

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
Central Hudson Gas & Electric Corporation
Cases 09-E-0588 and 08-G-0589
November 2009

Prepared Testimony of:

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Department of Public Service
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1 Q. Please state your name and business address.

2 A. Leonard Silverstein, 3 Empire State Plaza,
3 Albany, NY 12223.

4 Q. Mr. Silverstein, what is your position at the
5 Department?

6 A. I am employed as a Utility Consumer Assistance
7 Specialist 4.

8 Q. What is your education and background?

9 A. I received both a Bachelor of Arts degree in
10 Political Science and a Master of Public
11 Administration degree from the University at
12 Albany. Before joining the Department of Public
13 Service, I held positions of increasing
14 responsibility with the New York State Assembly
15 for nearly seven years, and subsequently worked
16 as a Regulations Analyst at what is now the New
17 York State Governor's Office of Regulatory
18 Reform for about eight years. I have worked for
19 the Department of Public Service since 2001. My
20 responsibilities in this position include
21 advocating positions on behalf of residential
22 customers in utility rate proceedings,
23 overseeing utility customer service operations,
24 developing utility service quality incentive

1 programs and evaluating utility low-income
2 programs.

3 Q. Have you previously testified before the
4 Commission?

5 A. Yes, I have testified numerous times, in cases
6 concerning National Fuel Gas in Cases 04-G-1047
7 and 07-G-0141; St. Lawrence Gas in Cases 05-G-
8 1635 and 08-G-1392; Central Hudson in Cases 05-
9 E-0934 & 05-G-0935 and 08-E-0887 & 08-G-0888;
10 KeySpan in Cases 06-G-1185 and 06-G-1186;
11 National Grid in Case 08-G-0609; NYSEG and RG&E
12 in Case 07-M-0906; Long Island Water in Case 07-
13 W-0508; and New York Water in Case 09-W-0237.

14 The subjects of my previous testimony have
15 included customer service, service quality, low-
16 income programs, and outreach and education.

17 Q. What is the purpose of your testimony in this
18 proceeding?

19 A. I propose to continue the Service Quality
20 Performance Mechanism for Central Hudson Gas &
21 Electric Corporation (Central Hudson or the
22 Company). I also address Central Hudson's
23 proposals regarding low income customer needs,
24 and propose to enhance the \$5 bill discount

1 program. Finally, I propose to continue certain
2 outreach and education reporting requirements.

3 Q. Have you prepared any exhibits in connection
4 with your testimony?

5 A. Yes, Exhibit __ (LMS-1) presents the current
6 SQPM, Exhibit __ (LMS-2) contains the response to
7 Staff IR 313, and Exhibit __ (LMS-3) contains the
8 response to Staff IR 314.

9 **Service Quality Performance Mechanism**

10 Q. What is the purpose of a Service Quality
11 Performance Mechanism (SQPM)?

12 A. SQPMs help to align shareholder and ratepayer
13 interests by providing earnings consequences to
14 shareholders for the quality of service provided
15 by a utility to its customers. The mechanisms
16 link earnings directly to a company's
17 performance on specific measures of customer
18 service. Currently, such mechanisms are in
19 effect at all of the major energy utilities.

20 Q. Why is a SQPM needed?

21 A. As a monopoly provider of delivery service,
22 Central Hudson does not have a profit-based
23 incentive to provide satisfactory customer
24 service, because its customers cannot select

1 another utility on the basis of the quality of
2 service provided. Receiving quality service is
3 extremely important to customers. A SQPM is
4 needed to establish an incentive for the Company
5 to provide satisfactory levels of customer
6 service performance.

7 Q. Please describe Central Hudson's current SQPM.

8 A. Central Hudson's incentive plan was continued in
9 the Commission's Order establishing a one year
10 rate plan in Cases 08-E-0887 and 08-G-0888,
11 issued on June 22, 2009. Central Hudson's
12 incentive plan establishes \$1.9 million in
13 potential negative revenue adjustments that are
14 divided between electric and gas revenues in
15 amounts equivalent to approximately 36 basis
16 points of electric earnings and 24 basis points
17 of gas earnings. The total amount at risk is
18 allocated evenly at \$950,000 each to two broad-
19 based measures of customer service quality.
20 These two measures are an annual Customer
21 Satisfaction Index (CSI) and the PSC Complaint
22 Rate. In addition, an Appointments Kept
23 mechanism is in place whereby Central Hudson
24 provides a \$20 bill credit to a customer, if the

1 Company misses a service appointment with that
2 customer.

3 Q. How is the CSI calculated?

4 A. The CSI is based on customers' responses to a
5 mailed eight question survey. It is designed to
6 measure customers' satisfaction after a
7 transaction with the Company. The Company
8 reports, on a percentage basis, the average
9 number of customers who respond that they are
10 either highly satisfied or satisfied with the
11 Company's performance.

12 Q. What are the current performance thresholds and
13 associated revenue adjustments for the CSI?

14 A. As shown in Exhibit __ (LMS-1), a downward
15 adjustment to earnings occurs if annual CSI
16 performance is below 85 percent. The minimum
17 annual adjustment is \$237,500, and reaches a
18 maximum of \$950,000 for a CSI of less than 82
19 percent.

20 Q. How is the PSC Complaint Rate calculated?

21 A. The PSC Complaint Rate is the annual average of
22 the number of monthly complaints per 100,000
23 customers as reported by the Office of Consumer
24 Services each year for the 12-month period

1 ending in December.

2 Q. What are the current performance thresholds and
3 associated revenue adjustments for the PSC
4 Complaint Rate?

5 A. As shown in Exhibit __ (LMS-1), for an annual PSC
6 Complaint Rate of less than 1.7 complaints per
7 100,000 customers, there is no revenue
8 adjustment. For a PSC Complaint Rate of 1.7,
9 there is a negative revenue adjustment of
10 \$475,000. For each PSC Complaint Rate increase
11 of 0.1 per 100,000 customers, the negative
12 revenue adjustment increases by \$95,000 until
13 the maximum of \$950,000 is reached at the PSC
14 Complaint Rate of 2.2 per 100,000 customers.

15 Q. What is the Company's proposal regarding its
16 SQPM?

17 A. On page 16 of his pre-filed testimony, Mr.
18 Michael Mosher proposes to continue the SQPM
19 without any changes.

20 Q. How has the Company performed under the current
21 SQPM?

22 A. The Company's performance as measured by the
23 SQPM has been satisfactory. The Company has met
24 all of the SQPM thresholds for the last several

1 years. During that time, the Company's PSC
2 Complaint Rate has been below the average of
3 other utilities in New York. The annual CSI
4 performance has remained relatively consistent.
5 It was 89.9 percent in 2006, 91.6 percent in
6 2007, and 89.8 in 2008. The Appointments Kept
7 mechanism has evidently been effective in
8 promoting a high level of performance, as the
9 Company reports that it has succeeded in meeting
10 more than 99 percent of its appointments in each
11 of the last three years.

12 Q. What is your proposal regarding the SQPM?

13 A. I propose to continue the SQPM unchanged, which
14 is identical to the Company's proposal.

15 Q. What are the current SQPM reporting
16 requirements?

17 A. The Company is required to submit detailed
18 annual reports on the SQPM, the CSI, and the
19 margin of error calculations. In addition, the
20 Company convenes annual meetings with Staff and
21 the parties to discuss the results of the CSI
22 and to make recommendations to modify customer
23 service operations based on the results of the
24 survey.

1 Q. Should these requirements be continued?

2 A. Yes, these reports and meetings provide
3 information that is necessary for Staff to
4 effectively monitor the Company's service
5 quality performance, and therefore, these
6 reporting and meeting requirements should be
7 continued.

8 Q. What should be the term of SQPM?

9 A. The SQPM, as well as the reporting and meeting
10 requirements, should continue until modified or
11 discontinued by the Commission.

12 Q. Do you have any other comments concerning the
13 Company's SQPM?

14 A. According to Central Hudson's CSI Annual Report,
15 in 2008, the return rate for the mailed survey
16 used to calculate the CSI was only 6.5 percent.
17 While it did not formally propose to do so in
18 its testimony, the Company has informally
19 expressed to Staff an interest in establishing a
20 process to transition from the existing survey
21 to an Interactive Voice Recognition (IVR)
22 telephone survey that the Company has been
23 utilizing since February 2009. Staff would
24 support such a transition because the IVR survey

1 obtains a better sample, provides results in
2 real time, and requires less postage and paper.
3 The first step in this transition is to
4 establish a procedure for benchmarking the
5 results of the IVR-based survey to the results
6 of the current mail survey. After it is
7 benchmarked, the survey currently used in the
8 SQPM could be replaced by the new IVR-based
9 survey. The Company should be directed to file
10 a proposal, within 30 days of the Commission's
11 order herein, for making such a transition.

12 **Low Income Customer Needs**

13 Q. Do you support a low-income program for Central
14 Hudson's customers?

15 A. Yes. Energy costs represent a large burden on
16 low-income families. Evidence from a variety of
17 sources, including the Residential Energy
18 Consumption Survey conducted quadrennially by the
19 Federal Energy Information Administration,
20 demonstrates that while middle and higher income
21 customers experience energy costs in the range
22 of one to five percent of income, lower income
23 customers experience energy costs in the range
24 of 15 to 20 percent of income. As a result, the

1 impact of energy costs on many low-income
2 customers is substantially greater than for the
3 general population, and they may not be able to
4 afford to pay their energy bills in addition to
5 other essential services. These families
6 typically must trade off among food, shelter,
7 medicine and energy purchase decisions. For
8 heating customers, loss of a household's primary
9 heat source presents serious health and safety
10 risks, both due to the potentially fatal effects
11 of cold weather and the fire and health hazards
12 resulting from using unsafe alternative heating
13 sources. Furthermore, low income families tend
14 to live in poorly maintained and energy
15 inefficient housing. This not only wastes
16 energy, but makes it even more likely that these
17 households will be unable to pay their utility
18 bills. For these reasons, programs to address
19 the needs of low-income customers are essential.

20 Q. Please summarize Central Hudson's current low
21 income program?

22 A. Central Hudson's low income program was approved
23 in the Commission's June 22, 2009 Order in Cases
24 08-E-0887 and 08-G-0888, with a budget of \$1.8

1 million. Program costs are allocated 85 percent
2 to electric expense and 15 percent to gas
3 expense, in proportion to total Company
4 revenues. There are two components of the low
5 income program: the Enhanced Powerful
6 Opportunities Program (EPOP) with a current
7 budget of \$1.3 million, and a broad-based
8 discount program which provides a \$5 bill credit
9 to heating customers that are HEAP recipients.

10 Q. Please describe EPOP.

11 A. Under EPOP, a participant's monthly budget
12 installment amount is reduced by an amount that
13 varies based on the customer's income level,
14 family size and regular budget amount. The
15 variable budget credit allowance is designed to
16 provide the most benefits to customers with the
17 greatest needs. The monthly budget credit
18 allowances range from \$50-\$225. The EPOP also
19 provides an arrears forgiveness credit of one
20 twenty-fourth ($1/24^{\text{th}}$) of the customer's arrears,
21 upon receipt of the customer's bill payment on
22 time and in full. In addition, all participants
23 are provided an incentive bonus equal to the
24 customer's discounted monthly budget amount,

1 after the customer pays on time and in full for
2 four consecutive months. The program is
3 designed to provide assistance for up to 1,000
4 participating customers. A customer may receive
5 the arrears forgiveness credit for 24 months.

6 Q. What are the program eligibility requirements?

7 A. Customers are enrolled in the program by Central
8 Hudson, based on an evaluation of the individual
9 customer's need. To be eligible to participate
10 in the program, a customer must: 1) be a Central
11 Hudson heating customer; 2) be a Home Energy
12 Assistance Program (HEAP) recipient, with HEAP
13 payments remitted to the customer's Central
14 Hudson account; 3) have remaining arrears of at
15 least \$100 after the receipt of a HEAP grant; 4)
16 enroll in budget billing; and 5) comply with all
17 requirements of the program. Central Hudson
18 may, at its option, include a customer in the
19 program who does not meet all the eligibility
20 criteria, upon evidence that the customer's
21 participation will increase the likelihood for
22 the customer to maintain continuous service
23 without compromising other essential household
24 needs.

1 Q. Did the Commission recently modify this program?

2 A. Yes. The program described above reflects
3 several enhancements approved by the Commission
4 in its June 22, 2009 Order in Cases 08-E-0887
5 and 08-G-0889, including increases in the
6 monthly bill discount ranges from \$25-\$150 to
7 \$50 - \$225. The Commission also removed the
8 \$100 per month cap on the arrears forgiveness
9 component, and provided an incentive for
10 participants to remain in the program as
11 described above. These enhancements were
12 designed to increase enrollment and
13 participation in the program, which had been
14 lower than anticipated.

15 Q. What is the Company's EPOP proposal?

16 A. The Company proposes to continue the program
17 without any modifications. It proposes to
18 increase the rate allowance from \$1.32 million
19 to \$1.57 million. The Company states that the
20 increased budget is necessary to fund the recent
21 enhancements to the program.

22 Q. What is your assessment of the EPOP program at
23 this time?

24 A. The program appears to be working effectively

1 and the Company has just recently reached its
2 enrollment goal of 1,000 customers. According
3 to the Company's response to Staff IR 313 as
4 shown in Exhibit __ (LMS-2), as of October 15,
5 2009, there were 21 customers on the EPOP
6 waiting list.

7 Q. What are your recommendations regarding the EPOP
8 program?

9 A. The program is operating effectively and I agree
10 with the Company's proposal to continue the
11 program and increase funding to \$1.57 million in
12 order to fully fund all of the recent program
13 enhancements. Since the program is fully
14 subscribed and there are customers on the
15 waiting list, I recommend that customers who
16 successfully complete the program should no
17 longer receive the discounted budget bill.

18 Q. Please describe the low income bill discount
19 component.

20 A. Central Hudson's heating customers who receive
21 benefits under HEAP receive a \$5 monthly bill
22 credit for a 12 month period after the customer
23 receives a HEAP grant. As opposed to the more
24 targeted EPOP component, this program component

1 is designed to help a broad range of low income
2 customers reduce their utility bills.

3 Q. What is the Company's proposal for the bill
4 discount component?

5 A. According to the Company's response to Staff IR
6 314 as shown in Exhibit __ (LMS-3), the Company
7 does not support the continuation of this
8 benefit for HEAP recipients beyond the 2009-10
9 HEAP year. In order to fund the \$5 bill
10 discount for 2009-10 HEAP recipients for this
11 term, the Company has requested a rate allowance
12 of \$500,000.

13 Q. What is Staff's proposal?

14 A. Staff proposes that the program be continued on
15 an annual basis; and that HEAP recipients
16 receive an increase from \$5 to \$8 in the monthly
17 bill credit to offset the Company's proposed \$3
18 basic rate increase for natural gas.

19 Q. What is your estimate of the new program's
20 costs?

21 A. Based on the 2008-2009 HEAP recipient population
22 of approximately 10,600 customers, the bill
23 discount program would cost about \$1.02 million,
24 an increase of \$0.52 million over the Company's

1 proposal. As is currently the case, that the
2 costs of the low income program should be
3 recovered from all customer classes. By
4 relieving economic distress, low-income programs
5 benefit all customers. When added to the
6 Company's proposed program expense of \$2.07
7 million, this results in an annual program cost
8 of \$2.59 million, which under the existing
9 allocation formula would be allocated
10 approximately \$2.2 million to electric expense,
11 and \$0.39 million to gas expense. Utilizing
12 2008 annual data, these costs represent
13 approximately 0.38 percent of electric revenues
14 and 0.22 percent of gas revenues; or rate
15 impacts of about \$0.0004 per kWh and \$0.03377
16 per Mcf. This is a reasonable funding level for
17 the program, given the costs of energy, the
18 impacts of these costs on low income households,
19 and the potential for offsetting benefits to the
20 Company and all ratepayers.

21 Q. Do you recommend deferred accounting for the
22 low-income programs?

23 A. I propose continuing the current deferral
24 mechanism as follows: differences between the

1 Q. What is your recommendation regarding outreach
2 and education?

3 A. I propose that an outreach and education plan,
4 with an identified budget, be developed
5 annually, and filed with the Director of the
6 Office of Consumer Services for Staff review.
7 The annual filings should include detailed
8 budgets and describe the specific outreach
9 campaign messages to be disseminated, the
10 communication vehicles to be used, the goals of
11 the outreach program and the criteria for
12 measuring their achievement. This process will
13 ensure that outreach and education activities
14 are fully developed, adequately funded, and that
15 there is no duplication of programs.

16 Q. Does this conclude your testimony?

17 A. Yes, at this time.

18

19