

CUSTOMER SERVICE ACTION PLAN

PAUL D. BLANKENSHIP
AUGUST 12, 1996

EXHIBIT 112
GR-96-285

Customer Service Action Plan

EXPECTATION

The purpose of Missouri Gas Energy's (MGE) call center is to offer customers a convenient opportunity to obtain gas service and resolve related issues. Providing customers easy, timely, quality telephonic service supports the sales effort by affording customers the best purchasing experience possible.

SUMMARY OF FINDING

For the last several years, the call center has been available to MGE customers from 7 a.m. to 7 p.m. (12 hours), Monday through Friday and Saturday 8 a.m. to 2 p.m. (6 hours) Central Standard Time. This provides 66 hours of service to customers out of 168 hours available weekly or about 40 percent of total customer weekly time. Customer Service is available to customers 67 percent of prime day time hours (7 a.m. to 9 p.m. seven days a week).

MGE responds to incoming customer calls with 56 full-time equivalent employees (FTE). Each customer call requires, on average, 259 seconds or 4.32 minutes to resolve the inquiry (Exhibit 1). Additionally, there are 96 (4 T1s) local incoming telephone lines (Greater Kansas City Area) and 48 (2-T1s) toll-free telephone lines (Joplin, Monett, Warrensburg, and other surrounding areas), for a total of 144 incoming lines that direct callers to customer service. This is 2.6 incoming lines per FTE responding to callers.

Currently, all 144 incoming lines are directed to the Customer Service queue (3860). When customers call, the first available consultant responds to the inquiry. If all consultants are busy assisting other customers, the caller receives a series of messages that advise him/her to wait. Additionally, it advises the caller to report gas leak emergency situations by calling 1-800-582-0000, which is the established emergency phone number. This encourages the customer to hang-up and call back which increases the abandoned rate.

Average monthly incoming customer inquiries have increased from 79,429 to 157,920 calls or 99 percent in the last year (May data). During 1995, it would have required 45.7 FTE to handle the incoming call volume, based on consultants resolving 14 calls per hour on a 7.33 effective hour work day. In 1996, it would have required 90.8 FTE or an increase of 99 percent (Exhibit 1).

The average monthly abandoned rate has increased from 10 to over 36 percent, with May 1996, averaging 44 percent. This has resulted in four out of ten customers choosing to hang up versus waiting to speak to a consultant to resolve his/her situation.

Because of the queue configuration, it was not possible to accurately measure the average speed of answer (ASA) until July 1996. Based on July statistics, the ASA was

176 seconds. The longest customer holds over 36 minutes to receive an answer to their issues and concerns.

Currently, situations created by computer programs that require correction to customer records are assigned to call center employees or the support groups (Billing & Account Services). The number of FTE responding to incoming customer calls are reallocated to the special project. This significantly increases the ASA and abandon rate because fewer consultants are available to respond to incoming calls. Further, it creates the impression with call center employees answering customer calls is a secondary priority.

The MGE billing system is very complicated and difficult to use. Further, the billing system generates several situations that confuse the customer or create issues and concerns that require them to call MGE. This creates situations where the customer requires an explanation and the consultant response with incorrect or incomplete information. Which results in customers calling back a second time to resolve the problem. This is an area that will require additional analysis to identify the complete impact on the customer base and the relationship to incoming customer calls.

Collection procedures are not behaviorally tuned or in historical perspective to payment history. More effort is exerted in collection of past due accounts than the up front preventive measures. Currently, collection practice generate disconnect notices to new customers with less than 12 months payment history, three days after their bill is due (21 days). And, a 96 hour notice is sent six days (30 days) later. None pay shut-off work orders are created six days after the 96 hour notice (36 days from statement date) is sent. When collection efforts are out of perspective with customer profiles, it creates consumer dissatisfaction, community relation issues, and bad publicity. Further, it increases incoming telephone calls to resolve situations that should not have occurred. Exhibit 2 details MGE's collection time line. Again, this is a business practice that will require analysis to determine the optimal strategy.

Pay-station and remittance processing activities generate customer complaints and additional telephone calls. This is an area of major concern, because of delays in posting customer payments. Additionally, there is a question about the date being used to posted payments to accounts. When any date other than the date-of-receipt is used to credit customers payments it creates issues and concerns for the customer. Further, it increases call volumes.

For example, there are customers (limited) who have had gas service terminated after they had made payments to satisfy their past-due balance by several days. And, situations where the processing date is posted instead of the receipt date. The entire payment process needs to be analyzed to determine the consequence of our payment processing configuration.

OBJECTIVE

Call center performance must be improved to acceptable service levels. The abandoned rate must be reduced to five (5) percent or less with the ASA at less than 45 seconds. The P-grade (number of busy per 100 calls) should not average over five (5) percent monthly. Quality resolution of customers inquiries and complaints needs to be improved significantly. Further, limited type of customer service needs to be available to customers 24 hours a day seven (7) day a week.

It is paramount to reform business practices that generate unnecessary incoming customer inquiries to resolve the call center's high abandoned rate, reduce the ASA, and maintain an acceptable P-grade of service. Without accomplishing this goal, efforts to resolve MGE's call center problems will continue to be reactive instead of proactive and costly. If the cause that provokes the customer to call is not resolved incoming call volume will continue to be perpetual and increase geometrically to business practices.

ACTION PLAN

The ASA must be reduced to 45 seconds or less to accomplish the objective of lowering the abandon rate to five (5) percent. And, a proactive procedure to cultivate business practices to reduce the need for the customers to call must be established. Effects of scheduling service, collection efforts, remittance processing and the billing system all generate unnecessary customer calls. Further, it is not reasonable to expect an average of 158,000 calls monthly on a 460,000 customer base. Today our business practices has resulted in a ratio of one call for every three customer accounts. Our customer are not calling to tell us what a good job we are doing! They are simple reacting to our business practices.

To accomplish the objective of improving telephonic customer service for our customers the following proactive initiatives are being implemented:

1. Developed formal training program in July to improve the quality of customer service.
 - Phase I -- Quality Customer Service Training (July -- August).
 - Phase II -- Active Listening Skills (August -- September).
 - Phase III -- Telephone Etiquette (September).
 - Phase IV -- Receiving Inbound Calls Critique (October).

Result's Expected - Reduce talk time, improve quality of customer service and reduce the need for customers to call back a second time to resolve their situation (one-call-resolution). Developing the skill sets required to respond to customer needs will reduce employee distress and improve morale by providing the tools (telephone techniques & knowledge) required to do the job. Note - there is a negative effect on the ASA and the abandon rate until training is completed:

2. **Effective August 19, the Meridian Automated Attendant will be activated to pre-route customer calls.** The equipment has been engineered for three modes: (1) working hours, (2) after-hours and (3) computer system down. This will improve telephonic service to customers by:
 - Providing a constant friendly greeting to the caller, welcoming them to MGE versus a wait messages and inconsistent consultant introductions.
 - One call resolution for gas leak emergency and meter reading calls, plus making service available 24 hours a day, seven (7) days a week (reduce up to two (2) percent of call center volume).
 - Customers can self-direct themselves to the person they need to talk with when they know the name or phone extension, reducing multiple handling of calls. Reduction in transferring call allows resolution to more customer inquiries which improve productivity (reduce up to one (1) percent of call center volume).
 - Provide interface for Interactive Voice Response (IVR) system.

Result's Expected -- resolve up to three percent of the telephone calls using available technology for customers to direct their call to the source versus having the call center serve as a switchboard. Further, it will improve service by providing limited 24 hour service and a friendly greeting for customers. Also, it will provide for situations (fire drills, etc.) when consultants are not in a position to serve the customer instead of leaving them on hold. This will reduce abandoned rates on a few occasions when the computer down mode is used.

3. **Establish performance standards for consultants handling inbound customer calls.** Currently, there are no expectations to measure consultants in the call centers. Supervisors have no method or tools to measure, evaluate or control productivity. And, consultants do not have a clear understanding of what is expected (quality or quantity).
 - A team of call center supervisors was chartered in June to determine requirements for performance standards. The following are the team's recommendations:
 - * Established 14 calls per hour as meeting requirements of the job
 - * Developed monitoring format to ensure quality performance
 - * Determined 7.2 hours as work time availability requirements
 - Reviewing new performance standards with the Union and plan to kick-off new program by late August.

Result's Expected - Improve consultants productivity from 84 calls daily to 100 calls per day or 19 percent. Also, the quality of telephonic service will be improved through monitoring and consistent evaluation of consultants' performance.

4. **Transfer customer callers to Contigo when they exceeded the five minute window.** The following are the plans to direct over-flow calls to Contigo:
 - Requested MIS to establish the bridge to transfer calls to Contigo by September 15.
 - Requested MIS to ensure data lines are adequate to handle increased volume.

- Requested Human Resources provide the Customer Service training class that certify consultants on Missouri Public Service Commission requirements in late August.
- Develop a queue configuration that will comply to the Union Agreement "Three Step Back-Up Rule" (Reviewed with Dave Black).
- Contigo must agree to handle MGE calls on a priority basis because the customer has been on hold for five minutes before call was transferred.
- Provide other training to Contigo and on-site start-up support in September if Contigo is in a position to take calls.

Result's Expected - This will reduce the longest customer wait time to less than six versus 36 minutes. Further, it will provide the motivation for employees to be available to customers (if they do not take care of our customer, someone else will).

5. Install Interactive Voice Response System (IVR) to resolve customer inquiries for: (1) Payment location information, (2) Provide account balance and payment information, (3) Provide a copy of the customers current billing statement.
 - Installed IVR system August 9.
 - Develop first three application by September 1.
 - Test applications and make corrections by September 30.
 - Educate employees and customer September 1 to 30.
 - Turn up new IVR application by October 13.

Result's Expected - Automate up to 10 percent of incoming customers' inquiries and reduce the cost per call for MGE. And, improve customer service by providing these services 24 a day seven (7) days a week. Depending on post audit of initial IVR applications - Phase II (November) will develop an IVR application to automate the reporting of meter index data for customers calling MGE (not budgeted). This will automate approximately two percent of incoming calls. Phase III will identify additional applications, that can be developed to automate incoming customer calls (not budgeted). This will continue to make more consultants available to respond to customer inquiries which will lower the ASA. Further, this concept will lower the cost per call answered by blending the automation with human resolution to customer inquiries. Note - long term objective is to automate up to 30 percent of calls).

6. Reorganize the Customer Service Department. Create an organization that is customer focused, rewards successful performance, and has clear definition of responsibilities.
 - Obtain buy-in from both managers to redefine their roles.
 - One manager responsible for call center.
 - Other manger responsible for collection (account services & billing).
 - Develop a team concept to accomplish daily work volumes.
 - Use seasonal clerical employees to handle billing and account services functions that will allow trained employees to handle increased fall and winter call volumes.
 - Increase contract collectors from 10 to 16 in August.

Result's Expected - Clarify focal point of responsibility for managers and supervisors. This will build the foundation to create a team culture to accomplish the objectives for improving call center performance and optimize collection results. Using seasonal employees to handle the functions that require minimal training will allow trained employees to resolve incoming customer calls. Minimizing training requirements through use of support unit employees will optimize call center FTE which is the most cost-effective alternative.

7. Proactive initiatives to reform business practices that generate unnecessary incoming customer calls. Retrofit the activity code tracking system with new codes that identify sources or reasons that customers call:
 - Educate employees on the need for activity codes process and the benefits (started in August).
 - Develop method to update codes to monitor reasons for customer calls.
 - Create an environment where employees can provide input to improve the processes.
 - Round-table employee meetings to discuss business issues and concerns.
 - Establish a departmental task force that can correct problem situations.
 - Develop post audit practices to evaluate changes.
 - Utilize the accounting function and MIS to correct future problems with temporary employees instead of expensive union labor that lowers call center performance.

Result's Expected - Reduce average monthly calls from 158,000 to less than 60,000 calls. This will require a buy-in by senior management to charter a natural work team to review business activities that are identified as call generators. The team's objective is to determine if the function is being correctly performed and is appropriately customer focused. And, make recommendation to improve the business practices which will resolve the customers' issues and concerns up front. This will result in eliminating the need for the customer to call to resolve their situation. Note - this is a long range and continuous process not a interim step.

The action plan will require adjustments based on post-audits after each phase is implemented to determine impact on call center performance. This will ensure changes or modifications to procedures improve service levels and do not have adverse effects on other activities. Exhibit 3 details the action plan and activities through the month of October.

CONCLUSION

Every telephone call represents an opportunity for MGE to demonstrate its commitment to provide quality service that customers routinely expect. This means making those commitments and alterations as required to beat competitive initiatives, while controlling the cost structure. Current business practices have resulted in a one to three call ratio to customer base. Incoming average monthly calls have increased 99 percent in the last year through May. Today four out of ten customer hang-up versus waiting to speak to a

consultant to resolve their situation. Employees moral is extremely low which has resulted in a high absentee rate and lack of customer focus.

Currently, MGE does not meet the expectations of customers who call to resolve situations with their gas service or other related issues. The action plan that has been present will correct the abandoned rate through a reduction in the ASA. However, only proactive initiatives designed to reform business practices that generate unnecessary customer calls will accomplish the objective. Other alternatives will be expensive and require additions to staff or outsourcing the call center completely.

Exhibits

Call Center Profile

	Y-T-D CALLS		MAY CALLS	
Incoming Customer Calls				
Average monthly calls 1995	79,429		77,875	
Average monthly calls 1996	157,920		153,760	
Change / Percent	78,491	99%	75,885	97%
Customer Calls Answered				
Average monthly calls 1995	71,828	90%	71,017	91%
Average monthly calls 1996	100,575	64%	86,174	56%
Change / Percent	28,747	40%	15,157	21%
Customer Calls Abandoned				
Average monthly calls 1995	7,601	10%	6,858	9%
Average monthly calls 1996	57,345	36%	67,586	44%
Change / Percent	49,744	654%	60,728	886%
Average Speed Answered (1)				
Average monthly calls 1995	66		67	
Average monthly calls 1996	161		157	
Change / Percent	95	144%	90	134%
Average Talk Time (seconds)				
Average monthly calls 1995	212		208	
Average monthly calls 1996	210		215	
Change / Percent	(2)	-1%	7	3%
Average Work Time (seconds)				
Average monthly calls 1995	284		275	
Average monthly calls 1996	259		254	
Change / Percent	(25)	-9%	(21)	-8%
Projected FTE Required				
Average monthly calls 1995	45.7		44.8	
Average monthly calls 1996	90.8		88.4	
Change / Percent	45.1	99%	43.6	97%
Current Call Staffing				
Full-time phone center 6/96 (FTE)	43			
Part-time phone center 6/96 (FTE)	7			
Billing Svcs assist 6/96 (FTE)	3			
Account Svcs assist 6/96 (FTE)	3			
Total FTE answering in coming calls	56			

(1) Configuration of queue resulted in ASA statistics being reported incorrectly

Customer Service Collection Time Line

<u>DAY</u>	<u>DAYS FROM FINAL BILL</u>	<u>ACTIVITY</u>
1		Bill Mailed To Customer
21		Bill Due
22		Delay Charge Assessed
24		Disconnect Notice Mailed To Customer
30		96 - Hour Notice Mailed To Customer
36		Shut-Off Worked
43	(1)	Final Bill Mailed To Customer
50	(7)	Final Bill Reminder Mailed To Customer
57	(15)	First Revenue Recovery Letter Mailed To Customer
72	(29)	Second Revenue Recovery Letter Mailed To Customer
103	(60)	Charged Off And Assigned To Outside Agency -- Outside agency follows a collection letter routine and phone campaign.

NOTES - 1. This is the time line for none pay shut off (NPSO) accounts. Regular final bills are mailed to customer one day after completion of order in system.

2. The parenthesis indicates days of the final bill process.

Customer Service Action Plan

IMPROVEMENT	Aug 6-10	Aug 12-17	Aug 19-24	Aug 26-31	Sep 2-7	Sep 9-14	Sep 16-21	Sep 23-28	Sep 30-6	Oct 7-12	Oct 14-19	Oct 21-26	Oct 28-2
Implement training program	Phase I - Quality Customer Service			Phase II - Ability Utilization			Phase III - Telephone Etiquette			Phase IV - Handling Incoming Calls/Critique			
Pre-route Incoming calls		Install Auto Attendant											
Performance standards	HR Review	Union Review	Employee Hic&Off		Monitor Employee Results			Measure Productivity					
Roll-Over calls to Contigo				Train Trainer				Roll Calls Exceeding 6 minutes To Contigo					
Automate Incoming calls	Ship IVR	Install & Test Equipment		Develop Code Voice Phase 1 Application			Load Appl	Test Appl & Interface		Turn Up IVR	Post Audit	Phase 2	
Reorganize Department				Team Concept									
Reduce reasons for calls	New Activity Codes				Analyze Results		Feedback To Effected Units		New Count	Continue Process			
Improve collection efforts	18 vs 10 collectors		Adv Union	Evaluate Results									

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MISSOURI
PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY
A DIVISION OF SOUTHERN UNION COMPANY
Late Filed Exhibit Concerning Customer Service Issues
Case No. GR-96-285

As a result of discussions with the Missouri Public Service Commission (MPSC) Staff and the Office of the Public Counsel (OPC), the following changes will be implemented by Missouri Gas Energy (MGE)..

Cold Weather Rule Practices and Procedures

1. MGE will extend cold weather agreements and service to customers without requiring proof of an application for financial assistance.
2. MGE will offer extended payment agreements for periods longer than twelve months in those circumstances where customers are unable to make the payments over twelve months. The procedure will provide for payment periods of up to thirty months. Agreements for longer than twelve months will require supervisor approval, and for longer than twenty-four months will require approval by the Director of Customer Service.
3. Customers who are extended cold weather payment agreements will not be required to put up a deposit.
4. MGE will modify payment arrangements for customers who experience difficulties or miss payments.
5. MGE will make every reasonable effort to handle turn-on requests on the same day the request is made.
6. MGE will become pro-active in offering cold weather payment plans to customers listed on the Division of Family Services Energy Assistance tapes.
7. MGE will obtain weather forecasts from the same service used by the MPSC Staff.

Communications and Working Relationship with Commission Staff

1. MGE will assign one more full time employee to the unit dedicated to responding to Staff inquiries and complaints, and will provide a list of at least five employees who are available to respond to Staff inquiries and complaints.
2. MGE will provide Staff with after hours and weekend phone numbers for the Manager of Account Services and Billing, the Director of Customer Services, and the Vice President, Customer and Regulatory Relations.
3. Staff will be provided with a current organization chart for Customer Service, and has the authorization of MGE to appeal to the next level on the chart if they believe that their inquiry has not been properly responded to. This appeal can go as high as the President of MGE.
4. MGE is committed to keeping Staff advised as changes occur in customer service.

Credit and Collections

1. MGE will develop a credit authorization process that will minimize the amount of time customers must wait for service to be initiated.
2. MGE will ensure that service is denied to a customer only in those circumstances where the facts dictate that service be denied.
3. MGE will restructure its collection process so as to advise customers of problems and provide sufficient time for the problems to be resolved before service is disconnected.
4. MGE will ensure that contract collectors receive appropriate training in debt collection, wear uniforms, have identification and are clearly identified to customers as MGE's collection service.

Billing

1. Consumption in excess of the normal level on bills based upon an actual meter read following more than one month of estimated bills will be allocated over the months involved to place the consumption in the month in which it most likely occurred.
2. MGE will make every reasonable effort to ensure that orders received in the billing unit are processed within 24 hours of their receipt.

Remittance Processing

1. MGE will improve its processing of customer payments by using a courier service for all major pay stations.
2. MGE will closely monitor the performance of the bank that is handling remittance processing, and ensure that the bank is processing payments in a timely and efficient manner.
3. MGE will study the feasibility of using on-line technology for customer payments made at pay stations.

Other Issues and Concerns

1. MGE will take the initiative to update its registered customer list. Customers will be made aware of the registered customer list through a combination of newspaper ads, bill stuffers, and other means as determined appropriate by the Community Leadership Department.
2. MGE will require officer approval before service can be discontinued to a registered customer.
3. MGE will develop a new door hang card that fully informs customers with indoor meters as to their options in providing the Company the opportunity to read the meter.
4. MGE will review changes to collection letters and other normal customer correspondence with Staff prior to implementing the changes.

5. MGE will open a customer service office in Kansas City no later than the spring of 1997. The nature of the services to be offered will be communicated to the Staff as soon as the plans for this office are completed.
6. MGE will ensure that no outside meters are estimated under normal circumstances.
7. MGE's contract meter readers will receive proper training, wear uniforms and have identification.
8. MGE will offer meter reading appointments to customers with indoor meters.
9. All completed service orders will be returned to the billing unit for processing no later than the day after the order is worked.
10. When the Company has an indication of consumption on an inactive meter, a trouble report will be made, and the matter will be investigated.

**MISSOURI GAS ENERGY
LATE-FILED EXHIBIT CONCERNING CUSTOMER SERVICE ISSUES
CASE NO. GR-96-285**

BACKGROUND

Staff filed testimony in Missouri Gas Energy's (MGE or Company) rate case, CASE NO. GR-96-285, relating to MGE's continued problems in complying with Chapter 13-Utility Billing Practices and other customer service concerns.

During the hearings in Case No. GR-96-285, the Office of the Public Counsel (OPC) filed, as Exhibit 112, MGE's CUSTOMER SERVICE ACTION PLAN developed by Paul Blankenship, dated August 12, 1996. OPC had obtained this through a DATA REQUEST.

During the hearings, MGE Management (Tom Clowe and Dennis Gillmore) assured the Commission that it was committed to the CUSTOMER SERVICE ACTION PLAN. On October 29, 1996, MGE met with Staff to discuss areas of concern. Those present were Gary Duffy, Dennis Gillmore, Paul Blankenship, Charles Hernandez, Janet Rethman-Huber, all with MGE. Doug Micheel, Ryan Kind, and Russ Trippensee were present from OPC. Present from Staff were Tim Schwarz, Norma Tambke, Janet Hoerschgen, Evelyn Hawley, and Rita Rackers and several Staff members from the Commission's Management Services Department.

On November 8, 1996, MGE filed Late-Filed Exhibit No. 120 describing changes that would be implemented by MGE as a result of the discussions with the Commission Staff and OPC. These discussions primarily took place on October 29, 1996, as referenced above. MGE provided certain supporting documentation of its actions which were not part of Late-Filed Exhibit No. 120 and established weekly conference calls with Staff to provide an ongoing communication regarding the status of the changes to be implemented by MGE.

The following is a consolidation of status reports prepared by the Consumer Services Staff based on information provided by MGE regarding its implementation of the changes concerning the Customer Services Issues:

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Cold Weather Rule Practices and Procedures

1. MGE will extend cold weather agreements and service to customers without requiring proof of an application for financial assistance.

Action Reported: Implemented November 1, 1996

Completed in November 1996 based on a status report provided by Karen Czaplewski on February 24, 1998.

2. MGE will offer extended payment agreements for periods longer than twelve months in those circumstances where customers are unable to make the payments over twelve months. The procedure will provide for payment periods of up to thirty months. Agreements for longer than twelve months will require supervisor approval, and for longer than twenty-four months will require approval by the Director of Customer Service.

Action Reported: Implemented revised interim procedures on November 4, 1996. If a customer states he/she cannot pay in 12 months, is referred to a customer advisor. Extended payments from 24-30 months require Paul Blankenship's approval. Manual record keeping is currently required on agreements beyond 12 months. MGE will have an automated system for extended pay plans by January 31, 1997.

December 20, 1996, Janet Rethman-Huber reported that MGE will be limited over the next few months with any new programming in view of existing requests.

January 31, 1997, Janet Rethman-Huber reported that MGE plans to have extended pay plans on system next week.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported this completed in November 1996.

3. Customers who are extended cold weather payment agreements will not be required to put up a deposit.

Action Reported: Implemented revised procedures on November 4, 1996. Deposits will only be collected from new customers, if appropriate, and theft of service.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reports this completed in November 1996. Note: Within the past few days there was an issue within the Account Services Group; where a Consultant questioned if it made sense

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to charge a customer whose service was interrupted for non pay; a deposit. The Consultant indicated it had been done in the past. A Communication to remind all Consultants in that deposits are not required for those to whom the CWR is extended; is being prepared. Janet Rethman-Huber provided a copy of an E-mail message sent internally regarding the provisions contained in Chapter 13 relating to deposit requests.

4. MGE will modify payment arrangements for customers who experience difficulties or miss payments.

Action Reported: Implemented the following for Payment Agreements on November 4, 1996:

For a customer who has not defaulted on a previous CWR agreement . . . the initial shall be 1/12 of the total bill + their LPP amount. Energy Assistance payments (pledges) may be used in lieu of the first (any payment) payment, provided that it is great enough to cover the amount of 1/12 + LPP.

For a customer who has defaulted on a previous CWR agreement . . . the initial payment shall be the total of the previously missed installment and LPP payments. Consultants may accept an amount up to 1/2 of the total bill. Anything less requires a Supervisor's approval. Energy Assistance payments may be used in lieu of this payment, provided that it is great enough to cover the full amount.

MGE may permit a customer to enter into a payment agreement to cover the current bill plus arrearages in fewer than 12 months. However, the Company must first offer a 12-month plan (which is 1/12 of the total bill owed + either LPP or current bill). If the customer elects to pay in less than 12 months -- CCON must be noted. This is important.

If the customer indicates he cannot pay in 12 months, refer to a Customer Advisor. If a customer states he is getting EA, but there is no guarantee collect 1/12 + lvl for turnon.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported that this is the same as Item # 2 (Completed in November 1996).

5. MGE will make every reasonable effort to handle turn-on requests on the same day the request is made.

Action Reported: November 15, 1996, Paul Blankenship reported that MGE is attempting same day turn on if it receives notification by noon. This week MGE was very busy so most have been the next day. By January 1997, same day turnons will be standard.

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December 10, 1996, Paul Blankenship reported that MGE is religiously turning on service within 24 hours. This applies to all turn on requests, not just the nonpay customers.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported this completed in November 1996. Orders are always scheduled as soon as possible; which is typically within twenty-four hours. The later in the day the request is made; the more difficult it is to work during that particular business day.

6. MGE will become pro-active in offering cold weather payment plans to customers listed on the Division of Family Services Energy Assistance tapes.

Action Reported: November 15, 1996, Paul Blankenship reported that he is waiting on Linda Halteman. She is out sick.

December 4, 1996, Paul Blankenship reported that he is not comfortable with the two (2) proposals they have been considering.

December 10, 1996, Paul Blankenship reported that MGE is still working on the proactive initiatives. Paul would like to discuss this at our next meeting. MGE does not want to just automatically set customers up on the CWR. Company does not want to insult its customers.

December 20, 1996, Janet Rethman-Huber reported that MGE will be limited over the next few months with any new programming in view of existing requests. Is considering pulling names from tape when received from DFS and if no existing pay agreement, MGE would generate a letter confirming their eligibility for a cold weather rule payment agreement. MGE may include the telephone number of an Advisor with this notification.

January 17, 1997, Janet Rethman-Huber advised that she had forwarded request to IT Department and was planning to have available for the 1997-98 heating season. She reported she thought pilot of program would be ready by July 1997. This would be designed for customers who are eligible for assistance, as indicated by the tape received from DFS. MGE would send a letter to those on the tape who are active with no pay agreement, or are inactive.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported that *Relief Now* addressed a segment of this population during last year's heating season; as did the Mary Ward Letter. There had been considerable discussion amongst staff as how and what to do in regard to this item; without consensus as to what might work best, as an offering to all DFS-EA customers. We are currently working IT to determine the feasibility of offering the Average Bill Calculation to these Customers;

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(while maintaining the integrity of the Level Pay Program) as a proactive solution to this group of Customers.

7. MGE will obtain weather forecasts from the same service used by the MPSC Staff.

Action Taken: November 15, 1996, Paul Blankenship reported that Janet Rethman-Huber will be getting a modem so she can obtain the weather report from the Internet.

Note: During the Cold Weather Rule period, MGE is not cutting for less than \$100. Paul Blankenship stated that he contacted Laclede and was advised that its threshold is \$75.

December 4, 1996, Paul Blankenship reported that MGE is obtaining weather forecasts through on-line system (America Online). Currently, using attorneys' offices on the 7th floor. Janet Rethman-Huber has a terminal and modem in her office and she will make the disconnect decisions based on the weather forecasts.

January 17, 1997, Janet Rethman-Huber reported that MGE has turned on approximately 20 customers without requiring a payment due to the severe weather. We discussed the discontinuance of service, when the weather permits, and MGE would focus on accounts with returned checks, larger balances and customers that have not made a payment within the past 60 days.

January 31, 1997, Janet Rethman-Huber reported that MGE has reconnected up to 63 customers due to severe weather conditions without regard to payment.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported this completed in November 1996.

Communications and Working Relationship with Commission Staff

1. MGE will assign one more full time employee to the unit dedicated to responding to Staff inquiries and complaints, and will provide a list of at least five employees who are available to respond to Staff inquiries and complaints.

Action Taken: November 5, 1996, Paul Blankenship called and advised of two MGE representatives that would be assisting Clarence Miller. Beginning, November 6, 1996, Paul indicated that Lisa Contorno will assist Clarence in taking Commission complaints during the morning hours of 8:00 a.m. until noon, and Craig Layman will be assisting Clarence from 2:00 p.m. until 5:00 p.m.

November 15, 1996, Paul Blankenship advised that it was his goal to hire a second person full-time to respond to Commission complaints. Norma Tambke

MGE Action Plan

advised Paul that the interim measure relating to the assistance being provided Clarence Miller was not working. Commission Staff is still not receiving timely responses and all complaints are still going to Clarence first.

December 4, 1996, Paul Blankenship advised that MGE management approved the assignment of one more full-time person to be the complaint contact for Commission Staff. MGE posted the position last week internally and hopes to start interviewing later this week or next week. Human Resources told Paul there was a lot of interest in this position. Ms. Tambke again explained to Paul that the temporary assistance provided Clarence Miller is not working. Also, Clarence is not receiving the information being faxed to him from the Commission Staff. Paul suggested we use the fax machine that is located right outside his office. Ms. Tambke commented that it was important for MGE to put an experienced employee in this position and suggested Clarence and Gary Shull participate in the interviews. We discussed the need for the person in this position to have knowledge of the entire Company, access to other departments, and authority to resolve complaints. Paul commented that Clarence has the authority but has been reluctant to use it. Paul commented that he has the power to make most calls.

December 10, 1996, Paul Blankenship advised that the posting of the position has closed. He has received several applications and has started interviewing applicants. Paul hopes to have the process completed next week.

December 20, 1996, Paul Blankenship advised that Lisa Contorno was selected on December 13, 1996, to fill the full-time position as the Commission Staff's second contact person. She will assume these duties next week but will also be training her replacement as Mr. Blankenship's assistant.

January 3, 1997, Paul Blankenship, Janet Rethman-Huber and Cindy Williams visited office. Tom Clowe and Dennis Gillmore were present a short time and announced Paul Blankenship's departure and provided a brief explanation of the low income filing MGE will make next week. MGE is scheduled on the Agenda today to provide explanation to Commission.

January 17, 1997, Janet Rethman-Huber advised that MGE interviewed for Lisa Contorno's position last week and hope to have replacement by the end of the month.

February 7, 1997, Staff advised Janet Rethman-Huber of continued problems with timely and complete responses on complaints.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported that the position was added in December of 1996. It was eliminated in August of 1997. The position was reestablished at a higher level of Lead, in November of 1997. It

MGE Action Plan

was filled by an internal candidate whose position was backfilled and that employee trained; allowing the Lead to fill the position full time in January 1998.

2. MGE will provide Staff with after hours and weekend phone numbers for the Manager of Account Services and Billing, the Director of Customer Services, and the Vice President, Customer and Regulatory Relations.

Action Taken: December 10, 1996, Paul Blankenship advised that he will fax today the after-hours numbers, and pagers, for Janet Rethman-Huber, Cindy Williams, Paul Blankenship, and Dennis Gillmore. He was in the process of confirming telephone numbers.

December 18, 1996, Paul Blankenship provided via the facsimile the after-hours contact numbers.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported this completed in December 1996. Provided an updated listing on February 24, 1998 and will supply pager numbers.

3. Staff will be provided with a current organization chart for Customer Service, and has the authorization of MGE to appeal to the next level on the chart if they believe that their inquiry has not been properly responded to. This appeal can go as high as the President of MGE.

Action Taken: October 30, 1996, Paul Blankenship provided via the facsimile a proposed Customer Services Organizational Chart.

November 7, 1996, MGE provided via the facsimile an organizational chart for its Field Operations.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported this completed in October 1996 and provided an updated organization chart. An updated organization chart will be provided for MGE's Operations division.

4. MGE is committed to keeping Staff advised as changes occur in customer service.

Action Taken: Paul Blankenship is providing information to Staff via the facsimile and telephone (voice mail). Mr. Blankenship will call Staff each Friday to discuss status of actions being taken by MGE and any of the information being provided.

December 4, 1996, Paul Blankenship advised that effective November 30, 1996, Joplin calls came back to the Kansas City Phone Center. MGE had, on an interim basis for two months, routed Joplin calls back to Joplin. Mr. Blankenship will forward bill inserts as they are being provided to customers.

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December 20, 1996, Paul Blankenship provided list of new help screens being installed for Call Center employees (started 12-4-96). These help screens were developed to help Call Center employees provide consistent and accurate responses. Next month, Craig Layman will learn how to update the help screens on a regular basis.

December 23, 1996, Staff received a facsimile from Paul Blankenship advising that MGE's Information Technologies Department has determined that the project requested to improve the billing statement by identifying the transferred balances differently will be delayed until March 1997. Currently, these amounts show as a previous balance. This project was originally planned to be completed on December 31, 1996. This delay is due to the work load and the March 1997 date should be considered a soft date.

January 17, 1997, Janet Rethman-Huber advised that MGE is planning a pilot program for Saturday collections. This would be accomplished with contract collectors and they would work the same hours that the phone center is open which is from 8:00 a.m. to 2:00 p.m. They will attempt collection only, not discontinue service. These orders may be rescheduled for the following week. MGE will keep statistics about the success of the Saturday collection efforts. Staff questioned and expressed concern about multiple collection trip charges.

January 17, 1997, Janet Rethman-Huber advised that eight (8) Phone Center part-time employees that have been in training are scheduled to be working on the phones independently as of January 20, 1997. MGE lost two (2) of the ten (10) they originally have and hope to replace them. This will increase MGE's Saturday Staff from nine (9) to eighteen (18).

January 17, 1997, Janet Rethman-Huber advised that MGE started billing the franchise fee adjustment on January 13, 1997.

January 17, 1997, Janet Rethman-Huber advised that MGE has been running television ads advising customers of the higher cost of gas as well as how to stay warm in severe weather. She provided the narrative by fax.

January 31, 1997, Janet Rethman-Huber reported that MGE will start Saturday collection efforts tomorrow, February 1, 1997 in Kansas City only. MGE does charge \$8.00 for each trip.

February 7, 1997, Janet Rethman-Huber reported results of Saturday collection efforts on February 1, 1997. Out of 188 possible orders, 34 didn't go out, 54 were not worked, 97 notes left, and 3 resulted in collections totaling \$876.79. Janet commented that MGE will try this a couple of more Saturdays.

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February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported that MGE is committed to keeping Staff advised as changes occur in customer service. Ms. Rethman-Huber described a pilot program which started January 12, 1998 referred to as the Early Intervention Program. MGE entered into a contract with Credit World which involves a courtesy call to an MGE customer after the 96-hour notice has been mailed. A predictive dialer is used and the customer is advised that they should contact MGE in order to prevent any interruption of service. This has increased the call activity relating to short term agreement. As of last week, MGE had 17,000 short term agreements. Credit World has only 2 days to make the call and they have experienced a 60% contact success rate. MGE is referring 1,700 accounts per day and established a control group of 10% of the accounts. Doug Micheel asked about Utility Recovery Services. We were advised that MGE filed Utility Recovery Services as a fictitious name with the Secretary of State about 3 years ago, and a letter from Utility Recovery Services became system generated about 2 years ago in an attempt to collect an unpaid final bill. The letter is generated about 4 weeks after the final bill is issued and prior to charging the amount off and sending to an outside collector.

Credit and Collections

1. MGE will develop a credit authorization process that will minimize the amount of time customers must wait for service to be initiated. And
2. MGE will ensure that service is denied to a customer only in those circumstances where the facts dictate that service be denied.

Action Taken: November 4, 1996, implemented Credit Check List. MGE is only checking now by contacting other utilities. If Social Security Number doesn't match or is reported for a deceased individual, will ask for identification. If there is still a question, will send an inspector to the premises. Paul Blankenship's advice to MGE's representatives is, "If you can't prove it in Court, don't do it"

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported completed No. 1 in November 1996. Status report states that MGE strives to ensure that this practice is adhered to. Staff shared the number of customer complaints it had received since FY 94 regarding MGE refusing service and we agreed this item should remain open in view of the number of complaints.

3. MGE will restructure its collection process so as to advise customers of problems and provide sufficient time for the problems to be resolved before service is disconnected.

Action Taken: November 4, 1996, Paul Blankenship provided via the facsimile revised procedures relating to the Cold Weather Rule and collection practices.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber provided a status report which states that MGE provides 96 Hour Notice of interruption of service; we knock at door and attempt to collect or resolve issues; and we have most

MGE Action Plan

recently implemented Early Intervention Calling; where we attempt to contact the customer by telephone prior to interruption. All of these are in an effort to allow the customer to pay or to inform us of problems we may have caused or contributed to. We agreed to leave this item open because the Early Intervention Program is a pilot program.

4. MGE will ensure that contract collectors receive appropriate training in debt collection, wear uniforms, have identification and are clearly identified to customers as MGE's collection service.

Action Taken: November 15, 1996, Paul Blankenship advised that information would be provided via the facsimile next week.

November 25, 1996, received in mail the training schedule for Bermex collectors and meter readers.

December 4, 1996, Paul Blankenship advised that MGE is still negotiating its attempts to obtain magnetic placards for Bermex (contract collectors) vehicles.

December 10, 1996, Paul Blankenship indicated that he would provide via the facsimile the background check performed by Bermex on their collectors.

December 20, 1996, received the employment investigation procedures used by Bermex.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported this completed in December 1996. The magnetic signs were obtained in December before Christmas but did not have the exact date.

Billing

1. Consumption in excess of the normal level on bills based upon an actual meter read following more than one month of estimated bills will be allocated over the months involved to place the consumption in the month in which it most likely occurred.

Action Taken: November 15, 1996, Paul Blankenship advised that MGE is reading meters so this has improved.

December 4, 1996, Paul Blankenship advised that he is not where he wants to be on this issue. He commented that he did have some things in place.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported this completed in December 1996. Staff never received any explanation for the method or procedures MGE implemented to allocate usage. This item is not closed and Staff requested method used by MGE.

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2. MGE will make every reasonable effort to ensure that orders received in the billing unit are processed within 24 hours of their receipt.

Action Taken: November 15, 1996, Paul Blankenship advised that MGE is much more current. As of November 11, 1996, MGE had less than 1,000 orders on hand which is less than one day's work. He is still working on getting orders from the field faster.

December 4, 1996, Paul Blankenship advised that MGE has had 1,000 to 2,000 orders in busy times compared to over 12,000 last year. MGE is maintaining it at between 1,000 and 2,000 orders.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported this completed in the second half of 1997. Referenced Monthly Service Order Report provided monthly (with report filed in GO-95-177). Ms. Rethman-Huber provided a copy of the February report through February 21.

Remittance Processing

1. MGE will improve its processing of customer payments by using a courier service for all major pay stations.

Action Taken: October 1996, implemented in Kansas City Metro.
On-lining payments made at drop boxes at MGE's facilities (service centers) at Lee's Summit, North Plant, Joplin, St. Joseph and Monett.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported this completed in October 1996.

2. MGE will closely monitor the performance of the bank that is handling remittance processing, and ensure that the bank is processing payments in a timely and efficient manner.

Action Taken: November 15, 1996, Paul Blankenship advised that this has improved drastically. MGE started spot checking in September. MGE is now doing audits and allowing five (5) full days before applying the late pay charge.

December 4, 1996, Paul Blankenship advised that on November 21, 1996, MGE did a walk-in audit of the bank's remittance processing. November 22, 1996, Paul, Rick Rodgers and Andy met with the bank's senior management. MGE wants the bank to know that it intends to measure and evaluate the remittance processing function being performed by the bank. MGE's goal is for 95% of all remittances being processed same day and remaining next day. MGE extended window for LPC from 3 to 5 days, hoping this would eliminate a lot of the complaints.

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December 10, 1996, Paul Blankenship advised that MGE is closely monitoring the Bank's remittance processing. MGE performed the last audit on November 27, 1996 of drop box and P. O. Box remittances and 100% of the payments were applied that day. The audit performed on December 5, 1996 has not yet been completed. MGE has established these standards; 95% must be posted same day and 5% the 2nd day which allows for rejects. Mr. Sullivan, VP of Bank sent Mr. Blankenship a letter which he will share with us. Mr. Blankenship is going to close this item but will continue to perform these unannounced audits on a weekly basis until he is comfortable and will then perform the audits monthly. The bank will also fax MGE information about its weekly performance.

December 20, 1996, Paul Blankenship advised that the December 1996 audit results show 99% accurate. One account was applied late because the customer was paying on 2 accounts. MGE will continue to monitor the remittance processing.

February 7, 1997, Janet Rethman-Huber reported that she hopes to have an update on the remittance processing next month.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported that this was completed in October 1996. MGE changed banks (UMB) in August 1997. Treasury reports they have continued to do a sampling of payments daily; and track them from date of receipt through post date; to ensure that payments are being posted timely. This item is to remain open. Staff requested standards established since changing banks.

3. MGE will study the feasibility of using on-line technology for customer payments made at pay stations.

Action Taken: November 15, 1996, Paul Blankenship advised that MGE's financial staff is looking at Southwestern Bell Telephone Company's system (PAMS). MGE management will have to approve it because of the cost.

December 4, 1996, Paul Blankenship advised that the On-line posting feasibility study began November 21, 1996. MGE's senior financial analyst (Andy) is conducting the study and will be considering the services offered by Southwestern Bell Telephone Company, APF and First Data Corporation. All of these vendors own the technology and can interface with MGE equipment. MGE will be considering (1) cost, (2) type of interface with MGE mainframe and (3) current configurations with existing pay station service. On-line posting, if immediate, will have to negotiate with the union. MGE would like to move "fast-forward" on this but looking at months to get this in place. MGE is meeting with Southwestern Bell Telephone Company next week.

MGE Action Plan

December 10, 1996, Paul Blankenship advised that MGE met with John Baker and Francis Starbuch with Southwestern Bell Telephone Company from Houston who provided a demonstration of its on-line system. SWB offers three (3) different batch times for daily posting. MGE has to check for proper interface and will consider the economics. A representative of APF is providing MGE a demonstration of its system this week. MGE expects a decision on this matter within 90-120 days.

December 20, 1996, Paul Blankenship advised that APF gave a presentation of its system on December 11, 1996. MGE should complete its feasibility study within 120 days. Mr. Blankenship believes Southwestern Bell Telephone Company will be recommended. Southwestern Bell applies payments 3 times daily.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber advised that in the summer of 1997 MGE made a selection to proceed with SWB for more timely receipt of payments. SWB would allow posting of payments received at pay stations twice daily. MGE was notified that SWB made a strategic decision to not accept any new customers. In the fall of 1997, MGE started to interview other vendors; and found most cost prohibitive. Recently, in 1998, MGE met with First Tech; who has the potential of meeting MGE's needs at a reasonable price compared to MGE's current costs. MGE has an internal team who that is currently in the negotiation and review process.

Other Issues and Concerns

1. MGE will take the initiative to update its registered customer list. Customers will be made aware of the registered customer list through a combination of newspaper ads, bill stuffers, and other means as determined appropriate by the Community Leadership Department.

Action Taken: November 8, 1996, Paul Blankenship provided drafts of a revised Registration Form. Mr. Blankenship included a draft form intended for newspaper ads and inserts.

November 15, 1996, Staff provided feedback on the proposed drafts.

November 22, 1996, Paul Blankenship provided MGE's Cold Weather Rule Information Inserts that were mailed to all customers between October 14 and November 12, 1996 and the insert mailed to customers who are noticed for possible disconnects between November 1 and March 31, 1996.

November 27, 1996, Paul Blankenship provided a list of the agencies provided the Registration Forms.

December 4, 1996, Paul Blankenship advised that all agencies now have the new registration forms for elderly and handicapped customers. Paul will get with

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Greg Baker regarding the newspaper ads. MGE developed bill stuffers to be used next year. Staff asked that MGE monitor and report the effect of this effort.

December 10, 1996, Paul Blankenship advised that MGE is starting to run the newspaper ads on the registration program. Currently, MGE has 148 registered customers and will use this number as a benchmark. First phase of this issue is in place.

December 20, 1996, Paul Blankenship advised that the newspaper ads are continuing.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported this completed in December 1996. Bill insert mailed in the Spring of 1997. Ms. Czaplewski stated that many customers interpret the program to mean they receive a discounted or free service and that any future correspondence has to be closely reviewed for clarification. Staff requested the current number of MGE's registered customers.

2. MGE will require officer approval before service can be discontinued to a registered customer.

Action Taken: Effective November 6, 1996, the following procedures were put in place for registered customers:

1. As Nonpay shut off orders are reviewed, the accounts which indicate that there is a Registered Customer in the household, will be placed aside. They will not be sent to the field for shut off of service.
2. The Account Services Department will review these accounts to determine if these orders are to be sent to the field for Collection Only.
3. No Registered Customer will be shut off for nonpayment during the period of November 1 to March 31.
4. If extenuating circumstances dictate that a Registered Customer should be shut off for nonpayment of his account, the account will again be reviewed by the Account Services department for credit issues, and then reviewed by a Customer Advisor as to the health (or other) issues in the household. If a recommendation is made to shut the customer off, the account will be forwarded to an Officer of the Company before any action is taken. Once the Officer gives his final approval, the customer will be notified as prescribed by 3.09 A; B; and C of the General Terms and Conditions for Gas Service, sheet R-27.

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List of Officers of MGE (11-6-96)

1. Clowe, Tom - President & CEO
2. Baker, Greg - VP, Community Leadership
3. Gillmore, Dennis - VP, Customer & Regulatory Relations
4. Nelson, Carlon - VP, Operations
5. Ziegler, Brad - VP, Human Resources, Administration & Legal Services

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported this completed in November 1996. Staff requested an updated list of officers.

3. MGE will develop a new door hang card that fully informs customers with indoor meters as to their options in providing the Company the opportunity to read the meter.

Action Taken: November 15, 1996, Paul Blankenship advised that MGE began to develop the new door hang card on November 11, 1996.

December 4, 1996, Paul Blankenship provided via facsimile drafts of the door hangers MGE proposes to use to obtain access to meters for readings. These drafts were provided to MGE's Field Services at the same time they were being provided to Staff. The door hanger has not been proposed to replace any letter but to serve as an additional notification. MGE is considering two door hanger drafts, 1) to be left each time they go out, and 2) after the 3rd estimate. I reminded Paul that notification after the 3rd consecutive estimate was an issue in the Complaint Case (GC-97-33). Staff did comment that the drafts did not include any information about appointment readings. Paul responded that he is still working on this with Al Carrol and hopes to have something established within 30 days, or an alternative. Paul commented that he thought 10 appointments a day was reasonable.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported that this item was not completed; and with the implementation of the AMR project in early 1997; a decision was made to table this item. The completion of AMR project in 1998 should totally eliminate the need for the card. Ms. Rethman-Huber advised MGE sends letter to the customer. Staff requested a copy of the letter currently used by MGE

4. MGE will review changes to collection letters and other normal customer correspondence with Staff prior to implementing the changes.

Action Taken: None

February 24, 1998, Karen Czaplewski and Janet Rethman-

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Huber reported that MGE continues to strive to do this. MGE will provide the screen print MGE sends to customers confirming CWR pay agreement.

5. MGE will open a customer service office in Kansas City no later than the spring of 1997. The nature of the services to be offered will be communicated to the Staff as soon as the plans for this office are completed.

Action Taken: November 15, 1996, Paul Blankenship advised that he has been working on this issue and hopes to review with Tom Clowe next week.

December 4, 1996, Paul Blankenship advised that MGE has a location selected but no lease. It would be on Main Street with parking and accessibility by public transportation. MGE management has approved this and it is now being considered by asset committee (Southern Union). This location would be safer and more convenient than the 63rd and Troost location. Target date is April 1, 1997.

December 20, 1996, Paul Blankenship advised that the original location was purchased by another party, however, another location has been selected on Main Street which is on the public transportation route.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported this completed in April 1997. The Public Business Office offers "One Stop Shopping," with a Customer Advisor, four Customer Service Representatives (CSRs) and a Supervisor officed there. Additionally, there are positions available for two additional CSRs should the need arise during busy periods. There is a drop box for payments and CSRs accept payments in person, take orders for service, handle inquiries, etc.

6. MGE will ensure that no outside meters are estimated under normal circumstances.

Action Taken: November 15, 1996, Paul Blankenship reported that this is in place under normal circumstances. MGE contracted with Bermex.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported that MGE has ensured this is a standard operating procedure. Meter reading statistics are communicated throughout the company weekly. Note: There are two reports that are used internally by Meter Reading. Ms. Czaplewski was unable to obtain these in order to bring copies to meeting today, but Carlon Nelson provided samples of both to Mr. Wimberley within the past week.

MGE Action Plan

7. MGE's contract meter readers will receive proper training, wear uniforms and have identification.

Action Taken: November 25, 1996, Paul Blankenship provided information regarding the training schedule and training material for Bermex collectors and meter reading.

January 31, 1997, Staff advised Janet Rethman-Huber of its concern with the number of complaints it has received showing meters misread. She commented that they are aware of this and that three (3) meter readers were let go this month. I advised Janet Rethman-Huber that we would be interested in any statistics being maintained regarding the meter reading errors and the disciplinary action being taken by Bermex. She asked that I put our requests in writing.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported that this was completed in December 1996.

8. MGE will offer meter reading appointments to customers with indoor meters.

Action Taken: Working on it but no specific action reported.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported that MGE does this but they were not certain of the exact date it was implemented; but know they have since the summer of 1997. Staff requested the action taken and the procedures implemented by MGE.

9. All completed service orders will be returned to the billing unit for processing no later than the day after the order is worked.

Action Taken: November 15, 1996, Paul Blankenship reported he was working on this with the field.

December 4, 1996, Paul Blankenship reported this is still open but MGE doing much better.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported that this was completed in the second half of 1997 and referenced Item No. 2 under Billing. Staff requested the procedures implemented by MGE.

10. When the Company has an indication of consumption on an inactive meter, a trouble report will be made, and the matter will be investigated.

Action Taken: November 15, 1996, Paul Blankenship reported that MGE,

MGE Action Plan

by getting orders in and processing them immediately it takes care of this. MGE is following up now. Paul believed the backlog created this problem.

December 4, 1996, Paul Blankenship reported that MGE is still working on this issue.

February 24, 1998, Karen Czaplewski and Janet Rethman-Huber reported that this was completed in the second half of 1997. One Customer Service Representative (CSR) works these accounts. Prior to issuing a trouble order the CSR attempts to contact the most recent telephone number on file for that premise. CSR calculates the consumption and total amount due. In some cases, CSR is able to reach the customer and work out arrangements. If not, the trouble order is issued. When the trouble order is worked, the service person is instructed to knock at the door and to inform customer of issue and amount due. If arrangements can be worked out, they contact CSR immediately. Staff requested the complete procedures implemented by MGE.

COPY

33

Exhibit No.:

Issues: Customer Service

Witness: C. Thomas Clowe

Sponsoring Party: Missouri Gas Energy

Case No.: GR-98-140, et al.

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-98-140, et al.

REBUTTAL TESTIMONY OF

C. THOMAS CLOWE

Jefferson City, Missouri

April 23, 1998

APR 23 1998

REBUTTAL TESTIMONY

OF C. THOMAS CLOWE

CASE NO. GR-98-140

April 23, 1998

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS ?**

2 A. My name is C. Thomas Clowe, and my business address is 3420 Broadway, Kansas
3 City, Missouri 64111.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am the President and Chief Operating Officer of Missouri Gas Energy ("MGE"), a
7 division of Southern Union Company.

8

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

10 A. I have a B.A. degree in business administration, with an emphasis on marketing, from
11 the University of Texas, and have completed several graduate level management
12 courses at Harvard Business School.

13

14 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.**

15 A. I have been in my present position since September 1995.

16

1 The majority of my business management experience has been obtained through
2 thirty-eight years of working at all levels in the transportation industry. My last
3 position in that industry was with Central Freight Lines, Inc., where from 1990 to
4 1995 I served as Chairman of the Board, President, and Chief Operating Officer.
5 Prior to accepting the position with Central Freight, I served as the first Executive
6 Director and Chief Operating Officer in the 97-year history of the Railroad
7 Commission of Texas. In this position, I reported directly to three statewide elected
8 commissioners and was responsible for all regulatory divisions and the administrative
9 services division.
10

11 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

12 **A.** I will respond to portions of the direct testimony of Staff witness Janet K. Hoerschgen
13 and in so doing explain some of the customer service initiatives ongoing at Missouri
14 Gas Energy and reiterate the emphasis that MGE has placed, and will continue to
15 place, on quality customer service.
16

17 **Q. STAFF WITNESS HOERSCHGEN ALLEGES THAT MGE HAS FAILED TO**
18 **MEET CUSTOMER SERVICE COMMITMENTS MADE TO THE**
19 **COMMISSION, INCLUDING THE ATTAINMENT OF CALL CENTER**
20 **PERFORMANCE GOALS SET OUT IN THE "CUSTOMER SERVICE**
21 **ACTION PLAN" AND "OUT-LACLEDING LACLEDE". PLEASE**
22 **COMMENT.**

1 A. Staff witness Hoerschgen's frustration is understandable given the volume of activity
2 that occurred during and as a result of the winter of 1996-1997. I certainly would not
3 dispute that MGE's performance during that period of time was less than acceptable.
4 However, I am proud of the way that MGE handled that extremely difficult situation
5 and objective analysis of customer service performance since that time shows that
6 substantial performance improvements have indeed taken place. Although MGE has
7 room for further improvement, as does any organization, I am confident that the
8 groundwork has been laid to ensure that such improvement actually comes to pass.

9
10 **Q. MR. CLOWE, IS IT FAIR TO SAY THAT 1997 WAS A CHALLENGING**
11 **YEAR FOR MISSOURI GAS ENERGY?**

12 A. Absolutely. In reality the challenge began in the latter part of 1996 when it became
13 apparent that natural gas prices were rapidly escalating and had the potential to reach
14 record or near-record levels. In addition, the weather in MGE's service territory
15 during late 1996 and early 1997 was quite cold. As a consequence of these two
16 factors, our customers experienced gas bills considerably higher than usual.
17 Unfortunately, MGE compounded this already difficult situation by rendering
18 inaccurate billings to a number of customers during the November 1996 through
19 February 1997 time frame. The high gas costs, cold weather and billing issues, when
20 coupled with the substantial coverage that was given the situation by the media, led
21 many of our customers to question their billings. As a consequence of all of these

1 factors, our call center (as well as the Commission's Consumer Services Department)
2 was inundated with telephone calls.

3

4 **Q. WHY ARE THE EVENTS OF THE WINTER OF 1996-1997 RELEVANT TO**
5 **DETERMINING WHETHER MGE HAS HONORED COMMITMENTS IT**
6 **HAS MADE TO THE COMMISSION?**

7 A. As the winter of 1996-1997 unfolded, it became apparent that MGE's priorities had to
8 be adjusted to meet the challenges presented. Investigation of the cause of past
9 billing errors, their accurate correction and prevention of future billing errors became
10 the imperative objectives to achieve as quickly as possible. MGE acted aggressively
11 and decisively as it attempted to communicate with affected customers. Call center
12 performance statistics and "out-Lacleding Laclede", while important, were not as
13 immediately critical as quickly and effectively resolving the issues that arose during
14 the winter of 1996-1997.

15

16 **Q. DOES MGE STILL INTEND TO ACHIEVE THE CALL CENTER**
17 **PERFORMANCE GOALS SET OUT IN THE "CUSTOMER SERVICE**
18 **ACTION PLAN"?**

19 A. Yes.

20

21

22

1 **Q. HAVE MGE'S CALL CENTER PERFORMANCE STATISTICS IMPROVED**
2 **SINCE JUNE OF 1997?**

3 A. Yes. For the months of July 1997 through the present, our abandoned call rate (ACR)
4 is approximately 10% and our average speed of answer (ASA) is 75 seconds.
5 Although these results do not yet meet the long term goals set out in the "Customer
6 Service Action Plan", they show demonstrable and substantial improvement over
7 prior years' performance. For example, the ACR for July 1996 through April 1997
8 was approximately 20% and the ASA was 201 seconds. For July 1995 through April
9 1996, MGE's ACR was approximately 17% and the ASA was 85 seconds.

10
11 **Q. ARE YOU SATISFIED WITH THE PERFORMANCE OF MGE'S CALL**
12 **CENTER?**

13 A. Although I am pleased with the progress that has been made to date, performance of
14 MGE's call center must be further improved. The goal at MGE is to be among the
15 top call center performers nationally, which is why we have set a long term goal of
16 achieving an ACR of 5%. We are well on our way toward achieving that goal.

17
18 **Q. WHAT DID YOU MEAN BY THE STATEMENT THAT MGE WOULD**
19 **"OUT-LACLEDE LACLEDE"?**

20 A. The Commission's Staff has in the past, and in this case also, pointed to Laclede Gas
21 Company as the model gas utility in Missouri as far as customer service. By stating

1 that MGE would "out-Laclede Laclede", I intended to convey MGE's commitment to
2 quality customer service. That commitment remains among MGE's highest priorities.

3
4 **Q. CAN YOU POINT TO OTHER CUSTOMER SERVICE AREAS IN WHICH**
5 **MGE HAS UNDERTAKEN SUBSTANTIAL WORK SINCE THE TIME OF**
6 **THE LAST RATE CASE HEARINGS?**

7 **A.** We have continually evaluated and implemented programs designed to assist our
8 customers. For example, in 1997 MGE initiated "Relief Now", an extended (up to 30
9 months) interest-free payment plan to help customers continue gas service and cope
10 with the high gas bills left over from the winter of 1996-1997. On April 1, 1997,
11 MGE opened a public business office at 39th and Main in Kansas City, where
12 customers can meet face-to-face with MGE customer service representatives. Also in
13 1997, MGE deferred disconnecting customers for non-payment of gas bills until mid-
14 May and then, at the request of then-Chairman Zobrist, until July. (See Schedules 1,
15 2 and 3). MGE also sought and obtained Commission approval in 1997 to provide
16 lump sum bill credits to customers of sizable refunds that had been obtained at the
17 federal level. In an effort to communicate directly with our customers, MGE initiated
18 a "customer outreach program" by holding numerous meetings both at MGE's offices
19 and in neighborhood locations throughout its service territory. These meetings enable
20 MGE to receive input directly from customers regarding what they value in their
21 relationship with the gas company and should help MGE achieve its goal of being a
22 superior customer service performer.

1
2 **Q. MR. CLOWE, IS MGE COMMITTED TO ACHIEVING CUSTOMER**
3 **SERVICE PERFORMANCE LEVEL IMPROVEMENTS IN THE FUTURE**
4 **SIMILAR TO THOSE WHICH HAVE BEEN ACHIEVED IN THE PAST**
5 **YEAR?**

6 A. Yes. Although we have shown substantial improvement in customer service levels
7 over the past year, we understand that the results of MGE's customer service
8 improvement initiatives can only be fully realized over time.

9
10 **Q. MR. CLOWE, THE COMMISSION'S STAFF AND THE PUBLIC COUNSEL**
11 **HAVE RECOMMENDED, RESPECTIVELY, THAT 50% AND 75% OF THE**
12 **PUBLIC AFFAIRS AND COMMUNITY RELATIONS DEPARTMENT BE**
13 **DISALLOWED FROM MGE'S REVENUE REQUIREMENT. DO YOU**
14 **HAVE ANY GENERAL COMMENTS REGARDING THESE PROPOSALS?**

15 A. Yes. By these proposals, the Staff and Public Counsel either fail to recognize, or
16 simply ignore, the direct benefits provided by the personnel in this department in the
17 form of customer service, customer communication, communication with
18 representatives of the various political subdivisions in which MGE provides service
19 and other functions necessary to effectively operate a large business with hundreds of
20 thousands of customers. As then-Chairman Zobrist publicly acknowledged last year
21 through correspondence sent to me and released to the media at his press conference,
22 effective customer communication is critical to the successful operation of an

1 enterprise such as MGE. (See Schedule 1). MGE has endeavored to communicate
2 effectively with its customers and the Public Affairs and Community Relations
3 Department plays a vital role in doing so. Disallowance from rate recovery of such
4 substantial percentages of the entire Public Affairs and Community Relations
5 Department as suggested by the Staff and Public Counsel would send an unequivocal
6 message that customer communication is not important in the provision of gas service
7 and is a function that MGE should abandon.

8
9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 **A.** Yes, at this time.



Commissioners

KARL ZOURIST
Chair

KENNETH McCLURE

DUNCAN E. KINCHELOE

HAROLD CRUMPTON

M. DIANNE DRAINER
Vice Chair

Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY, MISSOURI 65102
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573-751-1847 (Fax Number)
573-526-5695 (Toll)

April 3, 1997

CECIL I. WRIGHT
Executive SecretarySAM GOLDAMMER
Director, Utility OperationsGORDON L. PERSINGER
Director, Policy & PlanningKENNETH J. RADEMAN
Director, Utility ServicesDONNA M. PRENGER
Director, AdministrationDALE HARDY ROBERTS
Chief Administrative Law JudgeSTEVEN DOTTHEIM
Acting General CounselMr. C. Thomas Clowe
President, Missouri Gas Energy
3420 Broadway
Kansas City, Missouri 64111-2404

Dear Mr. Clowe:

In light of the continuing efforts which the Staff of the Public Service Commission is exerting to identify and solve the various problems at Missouri Gas Energy, I would like to bring several matters to your attention which I believe require immediate action:

1. Customers Whose Bills Contain both Undercharges and Overcharges.

I have been advised that MGE has not forgiven the undercharges of those customers who were also overbilled during other billing cycles of the four months under scrutiny (November 1996 - February 1997). This is in contrast to the customers who were only underbilled. I understand that MGE has forgiven their underbills.

As a matter of equity and fairness, not to mention good business practice, MGE should reconsider this decision and forgive *all* underbills caused by the company's erroneous billing practices. I note in media reports that Western Resources' KPL Gas Service division has implemented this policy under these same circumstances.

2. Forgiving Non-Prorated Portions of January-February bills.

Under the periodic "purchased gas adjustment" tariff or PGA, the changes in the wholesale price of natural gas that MGE passes on to its customers frequently occur in the middle of a billing cycle. The PGA tariff permits MGE to charge the customer for all gas consumed during a billing period at the new price, even if that change occurs toward the end of the cycle.

Mr. C. Thomas Clowe
Missouri Gas Energy
April 3, 1997
Page 2

The issue of whether new PGA prices should be prorated to insure that customers pay for the gas they use at the price which mirrors the price that companies pay for that gas is now before the Commission in several pending cases, and I cannot comment further.

However, I do urge MGE to forgive those portions of the January and February invoices that were not prorated which appear to have greatly inflated many consumers' bills.

3. Customer Service Representatives.

Although MGE has pledged to hire a number of new customer service representatives and install additional telephone lines, I am informed that none have been hired to date. Your phone lines continue to be clogged.

The Commission's Customer Services Department has received more calls pertaining to MGE in the last 30 days -- 1,349 -- than it received during the entire last fiscal year pertaining to any other utility in the state. Consumers who call our toll free number complain that they have never been able to reach MGE.

Because your parent company also owns a local natural gas distribution company in Texas, I encourage you to seek the temporary transfer of at least 10 consumer specialists from Southern Union Gas Company to assist MGE at this critical time.

4. Customer Disconnections.

I understand that MGE will shortly announce an extended payment plan called "Relief Now." However, I also understand that MGE has tentatively decided to begin disconnecting service to delinquent customers who do not fulfill the plan's requirements on or about Monday, May 12. This decision must be reconsidered.

I suspect that many of these customers have become delinquent for reasons beyond their control, including (a) inaccurate or nonexistent meter readings by MGE; (b) estimated meter readings that bore no relationship to the customer's historical use; (c) errors in MGE billing software and other billing practices; and (d) the unprecedented and dramatic price increases in the unregulated wholesale natural gas markets this past winter.

Beginning to disconnect these customers on May 12 would send an unacceptable message to consumers that MGE has failed to recognize its role in causing these delinquencies. A

Mr. C. Thomas Clowe
Missouri Gas Energy
April 3, 1997
Page 2

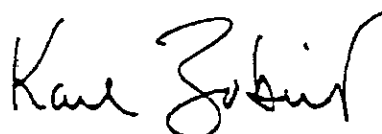
moratorium on disconnections until at least mid-summer should be considered.

5. Consumer Communication and Education.

I urge you and other MGE representatives to communicate with the public about the issues that face your company, as well as the natural gas industry. MGE has done a poor job in advising the public about the causes and extent of the problems it is facing. While MGE has improved its communications with the Staff of the Commission, MGE's efforts to regain the confidence of its customers have been dismal.

Some of the problems facing MGE also face other local gas companies from the Southwest through the Midwest to New England. Other problems are internal to MGE alone. Whether you choose to communicate through public meetings, press conferences, or public service announcements is your decision. You must move quickly to restore whatever goodwill MGE possessed before this turn of events and assure the public that MGE will do its utmost to serve the public interest.

Very truly yours,



Karl Zobrist, Chairman

cc: Commissioner Kenneth McClure
Commissioner Harold Crumpton
Vice Chair M. Dianne Drainer
Mr. Cecil I. Wright, Executive Secretary
Ms. Martha Hogerty, Office of the Public Counsel



MISSOURI GAS ENERGY

3420 Broadway • Kansas City, MO • 64111-2404 • (816) 360-5501

C. TOM CLOWE, JR.

PRESIDENT &
CHIEF OPERATING OFFICER

April 4, 1997

The Honorable Karl Zobrist
Missouri Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102

Dear Chairman Zobrist:

Thank you for your letter of April 3 in which you address several matters which you state require immediate action. After reviewing your requirements, we are prepared to move forward in pursuit of your objectives.

1. Customers Whose Bills Contain Both Undercharges and Overcharges.

MGE will forgive each underbilling of residential bills issued from November 1996 through February 1997. Preliminary calculations show this action will result in refunds to about 3,400 customers totaling approximately \$20,000. Those figures indicate that less than one percent of our customers will receive these refunds, and the average refund will be about six dollars, although some will be higher and some will be lower.

2. Forgiving Non-Prorated Portions of January-February Bills.

MGE shares your objective in mitigating the effects of high wholesale gas prices on consumers. A properly designed and lawfully enforceable methodology will achieve that purpose.

You urge MGE to take action to forgive those portions of the January and February invoices that were not prorated. Recomputing customers' bills that were properly issued in compliance with our tariff raises a number of concerns. We are not certain which bills would be recomputed, how they would be recomputed, whether that is technically feasible, and what the overall impact might be on both the customer and the Company. In addition, MGE's current tariff does not permit the proration of PGA charges, and MGE is required by the Public Service Commission law to abide by that tariff.

MGE shares your concern about the hardship our customers experienced due to skyrocketing wholesale gas prices in January and February. Although proration of PGA charges generally spreads the effect of the charge over two billing periods, thereby mitigating the apparent impact of high gas prices, it does not eliminate this impact. In addition, proration actually produces higher customer bills than non-proration in circumstances when the PGA is declining from one billing period to the next, as it did in February.

We have apprised your staff of our willingness to explore prorating PGA charges in an appropriate manner beginning July 1 of this year. In addition, we are willing to discuss the practical and legal details underlying proration of past PGA charges billed to certain customers.

3. Customer Service Representatives.

The events of this past winter have increased the number of calls to our customer service center by over 40,000 calls a month since December, an unprecedented increase that has overwhelmed the resources immediately available to us to handle them. We deeply regret the fact that our phone lines continue to be clogged, and your suggestion that we access resources from Southern Union is one we are taking prompt action on to answer more customer calls.

Shortly after announcing our billing problems, we extended our call center hours and used additional personnel from another department to man the phones, which added over 200 hours a week of phone duty in the call center. In response to your letter, we have decided to hire not 10, but 25 new people in the call center, and 9 of those 25 have already accepted employment. These new hires need training and will provide a longer-term solution to this problem.

With regard to getting help from Southern Union Company, MGE will utilize facilities, equipment, and personnel available in the Texas call center to help us answer more calls. We have started to make the technological adjustments which, when completed, will allow us to re-route certain calls to our Texas call center. Rather than bringing representatives from Texas to Missouri, we believe we can bring more immediate relief and greater productivity to the Kansas City call center by rerouting calls to the Texas call center.

These measures should help. However, we must be forthright in stating that the need to train new employees so they can provide competent, professional service makes it difficult to apply a "quick fix" to responding to the huge increase in call volumes we are experiencing. We will continue to explore any and all short-term options.

4. Customer Disconnections.

MGE will further postpone disconnections of service to delinquent customers to July 1, 1997. MGE originally stopped disconnections in early January recognizing the hardship high gas commodity prices would have on our customers.

Due to the extreme spikes in wholesale gas prices this winter, many gas bills severely strained the budgets of families, the elderly, people on fixed incomes, even customers who previously had never had difficulty paying their gas bill. To assist our customers through these hardships and help them stay current, we created the "Relief Now" emergency program on February 9 to stretch out the payment of these large bills over a dramatically extended period.

"Relief Now" provides that we begin contacting customers with past due accounts during April 1997. If the customer accepts this program, only 1/24 of their outstanding balance would be due within 30 days. We continue to believe most customers will embrace this good-faith effort by the company to provide a flexible and reasonable approach to paying off past-due amounts.

Mr. Karl Zobrist
April 4, 1997
Page 3

For customers who have made no attempt to pay any portion of their outstanding balance, even after being offered a "Relief Now" assistance plan, sending a disconnect notice may prompt at least a partial payment toward the past due balance. History has proven that the longer a balance remains outstanding, the less likely the account will ever get collected.

MGE is currently experiencing unprecedented levels of delinquent accounts. Failure to collect on these aging accounts will cause MGE significant economic loss.

5. Consumer Communication and Education.

We wholeheartedly agree that a need exists for the communication of accurate information to the public about the issues facing MGE and the natural gas industry. We intend to expand our efforts to educate the public in the weeks and months ahead about the events of this winter, their causes, and what can be done to avoid a recurrence in the future. Our customers deserve more accurate information than they are currently receiving, and we fully intend to follow your advice to better serve the public interest.

When wholesale gas prices began to skyrocket earlier this winter, MGE acted to expand public communications. In stark contrast to other utilities, MGE began to air television ads, appear on numerous television and radio newscasts, and hold press conferences and town hall meetings to explain to the public high gas prices, and communicate the "Relief Now" initiatives we were making to help customers cope with hardship.

Those educational efforts were meeting with success when we discovered the billing errors. Intense attention from the media and the public ensued, and since then we have concentrated our resources and efforts on correcting the errors. Frankly, media coverage has overwhelmed our attempts to communicate directly with customers, and much of that coverage has led to confusion among our customers about the primary cause of high gas bills, the nature of the billing errors, and related issues.

In closing, MGE appreciates your keen interest in improving our level of service to the public, and takes seriously its responsibility to resolve these issues. Your input is valuable, and we will continue to seek it as we move forward to correct these problems and implement long-term solutions.

Sincerely,



cc: Commissioner Kenneth McClure
Commissioner Harold Crumpton
Vice Chair M. Dianne Drainer
Mr. Cecil I. Wright, Executive Secretary
Ms. Martha Hogerty, Office of the Public Counsel



MISSOURI GAS ENERGY

3420 Broadway • Kansas City, MO • 64111-2404 • (816) 360-5501

C. TOM CLOWE, JR.
PRESIDENT &
CHIEF OPERATING OFFICER

FILE COPY

June 5, 1997

The Honorable Karl Zobrist
Missouri Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102

Dear Chairman Zobrist:

Since my letter to you of April 4, Missouri Gas Energy (MGE) has continued to move forward aggressively on a number of fronts to resolve the billing and customer service issues we encountered during the past hearing season. We appreciate your keen interest in our efforts to correct these problems, and I want to bring you up to date on the progress MGE is making toward that end.

1. Correcting Billing Errors

MGE issued refunds and forgave underbillings to customers affected by a billing error in the cost of gas between November 1 and February 28. Customers received a letter of apology from me, a statement explaining each billing error, and a refund with interest where appropriate. This initiative commenced for residential customers by April 1 as promised by MGE, and began for commercial accounts shortly thereafter.

The billing review is ongoing and will extend to bills issued since February 1994. When appropriate, we continue to make the needed billing adjustments to customers' accounts while auditing those corrections and the methodologies used to calculate them. This effort has proceeded in a constructive and cooperative manner with PSC staff and our auditors, Coopers and Lybrand, and continues today to ensure timely and accurate corrections to billing errors.

2. Long-Term Solutions: Process Improvement in Billing and Customer Service

Immediately after discovering the billing errors, MGE held a press conference and announced the formation of a joint Southern Union/MGE Task Force called the "BASIC Team" to spearhead correction of the errors and improvement of billing processes. The team reports to Ron Endres, Executive Vice President and CFO of Southern Union Company, and Tom Clowe, President and COO of MGE, and it is named "BASIC" to underscore our rededication to high quality performance in the fundamentals of our business--billing and customer service. The BASIC Team has done an outstanding job to date in working expeditiously to correct the short-term errors and identify some of the critical processes in need of revision.

... 1 0 697 Schedule 3

Schedule KKB-8
Page 16 of 19

The Honorable Karl Zobrist
June 5, 1997
Page 2

MGE has retained the services of Theodore Barry and Associates (TBA) Management Consultants, a nationally respected firm that is on-site and working with the BASIC Team over the summer months to develop the long-term fixes we will apply to our systems. TBA is well-equipped with the expertise and experience MGE seeks as we redesign our billing and account service processes to achieve maximum reliability. TBA will play an important role in helping us transform the appropriate processes before the next heating season.

In addition, MGE is forming a customer advisory group that will review the changes forthcoming from the work of the BASIC Team and TBA. This group will provide MGE with an important customer perspective in the months ahead, and provide useful insights into how we can best improve our billing system for customers.

3. Customer Service Improvements

On April 1, MGE opened a new Customer Service Center at 39th and Main in Kansas City where ratepayers can receive personalized, one-on-one service to their accounts. Kansas City area customers were notified of this new service via bill inserts, newspaper advertisements, and telephone referrals from MGE customer service representatives.

In addition, we continue to bolster the telephone capabilities of MGE's Customer Service Department with new training, staff, and resources. Seven new representatives are completing training and will be answering customer calls in about a week. Another 20 positions have been added to the department and those employees are currently in training. We will continue to improve customer service training, performance standards, and call volume capabilities with the goal of achieving quality service levels comparable to the industry's best.

Also, we are working closely with our colleagues at the Texas call center and Southwestern Bell to complete the technological changes required to enable MGE to transfer customer calls to the Texas call center in emergency situations. We expect this phone networking capability between the two call centers to be operational in July. This advancement should provide a solid level of protection should unforeseen high call volumes again overwhelm our local resources in the future.

4. Relief Now Helping Thousands of Customers Cope with High Bills

You are aware that in response to sharp price spikes in the commodity cost of gas, MGE created the "Relief Now" emergency program in February to assist our customers. Under Relief Now, MGE is financing the repayment of millions of dollars in past due amounts over a two-year period (up to 30 months in some cases), and providing level pay and Cold Weather agreements to customers regardless of previous credit history. Combined with other elements of Relief Now, we

The Honorable Karl Zobrist

June 5, 1997

Page 3

believe it is the most generous, budget-friendly payment program offered by any gas company in the nation, one that provides uninterrupted year-round gas service by providing customers with more manageable monthly payment obligations.

To date, over 50,000 MGE customers have been offered the opportunity to enroll in Relief Now, and over 10,000 have responded positively that they intend to enroll. This has been accomplished through proactive outreach to these customers. Since early April, MGE has been writing and calling customers in payment arrears to notify them of Relief Now and enroll them in the program. The program itself has been advertised to the public via newspaper ads, 60-second radio ads, and billing inserts. Those customers failing to respond are being contacted again by letter and/or by phone and encouraged to make some type of pay arrangement before service disconnections resume. Thousands of customers have enrolled in Relief Now to date, and we are greatly encouraged by the very positive responses we have received from customers who have truly appreciated the assistance provided by the program. We will continue to keep you updated on Relief Now.

5. Public Education and Outreach

MGE is preparing to begin a new program to provide in-person explanations and education to customers who have been affected by a billing error or other customer service issues. This program of direct outreach to aggrieved customers will provide scheduled daytime opportunities to visit our facilities personally and talk with us about issues like high gas prices, billing errors, customer service, etc. MGE will also provide another opportunity to discuss and learn about these issues when we hold evening town hall meetings at locations convenient to customers' homes or businesses. We expect this program to begin this month and continue throughout the summer and possibly into the fall. MGE's employees are delighted to have this chance to serve our customers in a personal and unique way, and I will keep you updated as the program progresses.

We are also keenly aware of the need to reach out beyond aggrieved customers to all ratepayers who need and deserve better information about this past winter's developments. This will be a longer-term effort involving paid media advertising, community events, so-called "free media" news coverage, public service announcements, safety programs, and special educational meetings on an on-going basis. While this effort has already begun, it will expand considerably once MGE's process improvements are in place and we are prepared for the next heating season.

6. Automated Meter Reading Moves Ahead

MGE is also moving forward aggressively on the installation of our new Automated Meter Reading (AMR) system. Currently, we are ahead of our planned installation schedule, and we

The Honorable Karl Zobrist

June 5, 1997

Page 4

continue to keep all departments working together to address AMR issues that arise and cut across departmental boundaries. We are communicating with customers whose meters will have to be read on a new date because of the need to rearrange our meter reading routes to implement AMR. We will also provide further educational materials to customers about the AMR system itself as it is installed. We hope to accomplish this large and complicated task with minimal disruption to our customers.

Again, thank you for interest in the action MGE is taking to improve its business practices and prepare for next winter. We are very pleased with the progress we have made to date, and very optimistic about the future. If you have any questions or comments about these matters, please do not hesitate to contact me at any time.

Sincerely,



cc: Commissioner Diane Drainer-MPSC
Commissioner Harold Crumpton-MPSC
Cecil Wright - MPSC
Martha Hogerty - OPC

Exhibit No.: **FILE COPY**

Issues: Policy

Witness: Steven W. Cattron

Sponsoring Party: Missouri Gas Energy

Case No.: GR-2001-292

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2001-292

DIRECT TESTIMONY OF

STEVEN W. CATTRON

Jefferson City, Missouri

November 7, 2000

DIRECT TESTIMONY
OF STEVEN W. CATTRON

CASE NO. GR-2001-292

NOVEMBER, 2000

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is Steven W. Cattron, and my business address is 3420 Broadway, Kansas
3 City, Missouri 64111.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am the President and Chief Operating Officer of Missouri Gas Energy ("MGE"), a
7 division of Southern Union Company.

8

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

10 A. I graduated from the University of Missouri-Kansas City with a B.B.A. and I have an
11 M.B.A from Rockhurst College.

12

13 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.**

14 A. I have been in my present position since June 1998.

15

16 The majority of my business management experience has been obtained through over
17 twenty years of involvement in the utility industry. My career began as a utility
18 auditor for this Commission. I then transitioned to a utility consultant with Troup,

1 Kehoe, Whiteaker & Kent and held various positions while employed with Kansas
2 City Power & Light Company for nearly sixteen years.

3
4 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

5 A. I will explain the fundamental business model I continue to implement at MGE. In
6 the course of this explanation I will reiterate the emphasis that MGE has placed, and
7 will continue to place, on quality customer service and try to bring forward specific
8 examples of how MGE is seeking to implement this business model.

9
10 Finally, I will provide an overall perspective on the rate making process that MGE
11 has experienced historically, as well as suggestions for improvement of that process
12 now and in the future. In so doing, I will address certain critical policy issues that I
13 believe the Commission itself should address in setting rates for natural gas local
14 distribution companies in general, and MGE in particular.

15
16 **1. MGE IS COMMITTED TO BEING A LOW-COST PROVIDER OF QUALITY**
17 **CUSTOMER SERVICES**
18

19 **Q. PLEASE EXPLAIN THE FUNDAMENTAL BUSINESS STRATEGY YOU**
20 **ARE CONTINUING TO IMPLEMENT AT MGE.**

21 A. Our fundamental business strategy is to be a low-cost provider of quality customer
22 services. When I began my work at MGE in June of 1998, this overall direction was
23 already in place. Implementing this strategy requires a balance of cost management
24 and quality customer service.

1

2 **Q. WHAT GUIDING PRINCIPLES DO YOU USE IN FURTHERANCE OF**
3 **MGE'S FUNDAMENTAL BUSINESS STRATEGY OF BEING A LOW-COST**
4 **PROVIDER OF QUALITY CUSTOMER SERVICES?**

5 A. Safety is our first priority. Although natural gas is a safe product when contained, it
6 is a combustible commodity and can be hazardous if not contained. We are well
7 aware of this and therefore take very seriously the need to safeguard our customers
8 and employees as well as the public generally. We also emphasize safety throughout
9 the business in everyday activities like driving vehicles, lifting objects, etc.

10

11 For a business to be a lasting success, its management must successfully balance the
12 interests of three key constituencies: employees, customers and shareholders. We try
13 to keep this fact in mind whenever we make decisions.

14

15 My personal belief is that shareholders are not likely to be satisfied if customers are
16 not pleased, and that customers are not likely to be satisfied if employees are not
17 satisfied. Therefore, MGE places heavy emphasis on employee and customer
18 satisfaction.

19

1 Q. CAN YOU PROVIDE EXAMPLES OF HOW MGE HAS EMPHASIZED
2 EMPLOYEE SATISFACTION?

3 A. We continue to build upon our relationship with our employees through a
4 "partnership" process, pursuant to which we have regular periodic meetings to
5 address issues of mutual concern and help build a more efficient and effective
6 company.

7
8 We also devote substantial efforts to ensuring that we communicate effectively with
9 employees. The MGE senior management team conducts "all-employee" meetings
10 four times a year throughout our service territory. We have also instituted what we
11 call our "leadership forum," during which virtually all employees with supervisory
12 responsibilities are provided with in-depth information around critical company
13 activities so they may provide effective responses to questions from the employees
14 who report to them.

15
16 One of the first significant accomplishments MGE achieved during my tenure was the
17 execution, well in advance of the expiration date of the then-current contract, of a
18 five-year contract with our labor unions. We accomplished this contract through our
19 "partnership" without resorting to the traditional bargaining process.

20
21 We also conduct annual employee surveys that provide us with feedback in this area.

22

1 **Q. HOW DO YOU RATE MGE'S EMPLOYEE SATISFACTION EFFORTS?**

2 A. Overall, I think we have done a pretty good job and the employee surveys seem to
3 back this up. Nevertheless, we have not been entirely successful. We also know that
4 the passage of time is accompanied by new challenges. In order to meet these
5 challenges successfully, we need employees who understand where we are going and
6 believe in that direction. Thus, MGE will continue to place a heavy emphasis on
7 employee communication and satisfaction.

8

9 **Q. CAN YOU PROVIDE EXAMPLES OF HOW MGE HAS EMPHASIZED**
10 **CUSTOMER SATISFACTION?**

11 A. MGE's customer satisfaction efforts were well under way upon my arrival in June of
12 1998. Those efforts have continued through all of my two-and-one-half years tenure.
13 We encourage our employees to work with the "mind of a customer and the pride of
14 an owner," and most of them are doing so. We are continually striving to make it
15 easy for our customers to do business with MGE. As shown more specifically in the
16 direct testimony of MGE witness Karen M. Czaplewski, MGE has achieved superior
17 customer service performance levels. In addition, as explained in more detail below,
18 MGE has achieved this superior performance in a very cost-effective fashion.

19

20 The Company's role in the negotiation and approval of the Fixed Commodity Price
21 PGA, the first of its kind in Missouri, is an indication of our belief that price stability
22 is something that our customers desire. It is my sincere hope that factors will permit
23 the implementation of the Fixed Commodity Price PGA some time in the near future,

1 so that we can deliver true stability in the cost of gas to our customers. As explained
2 in the direct testimony of MGE witness F. Jay Cummings, the rate design we have
3 proposed in this case for non-gas rate elements would bring further price stability to
4 our customers.

5
6 Similar to our belief that employees both desire and need effective communications,
7 MGE emphasizes effective customer communications. When the possibility of high
8 gas prices became apparent this summer, MGE began to communicate early and often
9 about the issue with its customers. We promoted ABC ("average bill calculation")
10 participation and emphasized simple energy conservation measures. Most recently,
11 MGE hosted an "Energy Forum" to discuss the high gas cost issue, and possible
12 responsive actions, with numerous affected entities (including community action
13 agencies, and state and local officials).

14
15 **Q. DO YOU HAVE ANY INFORMATION SHOWING HOW MGE'S COSTS**
16 **COMPARE TO OTHER REASONABLY COMPARABLE NATURAL GAS**
17 **LOCAL DISTRIBUTION COMPANIES IN MISSOURI?**

18 **A.** Based on information contained in annual reports filed with the Commission, it
19 appears that, in comparison to other Missouri LDCs, MGE provides service in a
20 considerably more cost-effective fashion. The following chart shows annual
21 operation and maintenance cost per customer for the years 1998 and 1999 for MGE,
22 Laclede Gas Company, AmerenUE (natural gas operations) and Missouri Public
23 Service (natural gas operations):

1		<u>MGE</u>	<u>Laclede</u>	<u>AmerenUE</u>	<u>MoPub</u>
2	1998	\$104.52	\$163.71	\$167.82	\$185.21
3	1999	\$103.20	\$159.74	\$167.01	\$180.30

4 In addition, annual residential bill comparisons of these four companies on the basis
5 of margin rates (monthly customer charge plus volumetric rates) in effect as of the
6 time of this testimony shows that MGE is considerably lower-priced than these
7 companies. This is shown in the following chart:

8		<u>MGE</u>	<u>Laclede</u>	<u>AmerenUE</u>	<u>MoPub</u>
9		\$218.04	\$283.42	\$305.03	\$330.94

10 Even if the Commission approves 100% of the rate increase requested by MGE in this
11 proceeding, MGE's residential annual bill (excluding the PGA and applicable taxes)
12 of \$280.59 (on the basis of 1,000 Ccf usage) will continue to be lower than these
13 other Missouri companies.

14
15 **Q. AS AN EXPERT IN THE AREA OF UTILITIES, WOULD YOU CONSIDER**
16 **IT REASONABLE TO RELY ON THE FOREGOING INFORMATION FOR**
17 **THE PURPOSE OF COMPARING MGE'S COSTS AND PRICES TO OTHER**
18 **MISSOURI COMPANIES?**

19 **A. Yes.**

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Q. IN ITS ORDER IN CASE NO. GR-98-140, THE COMMISSION FOUND THAT MGE HAD NOT YET FULLY COMPLIED WITH COMITMENTS MADE IN ITS PRIOR RATE CASE (NO. GR-96-285) AND REMINDED THE PARTIES THAT SUCH COMMITMENTS REMAIN IN EFFECT UNTIL SUCH TIME AS AN ORDER RELIEVING MGE OF SUCH COMMITMENTS IS ISSUED. ARE YOU AWARE OF THIS STATEMENT?

A. Yes. I take very seriously all commitments made by MGE to the Commission. It is my intention that MGE live up to each and every such commitment. As more specifically reported in the direct testimony of MGE witness Karen M. Czaplewski, it is my belief that, except for not yet reaching the ASA ("average speed of answer") goal of 45 seconds, MGE has fulfilled all of the commitments it has made to the Commission.

We continue to implement the Commission-approved Safety Line Replacement Program and in fact just recently (by the end of October 2000) completed the replacement of the last of what have come to be known as "ten-year" service lines under that program. In 1999, we received approval to accelerate completion of replacement of "twenty-year" service lines from 2009 to 2004. We are on track for completion of the cast iron portion of this program on time by year-end 2000 and we continue to work with the Commission's safety staff on how to proceed in the future.

1 Q. MR. CATTRON, IS MGE COMMITTED TO ACHIEVING CUSTOMER
2 SERVICE PERFORMANCE LEVELS IN THE FUTURE SIMILAR TO
3 THOSE WHICH HAVE BEEN ACHIEVED IN THE PAST YEAR?

4 A. Yes. But the Commission needs to put the service quality improvements MGE has
5 achieved over the past few years in context. While the warm weather we experienced
6 in our service territory in FY98, FY99 and FY00 hurt MGE's financial performance
7 and achieved returns, that same warm weather helped almost all of its customer
8 service performance statistics. Typically, warm weather translates into lower gas
9 bills, which in turn usually translates into fewer customer contacts. Wholesale gas
10 prices were also relatively low during this period of time (July 1997-June 2000).

11

12 Furthermore, achieving quality customer service is one thing and maintaining that
13 achievement is another. So while we are committed to providing superior service
14 quality, we are also committed to providing service at a reasonable cost to the
15 customer. At the same time, our shareholders are entitled to a reasonable opportunity
16 to achieve the return authorized by the Commission. The bottom line is that service
17 quality will have to be balanced with cost and earnings considerations. I firmly
18 believe that the Commission needs to demonstrate the value it places on service
19 quality by fairly compensating MGE for the substantial achievements it has made in
20 this area and by providing the opportunity to realize financial benefits for maintaining
21 or improving upon these achievements.

22

1 Q. CAN YOU PROVIDE EXAMPLES OF HOW MGE HAS EMPHASIZED
2 SHAREHOLDER SATISFACTION?

3 A. The filing of this rate case is an example of the emphasis MGE places on shareholder
4 satisfaction. The filing of a general rate case, while necessary and a part of doing
5 business, is not something we take lightly. It is an expensive and time consuming
6 process that diverts substantial management attention away from the company's
7 primary mission, which is to provide safe and reliable gas service to its customers.
8 Nevertheless, without sufficient earnings, the company will be in no position to
9 provide the quality of service our customers expect and deserve. Therefore, MGE has
10 decided to file this rate case.

11

12 **3. RATE MAKING PRACTICE, POLICY AND IMPACTS**

13 Q. WHAT IS YOUR UNDERSTANDING OF THE OVERALL OBJECTIVE OF
14 THE RATE MAKING PROCESS AND THE ROLE AND RESPONSIBILITY
15 OF THE COMMISSION?

16 A. Although it can be said many different ways, my understanding is that rates should be
17 set so as to provide the Company with a reasonable opportunity to achieve its
18 authorized return. The authorized return itself must be sufficient to compensate the
19 Company's shareholders for the risk they bear while enabling the Company to attract
20 capital on reasonable terms. The Commission's responsibility is to balance the
21 multitude of competing interests that arise through this process (e.g., enhanced service
22 levels vs. lower rates; small customer interests vs. large customer interests; customer
23 interests vs. shareholder interests; etc.) and set rates which are just and reasonable.

1

2 **Q. MR. CATTRON, HAS MGE EVER ACHIEVED ITS AUTHORIZED**
3 **RETURN?**

4 A. No, I don't believe so.

5

6 **Q. CAN YOU EXPLAIN WHY MGE HAS NEVER ACHIEVED ITS**
7 **COMMISSION-AUTHORIZED RETURN?**

8 A. First, although unanticipated expenditures do crop up from time to time which impair
9 achieved returns, the incidence of such events is relatively infrequent in MGE's
10 history. Overall, I believe MGE has effectively managed its operations and
11 maintenance ("O&M") expenses, which have effectively been "flat" for several years
12 now, while at the same time achieving superior service quality for our customers.
13 Effective management of O&M expenses serves the dual interests of customers
14 (through rates lower than they would otherwise experience) and shareholders (through
15 reduced earnings erosion).

16

17 In a nutshell, MGE has never achieved its authorized return primarily because of the
18 way in which its rates have been set in the past. In particular, rate design decisions in
19 our last two rate cases have exposed the Company's returns to greater variability due
20 to weather. Compounding this increased weather risk is the Commission's
21 normalization of weather based on the thirty-year period ending 1990 as opposed to a
22 shorter period of time ending more contemporaneously to the period when rates set
23 will be in effect. Returns are further reduced due to the fact that the Commission also

1 routinely disallows from the rate setting equation certain costs deemed by the
2 Commission to be "unnecessary for the provision of gas service" but which, in reality,
3 the Company has no choice but to expend. My Company's experience also indicates
4 that while the Commission is willing to administer punishment for what it deems to
5 be inappropriate conduct, it is at the same time hesitant to administer rewards for
6 what it deems to be positive conduct. In my opinion, the foregoing add up to a
7 regulatory environment in which customer and shareholder interests are not fairly
8 balanced and the Company is left with no reasonable opportunity to achieve its
9 authorized return.

10

11 **Q. PLEASE ELABORATE ON YOUR POINT ABOUT RATE DESIGN.**

12 A. Since January of 1997, the Commission has authorized revenue increases for MGE of
13 more than \$20 million. Virtually all of those revenue increases (the exception being a
14 \$2 increase to the SGS customer charge in the 1997 case) were placed on volumetric
15 rate components. Our current residential customer charge of \$9.05 was fixed in 1993
16 and, as of the date of this filing, has not changed for more than seven years. Because
17 volumetric rates are subject to variation in relation to weather, the percentage of
18 MGE's revenues at risk based on weather has increased substantially since 1993.
19 This increased financial risk has not been recognized by the Commission in its
20 authorized equity returns, for the Commission has reduced the equity returns
21 authorized for MGE in every rate case since 1993.

22

1 Q. PLEASE ELABORATE ON YOUR POINT ABOUT WEATHER
2 NORMALIZATION.

3 A. My understanding is that the Commission has consistently adopted the Staff's
4 recommendation to normalize the weather impact on billing determinants (and, hence,
5 revenues) through the use of the most recent NOAA-adjusted thirty-year period
6 available. For MGE's last two rate cases, this period has been 1961-1990. Because
7 no more recent NOAA-adjusted data is available, we expect the Staff to recommend
8 the same thirty-year normal in this case. Unfortunately for MGE's shareholders, this
9 "normal" has not often been achieved in MGE's service territory. For example, in
10 only four of the last fifteen years have the heating degree days ("HDD") actually
11 experienced in Kansas City been equal to or in excess of the number of HDD
12 produced by the Staff's thirty-year normalization methodology.

13

14 Until the Commission uses a measure of "normal" weather that more closely
15 approximates actual experience, it is doubtful that MGE will ever have a reasonable
16 opportunity to achieve its authorized return.

17

18 Q. PLEASE ELABORATE ON YOUR POINT ABOUT "TRADITIONAL"
19 DISALLOWANCES.

20 A. The Commission routinely excludes from the rate setting equation costs actually
21 incurred by the Company on the Commission's belief that such costs are not necessary
22 for the provision of gas service. Examples include costs associated with legislative
23 activities at both the state and municipal level, dues and donations, advertising costs,

1 Community Relations and Public Affairs staffing. These adjustments have been
2 made without any apparent regard, or appreciation, for the fact, shown earlier in this
3 testimony, that MGE's overall cost structure (as measured by annual operations and
4 maintenance expense per customer and average residential margin rates) is well below
5 that of the State's other larger LDC's (Laclede, AmerenUE and Utilicorp). This is a
6 clear indication of efficiency that ought to be encouraged by rewards, not
7 discouraged. Furthermore, the notion that such activities are not a necessary part of
8 operating a utility is fundamentally at odds with reality. MGE serves nearly 160
9 municipalities. We must communicate effectively with the officials in those cities,
10 which requires that MGE personnel know those people and visit them on a regular
11 basis. We must also communicate effectively with our customers. In addition, it is
12 simply unreasonable for the Commission to believe that a company of the size,
13 geographic scope and complexity of MGE should ignore the legislative process.

14
15 **Q. PLEASE ELABORATE ON YOUR POINT ABOUT THE COMMISSION'S**
16 **WILLINGNESS TO PUNISH CONDUCT IT DEEMS INAPPROPRIATE**
17 **WHILE IT IS APPARENTLY RELUCTANT TO REWARD POSITIVE**
18 **CONDUCT.**

19 **A.** The Office of the Public Counsel and the Commission's Staff are quick to
20 recommend--and the Commission in the past has been nearly as quick to administer--
21 punishment for what is deemed to be inappropriate conduct (examples include the
22 downward return on equity adjustment on account of customer service concerns in
23 Case No. GR-96-285; complaints regarding billing issues in 1996 and 1997;

1 complaints regarding gas safety incidents; disallowance of billing improvement costs
2 in Case No. GR-98-140; disallowance of allegedly "imprudent" gas supply
3 expenditures). MGE could perceive fairness in this approach if the converse was also
4 true, that rewards would be recommended by OPC and the Commission's Staff--and
5 adopted by the Commission--for positive conduct. When was the last time the
6 Commission's Staff or the Office of the Public Counsel recommended that
7 Commission adopt an upward rate of return adjustment on account of superior quality
8 customer service and/or superior overall efficiency? This case presents the
9 Commission with an opportunity to bring such balance to the regulatory process. As
10 shown in the direct testimony of MGE witness Karen M. Czaplewski, MGE's
11 customer service is superior in comparison to other Missouri companies. In addition,
12 as shown earlier in this testimony, MGE is a very cost-effective.

13
14 **Q. DO OTHER FACTORS INTERFERE WITH MGE'S ABILITY TO ACHIEVE**
15 **ITS AUTHORIZED RETURN?**

16 **A.** Yes. MGE's Safety Line Replacement Program requires annual capital expenditures
17 of more than \$15 million annually. This investment is required for MGE to comply
18 with Commission rules and orders and does not generate additional revenues. In
19 addition, MGE is required to relocate facilities every year to accommodate public
20 improvement projects by municipalities and other governmental entities. These
21 capital expenditures amount to \$4 to \$5 million annually, are not reimbursed by the
22 governmental entity requiring the facilities relocation and generate no additional
23 revenues.

1

2 **Q. DO YOU HAVE ANY RECOMMENDATIONS FOR THE COMMISSION?**

3 A. Yes. The Commission needs to take a fresh look at the way in which it sets rates for
4 natural gas local distribution companies in general, and MGE in particular. Simply
5 taking a "business as usual" approach will not work. In particular, the Commission
6 needs to moderate the financial risk MGE experiences due to weather by reducing the
7 proportion of MGE's revenue stream that varies on the basis of weather. The
8 Commission should also think long and hard before it adopts the Staff's thirty-year
9 weather normal (based on the years 1961-1990) over the company's recommended
10 twenty-year normal (based on the years 1981-2000). The Commission also needs to
11 reconsider whether all of its "traditional" disallowances make sense in today's
12 environment. Finally, the Commission needs to bring symmetry to its treatment of
13 MGE by showing a willingness to reward positive conduct, through adoption of an
14 upward rate of return adjustment and approval of the Customer Service
15 Effectiveness/Gas Safety Program Experimental Incentive Plan.

16

17 **4. SUMMARY OF TESTIMONY**

18 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

19 A. This rate case is not simply an exercise in determining MGE's authorized revenue
20 requirement. MGE is entitled to a reasonable opportunity to achieve that authorized
21 return. MGE's achieved returns over the past three years have shown that unless the
22 Commission materially alters the manner in which it sets and designs rates, MGE will

1 have no reasonable opportunity to achieve its Commission-authorized return. In
2 particular, MGE asks the Commission to:

- 3 1. Reduce the variability of MGE's revenue streams due to weather fluctuations
4 by adopting MGE's improved rate design;
- 5
6 2. Adopt a more realistic approach to measuring "normal" weather by use of data
7 based on a twenty-year period ending in 1999 instead of the Staff's usual
8 approach of using data based on a thirty-year period ending in 1990;
9
- 10 3. Reconsider the "traditional" disallowances that are in reality essential
11 functions for a company such as MGE and therefore necessary costs of doing
12 business; and
13
- 14 4. Show willingness to reward positive conduct by adjusting rate of return
15 upward for management efficiency and superior customer service quality and
16 adopting the Customer Service Effectiveness/Gas Safety Program
17 Experimental Incentive Plan.
18
19

20 In addition, I have reiterated the Company's intent, and my personal commitment, to
21 achieving superior levels of customer service quality at a reasonable cost to customers
22 while achieving compensatory returns for the shareholder.
23

24 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

25 **A.** Yes, at this time.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's
Tariff Sheets Designed to Increase Rates
for Gas Service in the Company's Missouri
Service Area.

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Case No. GR-2001-292

AFFIDAVIT OF STEVEN W. CATTRON

STATE OF MISSOURI)

COUNTY OF JACKSON)

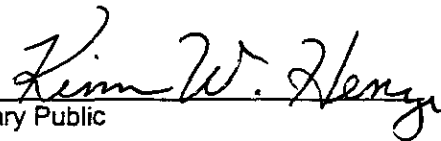
) ss.
)

Steven W. Cattron, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



STEVEN W. CATTRON

Subscribed and sworn to before me this 6th day of November 2000.



Notary Public

My Commission Expires: _____

