with each customer. Depending on the circumstances, even a relatively small and unanticipated increase in the number of calls could affect the Company's ability to meet the benchmark. Yet, it would be next to impossible for the Company to pinpoint the factors causing this dynamic and to quantify the impact of these factors on the Company's performance.

Under the Company's plan, the Company would be required to manage these call volumes, and to the extent that the volumes had a negative affect on the Company's performance (i.e., pushing performance beyond the deadband), the Company would have to provide improved service in subsequent months to overcome that effect, despite the fact that the cause of the diminished performance in that one month was beyond the Company's control. By comparison, Mr. LeLash's proposal would give rise to continual disputes over the cause and effect of external factors affecting the Company's operating environment, and therefore, is unworkable and shortsighted.

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

A. Mr. LeLash states that "the adoption of a quarterly SQP framework implicitly provides penalty offsets by virtue of the fact that deficient performance in one month that should otherwise be penalized is potentially offset by better than benchmark performance in other months of the quarter" (LeLash Surrebuttal at 23). As an initial matter, it should be noted that, in several cases, Mr. LeLash is proposing a service level that far exceeds historical performance, and therefore, the idea that the Company has "offsets" available to it through the quarterly mechanism is illusory.

Secondly, the fact that the Company has not met an arbitrarily established benchmark in one single month does not lead to the inevitable conclusion that the Company has allowed a deterioration in the level of service provided to customers that should be penalized. It must be taken as a given that the Company's performance data will always vary between months, except by coincidence, and such variations do not necessarily mean that the level of service provided by the Company has declined. The unavoidable and continual variations between monthly reporting periods under normal operating circumstances generally occur as a result of external factors beyond the Company's control. These external factors may not fluctuate within such a short time frame (i.e., three months) since these factors tend to be tied to weather, economic trends and socioeconomic issues. Therefore, the effect of these factors may carry over between months in a quarter, which means that the Company would only have the opportunity to offset these occurrences in subsequent quarterly periods.

Third, it should be noted that, under the Company's proposed SQP, offsets can only be achieved when the Company is given "credit" performance that exceeds the deadband, which means that service has to be significantly better than historical performance for the credit to even be created. The Company would have a strong incentive to improve service to levels that greatly exceed historical levels, if the investment of time and resources could be rewarded, even if not on a strictly monetary basis. Moreover, although Mr. LeLash implies otherwise, the Company has already indicated that credits could not be used to offset poor performance in leak response times, because of the safety concerns associated with poor performance on the leak-response measure (see LeLash Surrebuttal at 5).

In my experience and knowledge of the industry, if the Division's primary objective is to increase service levels beyond what has generally been provided historically, then the establishment of an SQP that provides some type of credit for significantly improved performance is the most effective and efficient tool for achieving the Division's objective. The Company is in the best position to identify and implement process changes, technology improvements and other approaches for the benefit of customers. If the focus of the SQP is only to penalize for the smallest (short-term) variation in the performance data, the Company will have a strong disincentive to make any significant changes.

Q. Does this conclude your testimony?

A. Yes, it does.