

1 BEFORE THE PUBLIC SERVICE COMMISSION

2 STATE OF MISSOURI

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4 TRANSCRIPT OF PROCEEDINGS

5 On-The-Record Presentation

6 September 6, 2011

7 Jefferson City, Missouri

8 Volume 1

9 _____
10 In the Matter of

11 Southern Union Company d/b/a)

 Missouri Gas Energy's Tariff)

12 Proposal To Assess Security)

 Deposit On New Service) File No. GT-2011-0375

13 Applicants That Receive A)

 Credit Score of 724 Or Below)

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15
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17 _____
18 MORRIS L. WOODRUFF, Presiding

 CHIEF REGULATORY LAW JUDGE

19 KEVIN GUNN, Chairman

 TERRY M. JARRETT,

20 ROBERT S. KENNEY,

 COMMISSIONERS

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Commission

1 JUDGE WOODRUFF: All right. It's
2 1:00 o'clock so we'll go ahead and get started.

3 We're here today for an on-the-record
4 presentation regarding File No. GT-2011-0375, which
5 concerns the tariff of Southern Union Company doing
6 business as Missouri Gas Energy.

7 We'll start today by taking entries of
8 appearance, beginning with MGE.

9 MR. JACOBS: Todd Jacobs on behalf of
10 Southern Union Company d/b/a Missouri Gas Energy.

11 JUDGE WOODRUFF: And for Staff.

12 MR. BERLIN: Robert S. Berlin appearing on
13 behalf of the Staff of the Missouri Public Service
14 Commission.

15 JUDGE WOODRUFF: For Public Counsel.

16 MR. POSTON: Marc Poston appearing for the
17 Office of the Public Counsel and the public.

18 JUDGE WOODRUFF: All right. I believe
19 that's all the parties.

20 We're here today for an on-the-record
21 presentation regarding the stipulation and agreement
22 that was presented by the parties. The main purpose
23 for us being here is to give the Commissioners an
24 opportunity to ask questions and get answers to those
25 questions.

1 Procedurally what I propose to do is
2 start with giving the parties a chance to give brief
3 introductory statements and then we'll move straight
4 into questions by the Commissioners, and we'll see
5 how things go.

6 Let's begin with MGE, since it's your
7 tariff.

8 MR. JACOBS: The parties have talked
9 before the on-the-record today, and because MGE
10 proposed the tariff in this case, I'll probably go
11 into a little bit more detail than the other parties
12 with regard to what the tariff is, what our intent
13 is, and also, really, what we're seeking in the
14 stipulation and agreement.

15 I'm joined today by Mike Noack, who's
16 MGE's director of rates and regulatory, who can
17 answer any questions that you may have. What we seek
18 today is Commission approval for unanimous
19 stipulation and agreement which modifies MGE's tariff
20 sheets related to deposit requirements from new
21 customers, and what we're seeking in the stipulation
22 and agreement, really, is a waiver of -- waiver from
23 current regulations which discuss deposit
24 requirements which assess credit risk, and we're also
25 seeking to change MGE's tariff associated with credit

1 risk by switching from what MGE views as a subjective
2 methodology to a more objective one with credit
3 scoring.

4 We're looking to have a simple and
5 commonly-accepted method to assess credit risk, and
6 this will only impact new customers who, based on
7 credit scoring, are deemed to be a high credit risk.

8 The tariff is modeled precisely after a
9 tariff that's been in place with Laclede Gas since
10 2007. It has, with respect to credit scoring,
11 identical language, the same methodology that's used,
12 the same company that's used and the same credit
13 score which is used, and we modeled it precisely
14 after that tariff.

15 Again, it only applies to new customers,
16 meaning those customers applying for gas service with
17 MGE for the very first time. It does not apply to
18 customers who may have been former customers of
19 Missouri Gas Energy who later come back on the
20 system. It's brand-new customers.

21 We're looking, again, to look for modern
22 credit analysis, credit risk analysis, and what we
23 found in the past, Commissioners, is that the current
24 criteria in the regulation and also in our -- also in
25 our tariff, that there are standards that are used

1 there and that are really unworkable as a means to
2 assess credit risk, and also to do so quickly.

3 The previous criteria which reflect the
4 regulations states that the Company can require a
5 deposit of the customer if they fail to establish,
6 quote, an acceptable credit rating, end quote, and
7 it's -- a credit rating, an acceptable credit rating,
8 is deemed accessible if the customer or new applicant
9 owns or is in the process of purchasing a home; is or
10 has been regularly employed for one year; has, quote,
11 adequate, end quote, regular source of income or can
12 provide, quote, adequate credit references, end
13 quote, from a commercial source.

14 And the issue that we've had with this
15 methodology in the past is that we found that this is
16 very subjective. The question would be, What is
17 adequate income? What are adequate credit references
18 that we can obtain from a commercial source?
19 Further, What are the commercial sources that we may
20 find acceptable?

21 We found that, in looking at these
22 criteria, that they really do not provide a measure
23 of creditworthiness. And an example that we give is
24 that employment and home ownership -- from our
25 perspective, and really from the perspective of

1 credit risk analysis, employment and home ownership
2 really do not provide a measure of how a consumer
3 manages their finances.

4 The house, for example, may be in
5 bankruptcy. The consumer, maybe their spending and
6 their debt, it may be out of line with their means,
7 and that's true for consumers of low income or high
8 income. Someone may -- can make \$500,000 a year and
9 not live within their means, and also someone with a
10 very expensive home cannot live within their means
11 and thereby have a low credit score. What we found
12 is, is if we just look at home ownership, we can just
13 look at someone's income, it's not really a good
14 predictor of credit reliability.

15 What we found, too, is that the
16 criteria -- if our goal is to set up consumers
17 quickly on a gas service with Missouri Gas Energy,
18 that these criteria really don't provide a very easy
19 way for us to quickly verify information, and the
20 obvious example would be that we could ask questions
21 of consumers that -- what their income is, who
22 they're employed by, whether or not they own a home,
23 but what we found is that there's no way to quickly
24 verify that information, so what we're looking for is
25 shifting to something that is more objective in the

1 sense that credit scoring is commonly used to assess
2 credit in the United States currently and something
3 that can be done fairly quickly, if not immediately.

4 When you think about the nature of our
5 business as well, we allow customers on our system
6 that use our product for up to thirty days,
7 initially, for the first billing period -- and then
8 several weeks after which -- until such time that
9 they're billed without paying in advance for that
10 service so, really, we're extending them credit.

11 We're looking at ways -- if someone is a
12 high credit risk, we're looking at ways to mitigate
13 that risk by requiring a deposit. The goal here,
14 really, is not to deny service, but it's just to
15 require a deposit if, in fact, someone is deemed to
16 be a credit risk.

17 What we're looking at by tariff is that
18 we would ask someone, if they are deemed to be a high
19 credit risk based on the Equifax score, we're asking
20 them to provide one-sixth of an estimated annual
21 bill for new customers who this applies to. We
22 provide them interest at the prime bank lending rate,
23 plus one percent. That amount is refunded within
24 12 months if, in fact, they have a steady payment
25 history over that period of time.

1 And we're also -- we also allow
2 installment payments over a period of four months to
3 allow someone not to have a huge up-front cost and
4 allow them to pay that amount over a period of time.

5 What we've also done in the stipulation
6 and agreement is also part of our tariff, is we allow
7 guarantees. Really, this tariff reads that we "may"
8 assess a deposit, if that number is not -- if that
9 credit score is not reached. And what we've done
10 here is that we've also allowed for guarantees to be
11 accepted by the Company, so if someone meets
12 creditworthiness based on an assessment by the
13 Company, we allow somebody to guarantee on behalf of
14 that new customer.

15 Just from the agenda meeting, we
16 understood that there's some questions about what the
17 Equifax Advance Energy Score Risk Analysis is. What
18 I can tell you from a very high level is that it is a
19 special credit score developed for utilities. It's
20 something, from my understanding of the credit
21 industry, that the formula of what goes into that
22 amount is, in many ways, proprietary based on the
23 company, but what they bill it as is something that's
24 uniquely focused on utility customers.

25 And the examples they give are: It's

1 assessed on a shorter payment period compared to
2 other bills; it's done in a way that the Company's
3 bill is being verified, meaning that they came up
4 with the data, they went back, they looked at the
5 scores, and they verified that the scores were a good
6 predictor of potential write-offs or bad debt for
7 companies.

8 In terms of the protections that are had
9 for consumers, what is currently existing in the
10 proposed tariff today, similar to Laclede's, is if
11 someone does not have a credit history and their --
12 so they get -- there's no credit score that comes
13 back from Equifax, then we will not assess a deposit
14 in that circumstance.

15 And the general idea behind that is, if
16 someone is fresh out of school, they don't have a
17 credit history, we don't want to punish them for
18 that. They may have an opportunity to develop credit
19 history by getting out in the workforce or doing
20 normal things that one does to develop credit
21 history, including having gas service.

22 We looked at, in terms of other
23 protections to the consumers, that one thing to keep
24 in mind is that by providing credit analysis for
25 consumers -- not providing it, but using an agency to

1 do so, we subject ourselves to several laws which
2 have quite a few consumer protections: Dodd-Frank
3 Wall Street Reform and Consumer Financial Protection
4 Act, the Fair Credit Reporting Act, the Equal Credit
5 Opportunity Act, among other laws, which have several
6 obligations which require us to provide information
7 and provide protections to consumers.

8 We are looking, you know, as an overall
9 basis, is that this is one other tool for us to try
10 to manage bad debt for the Company. We don't think
11 that by any means it's going to be a panacea for bad
12 debt, but we do think it's one other methodology that
13 we can use to try to protect ourselves from risk from
14 consumers that have a history of poor payments.

15 So I'll defer to the other parties, but
16 Mr. Noack is here to answer any questions, or
17 anything I can answer as well.

18 JUDGE WOODRUFF: For Staff?

19 MR. BERLIN: Thank you, Judge.

20 Mr. Jacobs just covered quite a bit of
21 ground on the tariff. I would like to make a remark
22 that Staff supports the unanimous stipulation and
23 agreement in this case and also note, for the record,
24 that Laclede has a very similar tariff.

25 The language is basically the same and

1 the visions are the same, and Mr. Jacobs had
2 indicated that, that Laclede tariff had been in
3 effect since August of 2007. Actually, the Laclede
4 tariff started earlier than that, and on an
5 experimental basis in August of 2005 in GR-2005-0284
6 in a stipulation and agreement. In August of 2007,
7 in its current rate case at that time, this -- the
8 tariff was removed from experimental status, and I
9 would just note that it is Staff's experience with
10 the provisions of the Laclede tariff, which are
11 identical to the proposed MGE tariff, that there have
12 been no complaints from Laclede regarding the use of
13 the credit score.

14 Staff has, today, Gay Fred, our consumer
15 services manager, in the event you have any more
16 detailed questions regarding the tariff or the use of
17 the Advanced Energy Risk Credit Score by Equifax.

18 JUDGE WOODRUFF: Thank you.

19 Public counsel?

20 MR. POSTON: Thank you.

21 I would like to start out -- I don't have
22 a lot to say, but I would like to start out with a
23 bit of a correction to what I think Bob just talked
24 about. I don't -- I think the experimental label is
25 still on the Laclede tariff. It's in the tariff

1 language, Laclede's tariff language, so I'm not sure
2 how that experimental label would've been lifted, but
3 as far as we're concerned, it's still an experiment,
4 but we haven't necessarily seen any study results
5 from that.

6 But we did agree to the stipulation. Our
7 reasons for agreeing to it are different than MGE's
8 reasons, but one of the reasons we did agree to it
9 was the fact that there is a Laclede tariff out there
10 that has identical language. We thought that would
11 be something that may cause the Commission to approve
12 this for MGE, so we decided we would try to get
13 conditions put onto it, so we looked to a NASUCA
14 resolution that they passed several years ago that
15 advised states that if they were going to go into
16 credit scoring to -- you know, to use some -- to be
17 cautious and to propose -- to implement conditions,
18 and so we have those -- same conditions are in our
19 unanimous stipulation and agreement.

20 And one of the -- you know, the primary
21 condition that -- or two that we see in there are the
22 monitoring, that MGE is to monitor the customers that
23 get assessed a deposit or customers that are turned
24 away because they didn't assess a deposit, and to
25 gather that data to do annual reporting.

1 And there's also a condition in there
2 that if the Chapter 13 Rulemaking, whatever is the
3 outcome of that, that the MGE will follow that, so
4 through Chapter 13, if the Commission makes changes
5 regarding credit deposits, either in favor or against
6 credit scoring, that would trump whatever's in the
7 stipulation.

8 That's all I have. Barb Meisenheimer is
9 here. She can testify on credit scoring. She was
10 involved in this case and in the part of the Laclede
11 case on credit scoring. Thank you.

12 JUDGE WOODRUFF: All right. Thank you.

13 We'll move, then, to questions from the
14 Commissioners. Chairman Gunn.

15 CHAIRMAN GUNN: Mr. Berlin, I just have a
16 quick clarifying question. You said that there were
17 no complaints from Laclede. Does that mean that
18 there were no potential customer complaints or
19 Laclede Gas is happy with the way the tariff is being
20 implemented?

21 MR. BERLIN: There were no customer
22 complaints on the use of the credit scoring.

23 CHAIRMAN GUNN: So do we have any
24 statistics from the Laclede tariff about how many
25 customers or what percentage of their customers --

1 well, first, let me back up.

2 Is the Laclede tariff only for new
3 customers or is it for customers that have been
4 previous customers of Laclede?

5 MR. BERLIN: It's only new customers.

6 CHAIRMAN GUNN: Do we have any numbers as
7 to the number of people that have been assessed
8 deposits since the experimental tariff has been
9 placed into effect?

10 MR. BERLIN: Staff's results show that the
11 net result of that tariff of Laclede is that deposits
12 for new customers dropped about 25 percent.

13 CHAIRMAN GUNN: So from the previous
14 tariff to the experimental tariff, they've assessed
15 deposits on 25 percent less customers?

16 MR. BERLIN: Correct.

17 CHAIRMAN GUNN: Do we have those in gross
18 numbers?

19 MR. BERLIN: I'd have to take a look here
20 at some of the data.

21 CHAIRMAN GUNN: What about in terms of
22 folks that were unable to -- that were assessed
23 deposits but were unable to connect because they
24 couldn't afford the deposits? Do we have any
25 statistics on that?

1 MR. BERLIN: No, Chairman Gunn.

2 CHAIRMAN GUNN: Would we collect that kind
3 of information? Do we have any idea what that
4 information was?

5 MR. BERLIN: No, not -- not in the
6 ordinary course.

7 CHAIRMAN GUNN: Is there any -- I'll ask
8 this to Public Counsel and to Staff: Is there any
9 concern that the number of deposits have gone down
10 because there is a whole group of people out there
11 that are being assessed deposits that can't afford
12 the deposits and therefore they do something other
13 than hook up gas service?

14 While they're talking, I'll go to you,
15 Public Counsel.

16 MS. MEISENHEIMER: I view an MGE tariff as
17 somewhat different than a Laclede tariff in that
18 Laclede had something in their tariff before credit
19 scoring was approved on an experimental basis that
20 allowed them to assess a deposit on all renters.

21 MGE's does not currently -- the current
22 tariff does not have that, so Laclede actually had a
23 reduction in the number of deposits that they would
24 collect, I think, primarily due to that, whereas
25 MGE -- my understanding is, currently they're not

1 collecting deposits at all, so I would anticipate
2 that they would collect more deposits under this
3 experimental program.

4 CHAIRMAN GUNN: Is that Staff's feeling as
5 well? Is the 25-percent reduction due mostly to not
6 charging deposits on renters from the Laclede tariff?

7 MR. BERLIN: No, Chairman.

8 MS. FRED: Not currently.

9 MR. BERLIN: Not presently.

10 CHAIRMAN GUNN: Okay. You can probably
11 answer directly. Why don't we swear you in so you
12 can stop the frustration.

13 JUDGE WOODRUFF: Can you raise your right
14 hand?

15 (Ms. Fred sworn in.)

16 JUDGE WOODRUFF: And for the record, if
17 you would identify yourself.

18 MS. FRED: Gay Fred, Consumer Services
19 Manager for the Commission Staff.

20 CHAIRMAN GUNN: I'll get some clarity on
21 Ms. Meisenheimer's statements. Was Laclede able to,
22 under the previous tariff, allowed to charge renters
23 deposits?

24 MS. FRED: Yes, under the previous tariff
25 they were able to charge all renters a deposit.

1 CHAIRMAN GUNN: And now they cannot, under
2 the experimental --

3 MS. FRED: Now they cannot. They use
4 credit scoring to determine whether a customer needs
5 to be assessed a deposit or not. And the recent
6 numbers -- keep in mind, their language has been in
7 place several years now. Recent numbers still
8 indicate that they have had a 25-percent less deposit
9 requirement on new customers than, perhaps, in the
10 previous, but at the time that renters were no longer
11 assessed a deposit, that number was even greater than
12 25 percent.

13 CHAIRMAN GUNN: So the 25 percent takes
14 into account the elimination of renters from the
15 general idea of -- or the general category of folks
16 that could --

17 MS. FRED: Right, on new customers.

18 CHAIRMAN GUNN: New customers.

19 MS. FRED: Uh-huh.

20 CHAIRMAN GUNN: I'm going to go to --
21 thank you. I'm going to go to MGE.

22 If this is designed to manage bad debt,
23 why are we limiting it to -- why are you limiting it
24 to new customers and not doing it for all customers?
25 Is it because you couldn't get an agreement on there,

1 or is there some other reason?

2 MR. JACOBS: We're just proposing this
3 now, Commissioner, to -- Mr. Chairman, to find out
4 what the results would be, primarily. We may assess
5 whether or not to expand this to other customers
6 later, but we don't have any experience with it. We
7 know that, in at least talking to Laclede, it's been
8 a successful program for them, but we haven't
9 expanded a proposal at this point to go to other
10 consumers.

11 CHAIRMAN GUNN: In your conversation with
12 Laclede, how does Laclede define their success, that
13 they have limited the amount of bad debt that they've
14 accumulated?

15 MR. JACOBS: My understanding is that -- I
16 don't know the answer to that direct question. What
17 I can say is that they have found that it's an easier
18 program to administer.

19 I haven't talked to them or -- I haven't
20 personally had conversations with them about the
21 nexus to bad debt. At least in our analysis when we
22 look at it, like Ms. Meisenheimer said, we have not
23 previously assessed a deposit to new customers
24 because we found the previous system to be so
25 unwieldy, so when we look at it from our perspective,

1 we say we have a better methodology to do that.

2 What's the easiest way to do that?

3 We've looked at credit scoring that other
4 states have, and Laclede's had, and we use that as a
5 basis. Then like OPC said, we're looking at ways to
6 record that to find better analysis. Is there a
7 nexus with bad debt? Is there a nexus with how we're
8 managing cost there?

9 CHAIRMAN GUNN: Clearly, it's an easier
10 system, because you type in their Social Security
11 number and then you send it out to Equifax and they
12 come back with a number, and that number determines
13 whether they're assessed a deposit.

14 MR. JACOBS: Correct.

15 CHAIRMAN GUNN: And that's formulary;
16 right?

17 MR. JACOBS: Yes.

18 CHAIRMAN GUNN: That's the way Staff
19 understands it?

20 MS. FRED: Chairman, not exactly. I mean,
21 the information goes to the credit score agency, but
22 what's sent back to Laclede or MGE, in this case,
23 would be a pass-fail indicator, not the actual
24 number, not that individual's actual credit score
25 number; therefore, the representative who is actually

1 talking to the customer can only say that to the
2 customer it appears they either pass or they fail.
3 In the case of a failure, they would need to require
4 a deposit from them.

5 CHAIRMAN GUNN: But failure clearly
6 indicates it's lower than a certain number.

7 MS. FRED: Right. Correct.

8 CHAIRMAN GUNN: So that's even easier;
9 they get a "yes" or "no" on whether a deposit is
10 required based on the Social Security number that's
11 going out?

12 MS. FRED: Correct.

13 CHAIRMAN GUNN: Which means under the
14 subjective standard, there was obviously more
15 flexibility. I mean, some people on the surface
16 may not --

17 MS. FRED: True.

18 CHAIRMAN GUNN: -- appear to qualify, but
19 maybe in practice they never qualify anyway, but that
20 the companies were always more conservative if there
21 was a closed question.

22 MS. FRED: Well, if anything, the old
23 method -- the existing rule standards is not a very
24 sophisticated way to judge whether the customer is
25 maybe an "at least" customer or not.

1 It's very subjective, and maybe that
2 particular individual's mood that day, whether they
3 ask all the questions, do the research and find the
4 information, or if they just don't ask and they just
5 let it go and not assess a composite, where credit
6 scoring is a sophisticated tool to determine risk and
7 is based on actual data that has been collected.

8 Whether it be collected from a national
9 assessment or an individual company's assessment,
10 they actually are building that risk factor on data,
11 where before it's purely subjective.

12 CHAIRMAN GUNN: Is there an appeals
13 process called for on the tariff? Can a customer
14 appeal that determination that a deposit is
15 necessary?

16 MS. FRED: In the current?

17 CHAIRMAN GUNN: In the proposed tariff.
18 In the MGE proposed tariff.

19 MS. FRED: Proposed tariff -- I can't --

20 MR. JACOBS: In the stip, they can. Sorry
21 to interrupt.

22 CHAIRMAN GUNN: No, that's -- anybody can
23 answer.

24 MR. JACOBS: In the stipulation there's a
25 methodology there that talks about -- and also just

1 under the Fair Credit Reporting Act, if the customer
2 believes that information is incorrect, there is a
3 process that they can seek to correct that. That's
4 built into the program.

5 CHAIRMAN GUNN: Is that the same process
6 that someone has to go under -- is that a process
7 that you go to Equifax, or do you go to MGE to
8 appeal?

9 MR. JACOBS: Primarily go to Equifax.

10 CHAIRMAN GUNN: Equifax. So you have to
11 go through all the jumps and hoops that you have to
12 go through.

13 If there's identity theft, for example,
14 or if sometimes credit scoring companies simply,
15 flat, get it wrong because somebody keys in something
16 incorrectly, when this happens, we can't go to MGE
17 and have MGE work it out, you have to go get Equifax
18 to correct it?

19 MR. JACOBS: Yes. That's right.

20 CHAIRMAN GUNN: You guys are okay with
21 that?

22 MR. POSTON: We understood that was a
23 option that the customer could have to, I guess,
24 follow up to make sure that that scoring was done
25 correctly.

1 CHAIRMAN GUNN: But that's with Equifax,
2 and not MGE?

3 MR. POSTON: Right, with Equifax.

4 CHAIRMAN GUNN: So MGE gets a "yes" --
5 so the way this works, MGE gets a "yes" or "no,"
6 and if they get a "no," then a deposit is assessed,
7 and if the customer feels that that deposit was
8 incorrectly -- they have to go through the process of
9 correcting the number inside of Equifax?

10 MR. POSTON: That's correct. Yes.

11 MR. BERLIN: Chairman Gunn, I would like
12 to point out that the rule provides -- and I'm
13 reading from the rule -- Utility and the customer
14 fail to resolve a matter in dispute, the utility
15 shall advise the customer of his or her right
16 to file an informal complaint with the Commission,
17 4 CSR 240-2.070, so that provision does exist.

18 COMMISSIONER KENNEY: That's in the
19 current rules or in the stipulation?

20 MR. BERLIN: Yes, it's in the current
21 rule.

22 CHAIRMAN GUNN: I mean, the big difference
23 here is this isn't Best Buy; right? I mean, this
24 isn't where you're trying to buy a big screen TV and
25 you go and you apply for a credit card.

1 I mean, this could be in November and
2 you're, you know, trying to buy -- trying to get into
3 an apartment or get into a house and trying to get
4 your gas stuff turned on, and if you don't have a
5 credit score, that may mean you also don't have a lot
6 of money and, yeah, I know if you don't have a credit
7 score, it's not assessed, but if there's been a
8 mistake made, we're talking about essential services
9 that aren't going to be able to be turned on, and I
10 bet that if we had a million people that came in here
11 and said, Trying to change your credit score with
12 Equifax is, you know, about as easy as doing heart
13 surgery, you know, on day one of medical school --
14 and it concerns me that there is no flexibility given
15 and no protection given to the consumer to be able to
16 go to the utility and say, Here is independent proof
17 of beyond this Equifax score.

18 I mean, for example, someone may have
19 just got a job, you know -- I'll give you an extreme
20 example. Let's say someone is unemployed and they've
21 been unemployed for five years and they're a little
22 bit behind on their bills, but then they get
23 confirmed the next day to a United States District
24 Court of -- Federal District Court where they have a
25 job for life and they're getting paid by the United

1 States federal government, and they suddenly go from
2 being, maybe, a marginal credit risk to being zero
3 credit risk because they're getting paid.

4 Now, I understand MGE's point that, Well,
5 that person might spend a whole lot of money and --
6 might go out and spend all their money in the first
7 year and all that, but I'm not -- but I'm more
8 comfortable with the way the system works after
9 hearing some of the protections, but I'm still
10 concerned that there is not flexibility to correct
11 errors or omissions from the utility's perspective,
12 that you have to go to Equifax and get it fixed
13 there, and we're only using one company; right?
14 There's only one company that does this?

15 It's not like other credit ratings where
16 you have three credit ratings where if there is one
17 in an anomaly you might be able to point out that
18 there's a mistake or something wrong. We're only
19 using one; correct?

20 MR. JACOBS: Correct. And --

21 CHAIRMAN GUNN: I'll follow up, and I'll
22 let you say what you need to say.

23 Are there any other of the other credit
24 reporting agencies that have this type of utility
25 credit rating?

1 MR. JACOBS: I don't know the answer to
2 that. I know that our credit manager has assessed
3 the three big credit companies, and he chose Equifax,
4 but I can't say whether or not they have a specific
5 score.

6 CHAIRMAN GUNN: And the other two would be
7 three times the expense for --

8 MR. JACOBS: Correct.

9 CHAIRMAN GUNN: I'm going to let these
10 other guys -- because I don't want to keep everybody
11 here all day, I'm going to let them ask their
12 questions, and then I may follow up. If you wanted
13 to follow up on something, I'll want to come back to
14 you.

15 MR. JACOBS: I wanted to add one thing.
16 The way the tariff reads right now, it says the
17 Company may assess a security clause, and what I can
18 tell you is, the way we do business, we're not gonna
19 be draconian in the way we implement this.

20 If it appears that -- if there's an
21 indicator in the example we give where a consumer
22 provides hard data that we can analyze and you're not
23 getting the assistance from a credit reporting
24 agency, we would assess that data.

25 I mean, the extreme example that you

1 gave, if someone is appointed to the bench and, you
2 know, has a pretty-much guaranteed income for life,
3 that's obviously something that we're going to
4 evaluate, and there's flexibility built into this by
5 virtue of the way the tariff is written.

6 This is something new that we're doing.
7 I'm sure that -- I mean, OPC has expressed interest
8 throughout this whole process that consumers are
9 protected, and they built in some of the reporting,
10 the analysis that we have to do to look at those
11 instances, and I can just tell you by the way the
12 tariff reads that there is flexibility in that
13 process.

14 CHAIRMAN GUNN: That's very helpful,
15 actually. Thank you very much.

16 JUDGE WOODRUFF: Before I go to
17 Commissioner Jarrett, Ms. Meisenheimer, you testified
18 before, and I forgot to swear you in, so I'll go back
19 and swear you now.

20 (BARBARA MEISENHEIMER was sworn.)

21 JUDGE WOODRUFF: Thank you very much.

22 Commissioner Jarrett.

23 COMMISSIONER JARRETT: Thank you, Judge.

24 Good afternoon.

25 Ms. Fred, just a couple of questions.

1 Again, I just want to make sure I understand. How
2 long has Laclede had their current tariff in place?

3 MS. FRED: Since August 31, 2005.

4 COMMISSIONER JARRETT: So over six years
5 now?

6 MS. FRED: Correct.

7 COMMISSIONER JARRETT: And during that six
8 years, have we never received any complaints from any
9 consumer complaining about the credit scoring?

10 MS. FRED: We've received no complaints
11 from a consumer regarding credit scoring.

12 COMMISSIONER JARRETT: Okay. And
13 Mr. Poston, you had talked about the fact that you
14 had used some model language from NACUSA [sic].
15 Could you explain a little bit for the record what
16 NACUSA is.

17 MR. POSTON: It's NASUCA, the National
18 Association of State Utility Consumer Advocates.

19 COMMISSIONER JARRETT: All right. And
20 Public Counsel is a member of that national
21 organization?

22 MR. POSTON: Yes, we are.

23 COMMISSIONER JARRETT: And you indicated
24 there's some model language from NACUSA in this
25 stipulation.

1 MR. POSTON: Yeah. They passed a
2 resolution several years back -- I'm going to throw
3 out 2007, right around that time -- and they
4 suggested conditions, that if the commissions wanted
5 to do this, these conditions, that they should
6 implement, and we had those conditions in our
7 stipulation.

8 COMMISSIONER JARRETT: Now, do those
9 conditions specifically rate to using credit scores
10 for deposit purposes?

11 MR. POSTON: Yes. That's exactly what the
12 conditions are for.

13 COMMISSIONER JARRETT: So I take it from
14 that, then, this is a national issue, and other
15 states may use credit scores to assess whether a
16 deposit is appropriate.

17 MR. POSTON: Yes.

18 COMMISSIONER JARRETT: Do you know how
19 many states do that now?

20 MR. POSTON: I don't. I did a -- I looked
21 at some tariffs. I looked at about 12 different
22 companies, different states, kind of random, and I
23 found a few states that did have credit scoring. I
24 didn't find many that had a specific number.

25 I found -- Colorado, there is a -- I

1 think it might've, at most, that Colorado had a 600
2 score, that it was if you're -- that's their
3 threshold, but they also used a different agency.
4 They used -- I can't even think of the name of the
5 agency.

6 All the other tariffs and companies I
7 looked at, some appeared to allow credit scoring, but
8 it was more kind of at the will of the company to how
9 they implemented that. Others, they just didn't
10 reference it in their tariffs or the rules, so I'm
11 assuming that means it's not allowed in those states,
12 so it kind of varies.

13 COMMISSIONER JARRETT: MGE, do you have
14 any information on what other states are doing?

15 MR. JACOBS: I do, with a caveat.

16 COMMISSIONER JARRETT: Okay.

17 MR. JACOBS: I did a Westlaw search. I
18 did not do a 50-state survey. I found eight states
19 that have credit scoring tariffs that have been --
20 have considered these. I found two states that
21 rejected proposals. The numbers that I've seen, I
22 only found three states that had -- like Mr. Poston
23 said, a lot of the states said that the utility could
24 develop their own number, and what I found, three
25 states had numbers that were using the same company

1 and same score.

2 They used 750 as a cutoff. Beneath 750
3 they would require a deposit. Above 750 they did not
4 require a deposit. Ours is 724 so, really, ours is
5 more liberal to consumers than other states that I
6 found.

7 COMMISSIONER JARRETT: And I take it that
8 you-all would be using the same credit company that
9 Laclede is using, Equifax?

10 MR. JACOBS: Correct.

11 COMMISSIONER JARRETT: Thanks. I don't
12 have any other questions.

13 JUDGE WOODRUFF: Commissioner Kenney.

14 MR. BERLIN: Commissioner Jarrett, Staff
15 does have some information on -- responsive to your
16 question.

17 COMMISSIONER JARRETT: Oh, great. Yeah.
18 Please.

19 MR. BERLIN: We found that 31 out of 50
20 states use the Equifax Advanced Energy Risk score,
21 and Staff has looked closely at Pennsylvania, Texas,
22 Iowa, Oklahoma, Kansas, and Illinois in the use of
23 credit scoring in those tariffs.

24 COMMISSIONER JARRETT: All right. Are
25 these similar, then -- those states you just

1 mentioned similar to what we're looking at here?

2 MR. BERLIN: Yes.

3 COMMISSIONER JARRETT: Thank you very
4 much, Mr. Berlin.

5 No further questions.

6 JUDGE WOODRUFF: Commissioner Kenney.

7 COMMISSIONER KENNEY: You said 31 out of
8 50 states that are currently doing this?

9 MR. BERLIN: Correct.

10 COMMISSIONER KENNEY: Those 31 are using
11 Equifax Advanced Energy Risk Score?

12 MR. BERLIN: Correct.

13 COMMISSIONER KENNEY: Are they using the
14 same score as the cutoff?

15 MR. BERLIN: I can't answer that.

16 COMMISSIONER KENNEY: Let me ask -- I want
17 to back up and ask about OPC's support or
18 nonopposition. I think I heard you correctly,
19 Mr. Poston. You said that OPC decided to support
20 this because Laclede had it in place and you assumed
21 that we would go ahead and approve it for that
22 reason. Is that a fair summary?

23 MR. POSTON: That was one of the reasons,
24 yes. That was one of the primary reasons.

25 COMMISSIONER KENNEY: What's OPC's default

1 position on whether or not this is good public
2 policy, irrespective of what Laclede Gas is doing?

3 MR. POSTON: Well, we have -- the comments
4 we filed in the Chapter 13 Rulemaking, we --

5 COMMISSIONER KENNEY: Which were in
6 opposition.

7 MR. POSTON: Were in opposition. Those
8 rules did not necessarily, you know, get to a Equifax
9 score, anything like that. It was more removing the
10 conditions that are in there now that an applicant
11 could use to avoid a deposit, showing that they're
12 owning or about to purchase a home, they have a job.
13 I can't think of what the third condition is.

14 COMMISSIONER KENNEY: Owning or having a
15 regular job and then having -- owning a home or
16 purchasing one, having a regular job, and the third
17 was having adequate references from another
18 commercial source.

19 MR. POSTON: Okay. So this tariff would
20 remove those as ways consumers can avoid a deposit,
21 and so we have opposed that in the past, and we do
22 continue to oppose removing that. Unless we see
23 anything telling us why that's a good idea, we don't
24 agree with that.

25 COMMISSIONER KENNEY: Is it OPC's position

1 that those current protections are sufficient to
2 protect the utility?

3 MR. POSTON: Um --

4 COMMISSIONER KENNEY: Those three
5 exceptions, I guess, to avoid the deposit.

6 MR. POSTON: Protect the utility in ways
7 of?

8 COMMISSIONER KENNEY: I guess mitigating
9 bad debt, or whatever it is that the credit scoring
10 seeks to remedy, is it necessary in light of the
11 current rule?

12 MR. POSTON: I mean, I would think that to
13 the extent they can. I mean, I hear them saying
14 that, you know, there's no real way to verify these
15 things. To the extent there is a way to verify them,
16 I would think that they could be helpful, useful
17 tools to the Company.

18 COMMISSIONER KENNEY: Well, home ownership
19 or -- is verifiable. Regular employment is
20 verifiable. The third one, adequate credit from
21 commercial resources, is a little more --

22 MR. POSTON: I think -- maybe it's
23 purchasing a home may be the difficult one to --

24 COMMISSIONER KENNEY: All right. So
25 Laclede's has been approved since '05. Was that at

1 the conclusion of a rate case as a full hearing or
2 was it part of a settlement and stipulation?

3 MR. BERLIN: Commissioner Kenney, that was
4 a rate case: GR-2005-0284. It was part of a
5 stipulation and agreement.

6 COMMISSIONER KENNEY: So the rate case
7 didn't go to hearing; it was part of a stipulation?

8 MS. MEISENHEIMER: Yes. I can't answer
9 unless -- I can give you a little of the history of
10 credit scoring as it evolved for Laclede, if that
11 would be helpful.

12 COMMISSIONER KENNEY: Well, that would be
13 helpful, but I guess the reason I'm asking the
14 questions is, I want to know if there was an
15 opportunity for the Commission to vet it from the
16 context of a full-blown hearing or if it was just
17 part of some black-box settlement and we approved the
18 stipulation.

19 MR. BERLIN: The case did settle.

20 COMMISSIONER KENNEY: The case did
21 settle?

22 MR. BERLIN: Yes.

23 COMMISSIONER KENNEY: Okay. Go ahead,
24 Ms. Meisenheimer.

25 MS. MEISENHEIMER: Prior to 1994, the use

1 of commercial credit source was not mentioned in the
2 Laclede tariffs at all. From 1994 until the decision
3 in GR-98-374, the use of a commercial credit source
4 was one of four options to avoid a deposit, from our
5 perspective, and that's -- the last one is -- exists
6 in the current rules, that is, that you can
7 demonstrate creditworthiness through the use of a
8 commercial credit source.

9 In GR-98-374, Laclede's tariff language
10 changed to allow deposits from anyone that did not
11 own or was not purchasing a home, and that change was
12 accomplished by the addition of the word "and" in a
13 tariff that I -- from my perspective, and I was with
14 Public Counsel at that time. That was an oversight
15 in our review. We would have opposed that, had we
16 caught it.

17 Then in GR-2005-0284, part 2(B) of the
18 stipulation included an agreement to develop and
19 potentially implement credit scoring. And I mean,
20 I'm sure you can take notice of that agreement to see
21 the full extent of the language. It's like a long
22 paragraph. If you'd like me to read it, I can.

23 COMMISSIONER KENNEY: (Shook head.)

24 MS. MEISENHEIMER: Okay. Then in
25 GR-2007-0208, Public Counsel recommended that the

1 language in Laclede's tariff be changed to reinstate
2 the previous language that would be consistent with
3 the rule on credit scoring, and then again in
4 GR-2010-171, Public Counsel evaluated the data that
5 we had seen from the -- from Laclede on its credit
6 scoring as of that point and we, again, recommended
7 that the language in Laclede's tariff be consistent
8 with the rule.

9 COMMISSIONER KENNEY: The current rule as
10 it stands?

11 MS. MEISENHEIMER: So we have consistently
12 had concerns about credit scoring; however, we did
13 enter into the stipulation and are satisfied to
14 follow the stipulation.

15 COMMISSIONER KENNEY: In the current rule,
16 the fourth provision, or the fourth criteria to avoid
17 having to provide a deposit, the one that reads, Can
18 provide adequate credit references from a commercial
19 credit source, that is intended to encompass credit
20 reporting agencies. Is that --

21 MS. MEISENHEIMER: I think that it can.

22 COMMISSIONER KENNEY: Okay.

23 MR. JACOBS: The way that we've read that
24 in the past -- I'm sorry. I don't mean to interrupt.

25 The way that we've read that in the past

1 is that -- is to not encompass a credit reporting
2 agency, and we've read it as a commercial source that
3 would be -- we didn't know what that means, to be
4 honest with you. It's difficult for us to assess
5 what that is. Is it appropriate for someone with a
6 Home Depot account that did show a credit history
7 from them, is that --

8 COMMISSIONER KENNEY: Somebody with a
9 Macy's card?

10 MR. JACOBS: Yes, exactly. There's a
11 vagueness to it that we've never felt comfortable
12 with, and if we apply it in a way that a consumer
13 disagrees with, there's not enough clarity in that
14 section.

15 COMMISSIONER KENNEY: So theoretically, if
16 that fourth provision were more specifically defined
17 to specify what a commercial credit source is and
18 that it was intended to encompass credit reporting
19 agencies, then that would be one of four
20 possibilities to avoid having to provide a deposit?

21 MR. JACOBS: From the Company's
22 perspective, that would not provide adequate
23 protection in the sense that we still think that the
24 other three criteria that are used are just not very
25 good indicators of creditworthiness, meaning that

1 adequate income is something that is not a readily-
2 definable term, or if someone has a home or if they
3 have a job, just for the reasons I talked about
4 previously, that does not give us an indication that
5 someone is living within their means, regardless of
6 the amount of their income or the size of their
7 home. It just doesn't provide an indication of
8 creditworthiness.

9 COMMISSIONER KENNEY: So let me ask this,
10 then: The number 724, where does that place the
11 consumer as compared to the rest of the population as
12 a percentile, because my understanding is, a regular
13 credit scoring will provide a number, and that number
14 places you, as a consumer, somewhere in a percentile
15 as compared to the rest of the population?

16 So where does 724 place a consumer as
17 compared to the rest of the population, 'cause I know
18 the Equifax and Transunion, they're all proprietary
19 and they won't tell you how they arrive at their
20 scores, but they tell you where the score places you
21 as a percentile compared to the rest of the
22 population?

23 MR. JACOBS: I've seen a graph -- can't
24 give you a percentile, but I've seen a graph that
25 shows from 1 to 20; basically low risk being one --

1 low risk being 1, high risk being 20, and 724 put
2 them near the bottom of that, but I don't have a
3 percentile number that I can give you.

4 And we can provide that for you, if that
5 would help the Commission.

6 COMMISSIONER KENNEY: If it exists, that
7 would be helpful.

8 Ms. Meisenheimer.

9 MS. MEISENHEIMER: I believe that based on
10 the Laclede data, my memory is that it would assess a
11 deposit on roughly 35 percent of applicants, if
12 that's helpful in terms of percentile.

13 COMMISSIONER KENNEY: Let me just say, I
14 mean, if -- well, anybody can respond to this
15 question, and it's kind of a comment as well as a
16 question. By applying this objective credit scoring
17 number, doesn't this, in essence, place the provision
18 of utilities on equal footing with any other consumer
19 purchase?

20 I mean, if we're just applying a strict
21 number to a person's creditworthiness -- 'cause I
22 have no idea how they arrive at this score, and
23 apparently nobody else does 'cause it's proprietary,
24 but if we're just assigning this objective number,
25 doesn't it say that the provision of the utility

1 services is the same as a customer buying widgets
2 from ACME Company?

3 MR. BERLIN: Commissioner Kenney, I'd like
4 to respond to that.

5 COMMISSIONER KENNEY: Okay.

6 MR. BERLIN: I don't think that's an
7 accurate assessment in that this Equifax Advanced
8 Energy Risk score does use some different criteria
9 than your standard commercial credit score, that I
10 believe you might be referring to, if you're going
11 out to apply for a car loan or something of that
12 nature --

13 COMMISSIONER KENNEY: Right.

14 MR. BERLIN: -- mortgage, or what have
15 you.

16 COMMISSIONER KENNEY: Well, how does it
17 differ?

18 MR. BERLIN: The attributes of the Equifax
19 model include payment history, the amount owed, the
20 length of the credit history, which is an indicator
21 of stability, and new correct. It does exclude
22 certain criteria, such as age, public income
23 assistance, income amount, other income amounts or
24 level of income. It excludes the car or mortgage
25 inquiries. Of course, race, gender, religion, those

1 types of factors are excluded.

2 I would like to just also make a comment,
3 if this is of any help, but the 724 number itself was
4 derived as a result of an Equifax model on the
5 Laclede customer base, so they had come in and
6 actually modeled and studied the Laclede customer
7 base to derive the number of 724.

8 COMMISSIONER KENNEY: So the 724 is a
9 number specific to Laclede's customer base?

10 MR. BERLIN: Yes, it is.

11 COMMISSIONER KENNEY: And you said the
12 number is derived based upon -- or the criteria is
13 payment history and length of credit, and you had a
14 couple of other criteria.

15 MR. BERLIN: Amount of money owed to
16 utilities, the length of credit history, any amount
17 of new credit, payment history, recent historical
18 delinquencies.

19 COMMISSIONER KENNEY: So that's payment
20 history to utilities or payment history to any --

21 MR. BERLIN: Yes.

22 COMMISSIONER KENNEY: Okay.

23 MR. JACOBS: Commissioner, if I can ask --
24 I don't want to interrupt.

25 COMMISSIONER KENNEY: No. Go ahead.

1 MR. JACOBS: If I can answer your
2 question, you had asked, How does this render it
3 different from other commodities and purchases by
4 using the score?

5 COMMISSIONER KENNEY: Sure.

6 MR. JACOBS: I think the only ways it
7 renders it similar is that we're using something
8 that's commonly viewed in the credit industry as a
9 way to render assessment of credit risk to be more
10 objective than subjective, and this does not deny
11 someone utilities, gas service, in this case. All it
12 does is that it's an assessment of risk, and if one
13 is aimed to be a high risk from a credit perspective,
14 we just ask for a deposit in that certain
15 circumstance to provided some surety.

16 COMMISSIONER KENNEY: Let me ask some
17 additional questions about Equifax itself. If the
18 applicant, the customer, is deemed a credit risk or
19 their score is below a 724 and they're assessed a
20 deposit, do they receive a notice from the utility
21 saying, You've been assessed a deposit, and do the
22 protections of the Fair Credit Reporting Act kick in?

23 MR. JACOBS: Absolutely.

24 COMMISSIONER KENNEY: And they get a free
25 copy of their score and a report from Equifax?

1 MR. JACOBS: What happens is that when the
2 consumer speaks to the customer service
3 representative at MGE, they're just told -- the
4 consumer is told at the time by the customer service
5 representative whether or not a deposit will be
6 required, and what the customer service
7 representative sees on his or her screen is just an
8 indicator of, Did this individual pass or fail? Is
9 that person required a deposit, or not, based on that
10 score?

11 The consumer is given information about
12 the credit reporting agency, how to contact them.
13 And then subsequent to that, we require, if there's
14 an adverse credit action, meaning we require a
15 deposit, we're required under the relevant laws to
16 send them a written notice.

17 That written notice has their name,
18 address, contact information from the reporting
19 agency, has indicated that they can receive a free
20 report, has factors which went into why their
21 score -- what factors went into the negative impact
22 on their score and also the exact score itself.

23 COMMISSIONER KENNEY: Why did MGE decide
24 at this time to go to this model as opposed to the
25 rules that are currently in place and the protections

1 that are already in place? Why at this time did MGE
2 decide to do this?

3 MR. JACOBS: We found that the existing
4 criteria just aren't workable from the sense that
5 we -- we don't have an easy way to verify that
6 information: Income, job, home ownership, quickly.

7 When people want gas service, they want
8 it immediately. We want a way that is not as
9 subjective and as loose as the current standards. We
10 want a way that's viewed favorably and as
11 commonplace, really, in commercial credit scoring and
12 a way to do that.

13 We're always looking at ways to reduce
14 bad debt. We try to reduce bad debt by our
15 collection practices. We try to do that by, you
16 know, assessing a deposit for former customers that
17 are not currently on the system with payment
18 problems, which is part of our tariff. We look at
19 ways to mitigate that risk, so this is just one of
20 the tools in which we can do so.

21 This isn't specifically focused on new
22 customers -- this particular provision is, but
23 deposits are more widespread than that.

24 COMMISSIONER KENNEY: So the amount of the
25 deposit will be equal to one-sixth of the estimated

1 bill. That would be the same as what's in the rule?

2 MR. JACOBS: Yes, Commissioner.

3 COMMISSIONER KENNEY: And then the option
4 of spreading it out over four months?

5 MR. JACOBS: Correct.

6 COMMISSIONER KENNEY: It's a way to manage
7 risk and mitigate risk and to manage bad debt. Is
8 that something that we should take into account in
9 the next rate case?

10 MR. JACOBS: We think it's something that
11 we need assistance on now, and we try to -- we're
12 trying to manage our business the best we can. We
13 think this is something we're presenting to the
14 Commission that has experience with another utility
15 in the state. As Staff indicated, from their data,
16 they have not received any customer complaints on
17 this, and this is something that we can do now to try
18 to mitigate our risk.

19 COMMISSIONER KENNEY: Where is Staff and
20 OPC, and MGE also, in the Chapter 13 Rulemaking?
21 Would it -- in the Chapter 13 Rulemaking, would the
22 current criteria be replaced entirely, or would they
23 be maintained and the credit scoring would be an
24 additional tool?

25 MS. FRED: The current draft that's being

1 still under review and consideration by the parties
2 working on it still includes the existing criteria,
3 in addition to credit scoring.

4 COMMISSIONER KENNEY: Has there been any
5 discussion about how to make other criteria less
6 amorphous or more specific, or will the language just
7 stay as-is?

8 MS. FRED: To the best of my memory, the
9 language stays very similar to what it is, except
10 there is a sentence added in there for clarification
11 purposes, but off the top of my head, I don't recall
12 what that sentence is.

13 COMMISSIONER KENNEY: Why should we not
14 just wait until the rules are finalized to implement
15 this?

16 MS. FRED: In Staff's opinion, we need to
17 look at as many of these experimental options to see,
18 really, if it's a viable option at all before we
19 would really propose to the Commission, or anyone,
20 you know, the full application of credit scoring in
21 the rulemaking.

22 MR. JACOBS: And MGE would echo that.
23 We've got a regulation in place right now that's
24 just -- it's unwieldy and we don't use, so we've got
25 something that has a history, we can put in place

1 now, and there's conditions in the stip and agreement
2 where we can track that, provide information to OPC
3 and the Commission that shows how this works and if
4 it's effective or not.

5 COMMISSIONER KENNEY: And Laclede's has
6 been experimental since '05, and still experimental?

7 MS. MEISENHEIMER: Yes.

8 MR. POSTON: The tariff says
9 "experimental."

10 COMMISSIONER KENNEY: Does everybody agree
11 on that?

12 MR. BERLIN: Well, Commissioner Kenney, he
13 is correct. The word "experimental" is currently in
14 the existing tariff.

15 COMMISSIONER KENNEY: Now, I want to
16 explore more. The 724 was developed based upon
17 Laclede's specific customer base, and I guess I don't
18 understand, then, how that number is transferable to
19 another utility's customer base.

20 Is 724 the appropriate number to be using
21 for MGE if that number was developed specifically
22 based upon Laclede's customer base? It's kind of two
23 questions in there.

24 MR. BERLIN: I would, maybe, proffer a
25 response from Staff on your question, Commissioner

1 Kenney, in that you are correct. The 724 was
2 developed through a model that Equifax ran on
3 Laclede's customer base.

4 Staff accepts the number for MGE, really,
5 based upon two things. Number one: It is an
6 experimental tariff, and we do have reporting
7 requirements and information gathering requirements,
8 that we're going to have to take a look at the
9 success of the implementation of this tariff.

10 COMMISSIONER KENNEY: Well, how will
11 success be measured?

12 MR. BERLIN: And secondly, complaints.

13 COMMISSIONER KENNEY: How will success be
14 measured? I mean, what's the definition of
15 "success"? Is it reduced bad debt?

16 MR. BERLIN: Well, there's a provision in
17 the stip where MGE shall accord and maintain certain
18 data regarding the applicants for new service, and
19 they will provide that information to OPC and to
20 Staff, and it's spelled out in paragraph J.

21 There's a list of information there that
22 they're to track. It starts with Subparagraph I, II,
23 III: Name of applicant; the date the credit score is
24 obtained; applicant's credit score; whether the
25 applicant became a customer; the basis -- for

1 example, two times the highest bill and amount of
2 deposit assessed to the customer or a record of the
3 use of a third-party guarantor; the customer's
4 timeliness of payment for each month until any
5 deposit is refunded to the customer or applied to the
6 account; and the amount and date of any return of --
7 deposits and the amount of any lighting or other
8 energy assistance received on behalf of the customer
9 each month until any deposit is refunded to the
10 customer or applied to the account.

11 MR. JACOBS: I would answer in a couple
12 ways. I think that 724, for us, is the right number,
13 in a sense, that -- or it's a validly-proved --
14 possessed right now. Our credit and collections
15 manager looked at it, and his assess-- he didn't do a
16 formal study, but he looked at it and thought that
17 this would be a good starting point. We analyzed our
18 own history.

19 For us, success is measured in a couple
20 of ways that -- Mr. Berlin talked about data points,
21 you know, that we would provide, and we would analyze
22 that data to see, Is this having an effect? For us
23 the effect would be, Is this impacting our
24 collectibles? Is there some mitigation of risks or
25 some decrease in risk?

1 The whole idea of uncollectibles is a
2 whole different discussion we can talk about at some
3 point, but really for us is that we're looking at,
4 What can we do to mitigate the risk that we have?
5 And I think some of the data points we're looking for
6 will help us in that process.

7 COMMISSIONER KENNEY: So -- I don't mean
8 to belabor it, so Equifax came up with that number
9 modeled upon Laclede's customer base and arrived and
10 said, 724 is the optimal number to, what, reduce
11 Laclede's risk?

12 MR. BERLIN: Correct.

13 COMMISSIONER KENNEY: Okay, based upon the
14 characteristics of Laclede's customer base?

15 MR. BERLIN: That is correct.

16 COMMISSIONER KENNEY: Those
17 characteristics being what?

18 MR. BERLIN: I don't think we have that
19 kind of detail, Commissioner Kenney.

20 COMMISSIONER KENNEY: Okay.

21 MR. BERLIN: It's something we can get,
22 Commissioner Kenney. It's just that we don't have
23 that information here.

24 COMMISSIONER KENNEY: Now, somebody said
25 eight states had it and two states rejected it. Who

1 said that?

2 MR. JACOBS: I did.

3 COMMISSIONER KENNEY: What are the two
4 states that rejected it?

5 MR. JACOBS: Oregon and Indiana, and those
6 are just the ones that I found in my --

7 COMMISSIONER KENNEY: Was that in the
8 context of a rate case? Did they provide -- was
9 there rationale for why those two states rejected it?

10 MR. JACOBS: I believe it was in the
11 context of that specific issue, at least in Oregon, I
12 think, in looking at whether or not to assess that.
13 I don't have notes here that indicate why, what
14 reason they went into.

15 COMMISSIONER KENNEY: I don't have any
16 other questions right now.

17 JUDGE WOODRUFF: I do have one clarifying
18 question. There's been talk about the language in
19 the stipulation that modified the original tariff. I
20 just wanted to confirm that that stipulation language
21 was then incorporated into a revised tariff that was
22 filed. Is that correct?

23 MR. POSTON: I believe so. I believe the
24 tariff language didn't change.

25 MR. JACOBS: That's right. That's

1 correct.

2 JUDGE WOODRUFF: So if commissioners a
3 year from now were looking at this program, all the
4 relevant information would be in the tariff, or would
5 they have to look at the stipulation and agreement as
6 well?

7 MR. POSTON: They'd have to look at the
8 stipulation to understand all the reporting
9 requirements and things like that.

10 JUDGE WOODRUFF: Okay.

11 COMMISSIONER JARRETT: I did want to ask
12 one other question.

13 COMMISSIONER GUNN: Go ahead.

14 COMMISSIONER JARRETT: Ms. Fred, I'll ask
15 you -- well, first of all, anyone can answer. What
16 is MGE's territory, just for the record?

17 MS. FRED: Primarily Kansas City,
18 Missouri, and then the Joplin area as well.

19 COMMISSIONER JARRETT: Okay. Do you have
20 any idea or any opinion as to whether those areas are
21 comparable people-wise, income-wise, with people in
22 Laclede's area?

23 MS. FRED: It's been my experience over
24 the last several years, and my position, that there
25 are some differences in customer base for the western

1 side of the state versus the eastern side of the
2 state, so whether that be MGE or Laclede, there tend
3 to be some variables that are slightly different
4 between those two entities.

5 COMMISSIONER JARRETT: So if there are
6 some variables that are different on the western side
7 from the eastern side and Laclede has the 724, given
8 those variables, what do you think the proper credit
9 score would be? Would it be lower? Higher? About
10 the same?

11 MS. FRED: I think that's the point of the
12 experiment, is to determine, Is it the same or is it
13 lower or higher than what we are considering in this
14 experimental case?

15 COMMISSIONER JARRETT: Do you recall --
16 Mr. Poston or Ms. Meisenheimer or Mr. Berlin,
17 Ms. Fred, do you recall anything about the Equifax
18 study that Equifax did for Laclede? How long did it
19 take? How much did it cost? What did they look at?

20 I mean, is that something that is rather
21 long and drawn out and expensive for Equifax to do,
22 or can it be done very quickly and very cheap -- you
23 know, inexpensively [sic] if MGE were to do that?

24 MS. FRED: I can -- what I recall, at the
25 time that Laclede had Equifax did their study, it

1 wasn't long and drawn out. It was fairly quick.
2 They just had to gather the account, the sampling
3 account information, to send to Equifax. They ran it
4 through their model and was able to get back with
5 them fairly quickly. Time frame, it was less than a
6 year, but I don't know if it was just a matter of a
7 couple months or six months. I don't recall.

8 Cost, we never asked that question, so we
9 never were privileged to know what it cost the
10 company.

11 COMMISSIONER JARRETT: Anybody else know?

12 MR. POSTON: We don't have that data
13 either.

14 MR. JACOBS: We have not priced the study.

15 COMMISSIONER JARRETT: Thank you. That's
16 all the questions I have, Judge.

17 JUDGE WOODRUFF: Chairman?

18 CHAIRMAN GUNN: I'm just going to ask a
19 real simple question to Public Counsel. You believe
20 the conditions imposed in the stipulation and
21 agreement grant enough consumer protection that as a
22 experimental tariff, the MGE tariff is acceptable?

23 MR. POSTON: Yeah. I mean, we support the
24 stipulation that we signed.

25 CHAIRMAN GUNN: I mean, you're just not

1 opposing it; you agreed to it. This is where you've
2 signed on the dotted line and you support the
3 stipulation and agreement.

4 MR. POSTON: Well, we're not saying we
5 support credit scoring, as you -- being used to
6 assess deposits. We've agreed to the stipulation to
7 resolve this case.

8 CHAIRMAN GUNN: Because of the conditions
9 that have been imposed?

10 MR. POSTON: Yeah. That's one of the --
11 yeah, certainly the conditions help get us there to
12 where we would agree to credit scoring.

13 CHAIRMAN GUNN: Are there any additional
14 conditions that you would oppose or that you would
15 have liked to have included in this stipulation and
16 agreement but have not been included?

17 MR. POSTON: Yeah, I mean, there's -- I
18 can't think of any that we raised, and I don't want
19 to talk about negotiation, you know, things that were
20 discussed in negotiations, but I can't recall
21 anything that we raised that we were turned down on,
22 as far as conditions we wanted.

23 You know, after going back and talking
24 with Barb after the discussion we've had today, we
25 may determine that there are more things that we

1 would like to have in it, but I can't think of
2 anything right now.

3 CHAIRMAN GUNN: Okay. Thank you.

4 JUDGE WOODRUFF: Mr. Kenney.

5 COMMISSIONER KENNEY: Let me ask a
6 very basic question. Does Public Counsel
7 believe that credit scoring is an accurate
8 measure of a customer's risk of default or risk
9 of nonpayment?

10 MS. MEISENHEIMER: In terms of
11 utility service, I don't think so.

12 COMMISSIONER KENNEY: Okay. I don't
13 have any other questions.

14 JUDGE WOODRUFF: Anything else from
15 the commissioners?

16 (No response.)

17 JUDGE WOODRUFF: All right. Well,
18 thank you all for coming today. With that we
19 are adjourned.

20 (The hearing concluded.)

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1 CERTIFICATE

2 I, Nancy L. Silva, RPR, a Certified
3 Court Reporter, CCR No. 890, the officer before
4 whom the foregoing hearing was taken, do hereby
5 certify that the witness whose testimony appears
6 in the foregoing hearing was duly sworn; that
7 the testimony of said witness was taken by me to
8 the best of my ability and thereafter reduced to
9 typewriting under my direction; that I am
10 neither counsel for, related to, nor employed by
11 any of the parties to the action in which this
12 hearing was taken, and further, that I am not a
13 relative or employee of any attorney or counsel
14 employed by the parties thereto, nor financially
15 or otherwise interested in the outcome of the
16 action.

17
18 _____
19 Nancy L. Silva, RPR, CCR
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