Exhibit No.:	
Issues:	Merger Impact and Commitment by Joint Applicants (UtiliCorp United Inc. and St. Joseph Light & Power Co.; and UtiliCorp United Inc. and Empire District Electric Co. to Provide Low or No Cost Weatherization Assistance to Low-Income Customers, Energy Efficiency Assistance and Alternative and Renewable Energy Resource Development
Witness:	Roger D. Colton
Sponsoring Party:	Missouri Department of Natural Resources' Energy Center
Type of Exhibit:	Rebuttal Testimony
Case No.:	EM-2000-292 and EM-2000-369

IN THE MATTER OF THE MERGER APPLICATION OF UTILICORP UNITED INC. AND

ST. JOSEPH LIGHT & POWER COMPANY

AND THE

MERGER APPLICATION OF UTILICORP UNITED INC. AND EMPIRE DISTRICT

ELECTRIC COMPANY

REBUTTAL TESTIMONY

OF

ROGER D. COLTON

MISSOURI DEPARTMENT OF NATURAL RESOURCES

ENERGY CENTER

Roger Colton, being duly sworn on his oath, hereby verifies that the above facts are true and correct to the best of his knowledge, information and belief.

Roger Colton

Subscribed and sworn before me this 24 day of April, 2000.

Anne L. Singer

Notary Public

My commission expires: Sept 17, 2004

Q. Please state your name and address.

A. My name is Roger Colton. My address is 34 Warwick Road, Belmont, MA 02478.

Q. For whom do you work and in what capacity?

A. I am a principal in the firm of Fisher, Sheehan & Colton, Public Finance and General Economics (FSC). I provide technical assistance to a variety of public utilities, state agencies and consumer organizations on rate and customer service issues involving telephone, water/sewer, natural gas and electric utilities.

Q. For whom are you testifying in this proceeding?

A. I am testifying on behalf of the Missouri Department of Natural Resources.

Q. Please describe your educational background.

A. I received my undergraduate degree from Iowa State University in 1975. In addition, I received my law degree (With Honors) from the University of Florida in 1981 and my advanced degree in economics from the McGregor School, Antioch University in 1993.

Q. Please describe your involvement with restructuring the natural gas and electric industries.

A. I have been involved with electric and natural gas restructuring throughout the nation. My work has been with state and local governments, with the federal government, and with a variety of community-based organizations. For example, I recently completed a study for the electric restructuring advisory panel of the Colorado state legislature on the impacts of electric restructuring on low-income consumers. I am currently working for the New Jersey Division of Ratepayer Advocate in reviewing the natural gas restructuring proposals by that state's four gas utilities, for the Maryland Office of Peoples Counsel (OPC) on that state's natural gas restructuring deliberations, and for the Pennsylvania Office of Consumer Advocate to help design the universal service offerings for that state's ten natural gas utilities in response to the natural gas retail choice statute. In addition to providing consulting services for administrative proceedings, I assist states in the actual design and implementation of low-income programs. I am working for the New Hampshire Governor's Office of Energy and Community Services to help them implement their low-income rate affordability program; with the Colorado Energy Assistance Foundation and Public Service Company of Colorado (PSCO) to help them implement a rate affordability pilot in Colorado; and for the Maryland OPC to help the Maryland Energy Assistance Program (MEAP) design and implement that state's electric universal service fund. I am currently working with two different utility companies, including Energy Services Corporation in Little Rock (Arkansas) to help it design a rate affordability assistance program in its five state territory and Duquesne Light Company to re-design its universal service offerings in Pittsburgh. I am under contract with the U.S. Department of Energy, through Oak Ridge National Laboratory, to provide, on request, state-specific technical assistance on the design of low-income programs funded through system benefits charges, and with the U.S. Department of Health and Human Services to develop outcome-based performance measurements for Low-Income Home Energy Assistance Program (LIHEAP) offices nationwide. I am currently working for the Iowa Department of Human Rights to measure the performance of that state's LIHEAP program relative to targeted outreach and to develop remedies for any performance shortfall. Finally, I am currently the consultant charged with the three year task of developing the low-income service components for Vermont Energy Futures, an all-fuels consumer cooperative serving Vermont.

Q. Have you ever previously testified before any regulatory commission?

A. While I have never previously testified before the Missouri Commission, I have testified on low-income utility issues in a variety of proceedings before regulatory bodies. I have attached a summary of my experience as Exhibit RDC-1.

Q. Please describe your involvement with utility merger proceedings.

A. I was hired by the Colorado Energy Assistance Foundation (CEAF) to present testimony on low-income issues in the 1999 proceeding before the Colorado public utility commission to consider the proposed merger of Public Service Company of Colorado (PSCO). I have been hired by the Maryland Office of Peoples' Counsel to present testimony before the Maryland PSC in the proposed merger of Baltimore Gas and Electric Company; by the New Jersey Division of Ratepayer Advocate to assess the impacts on low-income consumers of the proposed Atlantic City Electric merger; and the Pennsylvania Office of Consumer Advocate to consider the low-income impacts of the PECO Energy/Commonwealth Electric merger. I worked with a community-based organization in Minneapolis on the PSCO/NSP merger and with a local neighborhood association to consider the low-income impacts of the proposed SBC/Ameritech Ohio merger. I am currently working for a community-based organization in New Hampshire on an analysis of the impacts of the proposed merger of Northeast Utilities and Consolidated Edison. Finally on behalf of a coalition of ten low-income groups nationwide, I prepared a set of comments for presentation to FERC respecting its notice of rulemaking to consider new federal merger guidelines.

Q. Please describe the purpose of your testimony today.

A. The purpose of my testimony is to consider the impacts on low-income consumers arising from the proposed merger of UtiliCorp with St. Joseph Light and Power Company. The merged company will be referred to as the Company or as UtiliCorp/SJLP throughout my testimony. More specifically, my testimony will:

- describe the importance of defining "markets" for purposes of assessing merger impacts;
- assess whether UtiliCorp/SJLP adequately passes on merger savings to low-income consumers; and
- propose remedies for the problems that I identify.

In general, I conclude that the proposed Missouri merger presents very real dangers to low-income consumers while offering little benefit in return. More specifically, I reach four conclusions: (1) low-income customers represent a separate market that should be independently considered in assessing the impacts of the proposed merger; (2) the merger will have disproportionate adverse impacts on the market consisting of low-income consumers; (3) the merger will deliver a disproportionately small share of the merger savings to low-income customers, from whom those savings were generated; and (4) it is appropriate for the Missouri Public Service Commission (PSC) to condition approval of the merger on the remedies proposed below to address the problems identified relative to the creation of these harms and the denial of these benefits.

Q. Please summarize the recommendations you make.

A. I recommend the implementation of a Community Energy Partnership Program (CEPP) as a condition of the proposed UtiliCorp/St. Joseph merger. The CEPP should consist of the following components:

1. Implementation of a 25-site Benefit Outreach and Screening Software (BOSS) pilot project, with a commitment to expand the program as appropriate if found to successfully deliver benefits to low-income customers.

2. Implementation of a base load and space heating electric energy efficiency program directed toward high use payment-troubled low-income customers.

3. Implementation of a pilot solar energy program directed toward high use low-income customers.

4. Implementation of a periodic survey process through which the merged Company will take proactive efforts to identify which of its payment-troubled customers represent low-income households.

5. Implementation of an Outcome-based Performance Reporting System (OPRS) through which the customer service outcomes to low-income customers can be systematically tracked over time.

I describe the specifics of the recommendations, as well as the specific merger-related bases for these recommendations, in detail in the text of my testimony below.

Q. Please explain your understanding of the appropriate standard to apply in assessing whether this merger should be approved.

A. The proposed merger should be reviewed to assess whether it is in the public interest. To be met, this standard as I understand it requires that the merger result in no detriment to consumers, or to investors, or to other legitimate interests.

Q. Must the merger take into account the impact on each market it serves?

A. Yes. To the extent that the Company serves different markets, it must take each market into account.

Q. But, given that the PSC may not both approve *and* disapprove the merger, how can a regulator resolve the conflict if there are benefits to one market and adverse consequences to a different market?

A. This question assumes a paradox that does not exist. The decision which Missouri's utility regulators face is not simply to approve the proposed merger on the one hand or to disapprove the proposed merger on the other hand. A third choice is to approve the proposed merger with conditions that serve to mitigate the adverse impacts of the merger to the market that is being harmed while preserving the benefits of the merger to the market that is being benefitted. Indeed, it is *that* approach which is appropriate in this proceeding: to place conditions on the merger should it be approved. Those conditions involve adoption of the mitigation measures and benefit-sharing mechanism that I propose below.

Q. Please explain the necessary first step in any evaluation of a proposed merger.

A. The first inquiry in analyzing merger impacts involves a market definition. A market, simply defined, is an area within which a group of sellers compete for the patronage of a common group of buyers. In my testimony concerning the low-income market, I will limit my discussion to the need for a commonality amongst buyers.

Q. Please explain why it is necessary to define what markets are affected by the proposed merger.

A. The significance of a market definition is straightforward. The PSC must have a frame of reference within which to isolate and examine the anticipated effects of the proposed merger. That frame of reference is a market. Indeed, the definition of a relevant market is critical to assessing both the existence of, and extent of, both adverse and beneficial impacts arising from the merger. In brief, without a definition of the relevant market, there is no way to identify and measure the impacts --positive or negative-- of the proposed merger.

Q. Please assess how the merger impacts on different markets have been considered in the direct case presented in this proceeding.

A. The review of impacts arising from the proposed merger has taken place to date with no consideration of the differences in the markets served. The analysis in the direct case has assumed that the merger impacts would arise in the same fashion, and perhaps even to the same degree, for all markets served. "Ratepayers," however, do not represent a market. "Ratepayers" not only may, but as I will show below, do consist of multiple markets. My conclusion is that the merger impacts on the low-income market are different, both in kind and in degree, from the impacts on other markets.

Q. Please explain why you focus on the low-income market in particular.

A. Low-income customers represent a distinct market for purposes of merger analysis. Indeed, the unique low-income characteristics I identify below demonstrate that, absent the merger conditions that I propose, the Company will inequitably distribute its claimed merger-related savings to consumers in the low-income market. So, too, the unique characteristics of the low-income market demonstrate that, absent the merger conditions that I propose, the merger will generate specific adverse impacts that will impede, if not completely eliminate, the required "passing-on" of efficiency-induced savings that might arise from the proposed merger.

Q. Please describe and characterize the low-income market.

A. The generally accepted measure of "being poor" in the United States today indexes a household's income to the federal "Poverty Level" published each year by the U.S. Department of Health and Human Services (HHS). The Poverty Level looks at income in relation to household size. This measure recognizes that a three person household with an annual income of $6,000 is, in fact, "poorer" than a two person household with an annual income of $6,000. The federal government establishes a uniform "Poverty Level" for the 48 contiguous states. The 2000 federal Poverty Levels are set forth in Exhibit RDC-2. Since 100 percent of Poverty Level is generally considered to be too low to be reasonable, other estimates of "being poor" range from 150 to 200 percent of Poverty, or more. A household's "level of Poverty" refers to the ratio of that household's income to the federal Poverty Level. For example, the 2000 Poverty Level for a two-person household was $11,250. A two person household with an income of $5,625 would thus be living at 50% of Poverty.

More than one-quarter of all persons in Missouri live at or below 150% of the federal Poverty Level. Many times when persons hear that 25% of households live at or below 150% of Poverty, however, they hear the "at" but not the "or below" portion of the sentence. In assessing the energy needs of low-income consumers, it is important to remember that there is a distribution of consumers over the various ranges of Poverty. While some households live closer to the top (*e.g.*, 140% of Poverty), others live closer to the bottom (*e.g.*, 20% of Poverty). Exhibit RDC-3 shows the actual distribution of Missouri persons who are "poor" over the full range of Poverty Levels. Exhibit RDC-3 and others are based upon information obtained from the U.S. Census Bureau and the U.S. Energy Information Administration, U.S. Department of Energy. I routinely use and rely upon such information in my work.

Q. Why do you conclude that low-income customers represent a distinct market?

A. A number of consumer-side factors distinguish residential customers generally and low-income customers specifically as separate markets. In particular, the elasticity of demand distinguishes these two markets as separate markets. The definition of a market is frequently predicated upon the elasticity of consumer demand for the product in question. It is this elasticity through which one can measure the extent to which the market offers close substitutes. Elasticity can serve as a surrogate measure for a number of different market characteristics. Low elasticity can indicate a lack of meaningful alternatives. It can indicate the presence of high search costs associated with gains of uncertain magnitude or duration. It can indicate high hurdle rates. Demand elasticity is one of the primary measures by which to distinguish different markets.

The elasticity of demand measures the extent to which consumers can and will turn to substitutes if the price of a product increases. It considers, for example, the ability of consumers to turn to reasonable alternatives to the product in question. It considers the price sensitivity of the product in question as well. There can be no serious dispute that residential customers generally, and low-income customers in particular, have fewer alternatives, and lower price sensitivity, than large user customers in the commercial and industrial classes.

The elasticity of demand helps to define a market even within the monopoly situation of a distribution electric and natural gas utility. Low-income customers are less likely to fuel switch. They are less likely to have dual fuel capabilities. They are less likely to reduce consumption. As a result, higher rates and lower levels of service can be imposed with less likelihood to the monopoly utility that consumers will respond by reducing their usage or moving to alternative fuels or fuel suppliers.

Q. Are there other factors which distinguish the market made up of low-income customers specifically from the market made up of residential customers generally?

A. Yes. One test for a market is whether the services provided are interchangeable between two groups of customers. If they are not, the customers are not in the same market. The service demanded by low-income consumers is different from the service demanded by residential consumers generally.

Q. Don't electricity and natural gas represent the same "service" irrespective of who the consumer is, at least between residential consumers generally and low-income consumers in particular?

A. No. It would be easy to conclude that the "service" provided by an electric and/or natural gas utility is solely the "service" of providing energy (either kWh or ccf/therms) to the consumer. This approach, however, is too narrow standing alone. A more accurate approach is to consider a utility as a distributor of a "manufactured" product and adopt the manufacturing concepts of "product" and "service." In the manufacturing world, a company's "offering" to its market is composed of both a physical "product" and a "bundle" of related or supporting "services." A simple example would be the appliance manufacturer who offers free delivery, free installation and a 90-day warranty with the purchase of any appliance. The delivery, installation and warranty comprise the "service" components of this offering. Applying these concepts to a utility leads one to define the energy (kWh and ccf) provided to consumers as the "product" component of the company's market offering. All other components of the energy or supporting the provision of the energy would be the "service" component.

Q. What components of service do low-income customers use that distinguish them from residential customers generally?

A. There are multiple service components that low-income consumers use that distinguish them from the residential market generally. The services provided through the Company involving the treatment of payment-troubles are more likely to be used by low-income consumers than by residential customers as a whole. The services provided through the Company involving the need to make personal contact with the Company, whether to deal with payment-troubles or to make monthly payments, distinguish low-income customers from the residential class generally. The services involving the provision of information about public bill-paying assistance distinguish low-income customers from the residential class generally.

Q. Why do you believe that these components of service distinguish low-income customers from residential customers generally?

A. We know that low-income customers served in Missouri routinely face unaffordable electric and natural gas bills. We know that, at the average 1998 residential bill for UtiliCorp ($899), a LIHEAP recipient with an annual income of $6,000 would bear an electric burden of 15%; with an income of $4,000, the electric burden would be 22%; at $8,000, the burden would be 11%. Given the average 1998 residential electric bill for SJLP, the burdens would be 12%, 17% and 9% respectively. These are simply electric burdens. Home heating burdens are in addition to these electric burdens. These energy burdens tend to lead to payment-troubles with the corresponding need for the customer to avail themselves of Company services.

Q. What do you conclude?

A. The "market" to be served by a merged UtiliCorp/SJLP is not the same as the "service territory" to be served by that company. Even if a utility service territory is the appropriate definition of a geographic market, reaching that conclusion does not address the markets delimited by customer-side characteristics. Geographic definitions are but one element to defining a market for merger analysis. Not all ratepayers are in the same market. There are several different types of markets to be served by a merged SJLP/UtiliCorp. Residential consumers and commercial/industrial consumers represent two very different markets. In addition, residential consumers generally and low-income consumers specifically represent two distinct markets. In order to review the impacts that will arise as a result of this proposed merger, it is necessary to consider all of the relevant markets. Accordingly, in reviewing the proposed merger, the PSC should (1) assess whether the merger will generate adverse impacts that impede, at best, the passing-on of merger-related savings; and (2) consider whether the mechanism which the Company has proposed to distribute the dollars of synergy-induced savings disproportionately fails to distribute those savings to the low-income market.

Q. Please explain the purpose of this section of your testimony.

A. The purpose of this part of my testimony explains those adverse impacts of the proposed merger which impede, at best, the "passing-on" of merger-related benefits to the low-income market. In addition, I assess whether the distribution of benefits appropriately passes-on merger benefits in the low-income market.

Q. Please explain what you mean by the "passing-on" requirement.

A. Traditional merger analysis holds that merger-related efficiencies are only relevant in an inquiry into the legitimacy of a merger to the extent that they: (1) are "merger-specific," and (2) are likely to be "passed on" to consumers in the form of lower prices. I will address the second half of this inquiry: the "passing on" requirement. The passing-on requirement was first formally described by the Federal Trade Commission's 1984 decision in American Medical International (104 F.T.C. 1, 213 - 20 (1984)). The passing-on requirement has been articulated time and again since.

Q. Does the passing-on requirement dictate only a finding that the merging company will distribute the merger-related savings?

A. No. The passing-on requirement also dictates that the review of a proposed merger consider whether the merger will result in *adverse* impacts that will impede, if not completely eliminate, the passing-on of benefits to particular markets. This is precisely the situation with the proposed merger now pending before the Missouri PSC. The proposed merger will result in adverse impacts that impede, if not eliminate in their entirety, the passing-on of merger-related benefits to the low-income market. Indeed, the proposed merger will generate specific affirmative harms to the detriment of low-income consumers. These harms arise from consolidation, remoteness, inflexibility, dilution, and standardization.

Q. Please explain what you mean by harms arising from consolidation.

A. One of the economic benefits to investors arising as a result of this merger involves the cost savings that result from consolidation. Consolidation refers to the process of combining functions and offices so that a larger geographic area can be served with a smaller staff in fewer offices. As a company --be it health care, financial services, or electric/natural gas utility-- expands its geographic service territory, however, the customer and institutional base to whom it is accountable becomes bigger as well. The larger group to which the firm is accountable is less focused on specific services responding to individualized or localized needs. The very largeness of the group makes the indicia of accountability more homogenized. That homogenized indicia tend to be financial return rather than responsiveness to community needs. Responding to local needs in rural Missouri becomes less compelling to a company that serves not only Missouri, but seven other states along with customers in other countries.

Consider the health care industry as an example. The merger and consolidation of health care plans has been found to result in a reduction of the plans' responsiveness to the unique health needs and conditions of local communities. A 1993 survey of managed care organizations found that utilization review organizations that served national markets -- compared with similar organizations with state or regional markets -- placed considerably less value on local norms of clinical practices and local participation in making utilization review policies. The same results will likely obtain in Missouri. An increase in the geographic scope of the markets served by the merged utility will lead to a reduced emphasis on, and focus upon, the specific needs of particular states and localities and the local norms of treating payment-troubled customers. My work with local providers of service to low-income utility customers has found this to be true in areas such as negotiating payment plan terms, establishing creditworthiness, and responding to inability to pay.

Q. Has this been found only with health care facilities?

A. No, the same problem has been found to arise as a result of bank mergers as well. In one article, Federal Reserve Board researchers noted the special knowledge that local bankers bring to community development. In discussing that "deregulation has raised the specter of larger banks entering rural markets," the Federal Reserve writers noted that bankers offer more than financial lending to the community. This research, and that of others, emphasized the importance of *local* community bankers in exercising leadership in local communities and in addressing local community problems.

Again, my experience is the same in the utility industry. Local utilities offer more than energy. Increased consolidation has decreased utility attention on the needs of particular local populations and how those needs affect the interface between the company and its customers. These local needs range, for example, from the closing of a major employer (thus putting substantial numbers of customers out of work), to the quality of housing, and the prevalence of fixed income older customers in a community. My work with utilities around the nation has found that local communities can have very localized needs that go into the calculus of how the utility best interacts with the community. These localized needs are precisely the needs that are less well-served by a merged company.

Q. Please explain how consolidation will harm low-income SJLP customers.

A. Consolidation will occur as the small St. Joseph service territory is absorbed into a giant combination utility serving more than three million customers. The unique problems faced by SJLP's residential customers (including its low-income residential customers in particular) become tiny aspects of a multi-national corporation rather than the focus of customer service for a largely local, residential, company. The unique problems facing a utility such as SJLP include:

- SJLP's residential customers have a more limited safety net of service providers, thus increasing the potential for payment troubles. This safety net includes not only energy assistance providers, but providers of other helping-services (such as food banks and rental assistance) that low-income customers often use as a mechanism to help address their home energy payment troubles.

- ♦ SJLP's residential customers require a greater effort to identify and access service providers, either by telephone or by vehicle. Telephone calls are often toll calls, and office visits require extended travel.
- ♦ The SJLP service territory has a lack of local media, thus making consumer education about helping services more difficult. Education about local service providers must be more targeted and more selective than blanket media coverage by large market media outlets.

These factors will likely result in a degradation of service to SJLP's low-income customers for reasons including those identified above, but extending beyond those reasons as well. Let me provide one concrete example. In educating customers about winter heating assistance, it is necessary not only to make low-income consumers aware of the assistance generally, but to educate them as to the specific means through which to access the specific energy assistance programs. This involves providing both program names and agency contacts. I know this based on my 20 years of experience in the field. The need was confirmed, as well, by a Penn State University study which identified the concept of "effective knowledge." "Effective knowledge" involves not only conveying information, but teaching consumers how to use that information as well. Consumers must know how to act upon the information they are given. Consumers must not only have an awareness of energy assistance, in general, but their knowledge must be sufficient to allow them to act. Simply knowing about energy assistance in general is insufficient to provide help if the customers cannot name the specific program where help can be obtained. People who are unaware of programs or who cannot name an agency which they can contact for assistance most likely do not have effective access to help when they need it.

I have reviewed the bi-monthly customer service newsletter distributed by UtiliCorp in the states of Colorado, Nebraska, Missouri, Iowa, Minnesota, Michigan and Kansas. The November 1999 newsletter, largely devoted to addressing high winter bills, was identical for all states. No specific (or local) knowledge was provided about how to contact local service providers. If a customer did not know how to seek out local help before receiving the newsletter, they would not know after receiving the newsletter either.

Q. Please explain the problem of remoteness.

A. Low-income consumers frequently require assistance in dealing with their payment troubles. Low-income consumers rely upon the company to deliver a variety of services, including, but not limited to, the negotiation of payment plans, the negotiation of deposits, and the avoidance of service disconnections for nonpayment. The experience to date has been that remote negotiations generally occurring by telephone have resulted in greater difficulties in reaching agreement on the immediate and long-term actions which the customer needs to take to avoid service termination. While immediate service terminations are generally still avoided, there has been an increased difficulty in reaching agreement on the necessary customer actions. Experience confirms that to the extent that the merger increases the physical distance between the utility offering service and the low-income consumer needing to negotiate deferred payments or the avoidance of a service disconnection for nonpayment, the merger will make it more difficult for those consumers to obtain favorable terms.

The problem of remoteness, however, can be found in ways that are in addition to the physical separation between the customer who is calling and the customer service representative who is handling the customer in the Company's call center. In my work across the country, I find:

- ♦ Low-income payment negotiations often depend on the personal relationship between the service provider and the customer service representative. This relationship results in the creation of a trusting relationship and a shared sense of mores (involving customer and company responsibilities). A move to remote customer call centers obliterates these relationships thus making it more difficult to reach mutually beneficial payment agreements.
- ♦ Low-income crisis resolution often results from referrals to local private sources of energy and non-energy assistance providers. These might include local churches, local community-based organizations, and local providers of services such as food banks and crisis rental assistance. It is virtually impossible for a merged call center to track these local sources of assistance for the low-income payment-troubled customer. Indeed, separate calls to the UtiliCorp 1-800 number did not result in the identification of information about local private energy assistance funds in Missouri, Kansas, Nebraska, Colorado, Michigan or Iowa, the locations about which I inquired.

Q. Please explain the problems caused by decreased customer service flexibility.

A. Flexibility in the offer of customer service provides a company the opportunity to respond to the diverse individual needs of its low-income payment-troubled customers. Experience counsels, however, that diversity in administrative practices causes complexity; complexity is expensive. As offices and companies are integrated, one generally-accepted cost reduction technique is to standardize a process and then hire fewer personnel to perform the tasks. This is precisely the process that was identified in the direct case in support of the proposed merger.

The negotiation of deferred payment plans is one such process. Standardized payment plans, in particular, tend to harm low-income consumers. An increased use of standardized payment plans precludes the ability to respond to the unique situations of particular consumers. Increased payment problems arise as a result.

Q. Is it simply the negotiation of payment plans where the loss of flexibility will harm low-income consumers?

A. No. Low-income consumers often exhibit characteristics that utility companies consider to be adverse credit indicators. Low-income consumers more frequently tend to have bad credit reports for non-utility transactions; are less frequently homeowners; are less frequently financial service customers (checking and banking accounts); and are more frequently recipients of collection treatment. All of these characteristics tend to push low-income customers into a need to establish creditworthiness or to secure bill payment. As the processes through which customers (or potential customers) can establish creditworthiness become more standardized and less flexible, however, low-income consumers will be harmed. This harm may be in the form of higher prices (such as higher cash deposits) or in the outright denial of service (in the absence of a deposit). Processes can become more standardized and less flexible either by limiting the demonstrations through which a customer may establish creditworthiness, limiting the processes internal to the Company through which a customer may remedy a finding of non-creditworthiness, or limiting the creditworthiness decision making that may occur at the operational level without need for higher management approval.

Q. What standardization can reasonably be expected to arise from the SJLP/Utilicorp merger?

A. The direct case presented in this proceeding has indicated that two areas of synergy savings involve the consolidation of customer call centers and the switch of SJLP customer service operations to the use of the UtiliCorp standard platform to be used by the merged companies relating to customer service. This move to standardized processes can be expected to result in adverse impacts to low-income customers. Consider, for example, the impact on the availability of levelized billing plans. Low-income customers virtually uniformly would benefit from their enrollment in levelized monthly billing plans. Not only do such plans take the winter peak out of home energy bills, but they create equal monthly payments that low-income customers can more easily incorporate into their monthly budgets. The levelized plans of Missouri Public Service, however, are less available to low-income customers than are the levelized plans of SJLP. Missouri Public Service Tariff Rule 6.05(B) provides that if a customer has been late on three or more payments within the past 12 months, the customer is not eligible to participate in the Company's levelized budget billing plan. SJLP does not have a similar restriction. Given the greater propensity of low-income customers to be late on multiple payments each year, the move to standardized customer service processes will harm low-income customers.

These adverse impacts will include financial impacts as well. Consider, for example, that while Missouri Public Service Rule 6.09 imposes a late payment charge of 1.5% per month on any unpaid bill, SJLP Rule 5.04 provides for a late payment charge of 1.25% per month.

For both companies, the late payment charge is considered to be a customer service rule and not a "rate."

Q. Have you identified any other standardization problem resulting from the merger?

A. As the operations of the affected companies merge, it is reasonable to expect that the companies will want to analyze existing systems and to standardize customer service operations and procedures even if the operations are not further centralized. Even beyond the tariff provisions identified above, customer service is directly affected by a range of policy and operational decisions which, while affecting customer access to service, are not set out in tariffs. They are, instead, embodied in documents such as customer service staff procedures manuals.

Q. Can you illustrate the "standardization" that you expect?

A. Yes. Solely for purposes of illustration, utility company collections are driven by what are called "treatment amounts." A treatment amount is the minimum level of arrears (either in dollars or in age or a combination of the two) that a customer must incur before the utility will take collection action against them. Assume, for example, that SJLP will not initiate collection activity (including the disconnection of service) unless and until a customer is $100 or 90-days in arrears. If UtiliCorp has a treatment amount of $50 or 60-days, or anything stricter than the $100/90-day threshold, SJLP consumers will experience a reduction in service if the treatment amount is standardized at the stricter level.

Q. Are you suggesting that this specific policy is an actual instance of where Missouri customers will experience decreased service as a result of the proposed merger?

A. My experience is that the standardization of processes does not adopt the less strict processes of two companies. However, we requested information on customer service policies and received no meaningful answers. What I am suggesting, therefore, is that the Missouri PSC recognize that Missouri consumers can experience a degradation in service in innumerable ways through the "standardization" of practices and procedures. This standardization generally serves to harm the low-income population in particular.

Q. Please explain any final concerns you have with regard to standardization.

A. UtiliCorp and SJLP have adopted two very different approaches to their respective low-income energy efficiency programs. While UtiliCorp provides funding for low-income energy efficiency to be delivered through community-based organizations, few of those funds are expended. According to the CBOs through whom the services are to be delivered, the Company imposes restrictions which make expenditure of the funds virtually impossible. The contracts with each local agency are identical, except for the total number of efficiency measures authorized for each agency.

In contrast, SJLP has provided energy efficiency services that have been suggested by the local agency providing low-income fuel assistance in its service territory. During the 1998 - 1999 winter period, SJLP provided window insulating kits for low-income customers. These kits, SJLP said, were recommended by Maryville Community Services. In addition, during the 1999 - 2000 winter heating season, SJLP will provide a caulking gun and up to seven tubes of caulking per home. Again, however, it is the local control which is most significant. Community Services will distribute the services, and will set the criteria for who is to receive how much assistance.

This process of standardization, involving a move from this cooperative endeavor involving substantial local control of the delivery of energy efficiency services, to a uniform contract which the local agencies virtually universally report make it impossible to access the efficiency funding, will result in the reduction of the ability of the low-income service provider network to deliver energy efficiency services in the SJLP service territory. Again, I do not suggest that the set of measures is superior or inferior. I refer instead to the process through which local decisions are made on what to offer, how, and to whom.

Q. What do you conclude?

A. I conclude that the proposed merger will generate a standardization of customer service policy and operational decisions. As a result, consumers served by the company with the policies and practices that have been "tightened" are adversely affected by the consummation of the merger.

Q. Please explain the problem of dilution resulting from the merger.

A. Dilution can occur in one of two ways. First, a customer service process (such as responding to payment-troubles) historically found in one operating company can be combined into a new combined company serving both service territories. This would be the case if the companies were combined into a single operating company. Second, the same result obtains if two separate operating companies deliver their customer service through an independent third-party serving both operating companies. Thus, combining customer service functions into a third party service company for delivery to both UtiliCorp and SJLP presents the same problem of dilution that would exist if SJLP and UtiliCorp were combined into the same operating company.

The proposed merger will dilute the resources available to low-income payment-troubled customers of SJLP as the blending of low-income and customer service resources between SJLP and UtiliCorp will likely divert resources from SJLP low-income customers who are less well off than Missouri Public Service low-income customers.

Q. Please explain.

A. Personal contact with low-income customers is almost always initiated by the Company in the event of nonpayment. Previous research in Missouri and elsewhere has confirmed that payment troubles give rise to the customer initiating contact with the utility, either to obtain information about public assistance or to work out payment arrangements. In these situations, information is provided to low-income customers during the collection process. Dilution of resources available to low-income SJLP ratepayers will occur because the low-income customers in SJLP communities such as St. Joseph live with marginally lower incomes than the similarly situated customers in UtiliCorp communities such as Kansas City. While Kansas City has 27.4% of its households with incomes below $15,000, St. Joseph has 34.6% of its households below $15,000. While Kansas City has 24% of its residents living below 150% of Poverty Level, St. Joseph has 27% of its residents living below 150% of Poverty Level.

Q. Is there a difference in payment-troubles between the two utilities?

A. Yes. Information available through the National Association of Regulatory Utility Commissioners (NARUC) shows that more Missouri Public Service customers are in more payment-trouble than SJLP customers. For example, according to a 1992 NARUC report (the most recent data available), while UtiliCorp disconnects 12.4% of its residential customers for nonpayment, SJLP disconnects only 4.1% of its residential customers. I conclude that combining the customer service functions of the two Companies will direct more resources toward the existing UtiliCorp service territory and fewer resources toward the lower income SJLP customers.

Q. Is there a final concern that you have identified affecting low-income consumers as a result of the dilution of low-income and customer service resources?

A. Yes. In addition to the lower incomes and higher penetrations of poverty in the SJLP service territory, there is a considerable disparity in rates paid as well. UtiliCorp has substantially higher residential rates than does SJLP. According to the Energy Information Administration of the U.S. Department of Energy, while SJLP had an average residential revenue of 6.07¢ per kWh in 1998, UtiliCorp had an average residential revenue of 7.72¢ per kWh. While SJLP had an average 1998 residential electric bill of $699, UtiliCorp had an average 1998 residential electric bill of $899. The combination of low-incomes and high rates can be expected to create a higher incidence of payment-troubles in those areas, as is confirmed by the available collection statistics. Through the merger, however, the companies are combining customer service operations, reducing customer service personnel, and diluting the resources to help address those payment problems.

Q. What do you conclude?

A. This mismatch of incomes and payment-troubles will likely result in a dilution of resources devoted to serve the low-income energy needs of SJLP customers.

Q. What is the purpose of this section of your testimony?

A. This part of my testimony will assess the extent to which merger savings will or will not inure to the benefit of low-income SJLP and UtiliCorp consumers. I conclude that due to the unique attributes of low-income consumers, those consumers will receive a disproportionately small share of the merger benefits unless specific actions are taken to capture and distribute those benefits.

Q. Please explain why a merger rate freeze will not deliver a proportionate share of savings back to low-income consumers.

A. The Company proposes to "share" the savings generated by the merger with customers through the mechanism of a rate freeze. This mechanism, in effect, allocates merger savings back to individual customers on a per unit of energy basis. If a customer uses more energy, under the theory of distributing benefits via a rate freeze (or a rate rollback), the customer receives a higher proportion of the savings returned to him or her in the form of a bill that is lower than it would have been without the merger. This method of shared savings does not change if there is a rate rollback rather than a mere freeze. Even if there is a rate rollback, the savings are passed through to end-use consumers on a per-kWh basis.

Q. What are the merger savings that you have considered?

A. According to Company witness Siemek, one of the major areas of merger savings lies in the area of general and administrative synergies. (Siemek, at 10 - 11). These savings include "eliminating activities needed by SJLP as a stand alone entity that are not needed separately as a division of UtiliCorp." (Siemek, at 11). An example of such an activity that will be eliminated, as cited by witness Siemek, is "information systems for billing, financial reporting and managing operations." (Id.; cf., Siemek, at 14). Siemek reports that there will also be operating costs savings "from eliminating the separate departments for SJLP and utilizing staff for existing and projected vacancies of approved UtiliCorp positions." (Siemek, at 13). In addition to these Information System synergies, Company witness Siemek testified that a major area of synergy savings comes in the distribution area. (Siemek, at 17). Included within these distribution savings are synergies relating to the use of Company call centers. (Id.)

Q. Why does a distribution of these savings on a per unit of energy basis provide a disproportionately small benefit to low-income consumers?

A. Customer service costs are incurred as a function of numbers of customers. Indeed, the allocation of customer service costs on the basis of both usage (in units of energy) and sales (in dollars of revenue) are inappropriate as cost allocators for customer service costs. In addition, the proper cost allocation for CIS projects involves the number of customer bills. The proper allocation of IS savings involving distribution and delivery is the number of customers. If benefits are produced based on numbers of customers or customer bills, but distributed on a per unit of energy basis, those customers (or classes of customers) with higher consumption will receive a disproportionately *high* share of the benefits and those customers with lower consumption will receive a disproportionately *low* share.

Assume a simple system, for example, of two customers. Merger cost savings ($100) are generated based on numbers of customers. Since there are two customers, each customer is entitled to $50 of the savings. Assume further that Customer A consumes 15,000 kWh each year while Customer B consumes only 5,000 kWh. If the $100 in benefits are distributed on a per kWh basis, since Customer A has 75% of the consumption (15,000 / 20,000 = 0.75), he or she will receive $75 of the savings. In contrast, Customer B receives only $25. In effect, Customer A has received $25 of savings that are, in fact, attributable to Customer B.

Q. Does it matter if you are addressing inter- or intra-class distribution of benefits?

A. No. Clearly, if you have a certain sum of benefits that are causally related to numbers of customers and you distribute those benefits *between* customer classes (*e.g.*, industrial, commercial) on the basis of units of energy, some "residential" benefits will be distributed to the high use industrial and commercial customers. The same is true *within* a ratepayer class as well. If you have residential savings (such as customer service savings) that are produced on the basis of numbers of customers, and if you then distribute those benefits on the basis of units of energy consumption, there will be a disproportionate distribution of benefits to high use customers.

Q. Do low-income customers as a group use less energy per customer than the average residential customer?

A. Yes. It is universally found that low-income customers use less energy on a per household basis than do average residential customers. Consider, for example, the Residential Energy Consumption Survey (RECS) prepared by the Energy Information Administration of the U.S. Department of Energy (EIA/DOE). The RECS reports that for the West North Central Census Division of the Midwest Census Region --this is the Census Division of which Missouri is a part-- energy consumption by low-income households is less than that for the average household. This data is set forth in Exhibit RDC-4.

According to the annual report to Congress by the Low-Income Home Energy Assistance Program (LIHEAP), a program within the Administration for Children and Families of the U.S. Department of Health and Human Services (ACF/HHS), energy consumption by low-income consumers is only 87% as high as for the average household. This data is set forth in Exhibit RDC-5. This data is consistent with national data published by the Energy Information Administration based on the 1997 Residential Energy Consumption Survey as set forth in Exhibit RDC-6.

Q. Is the fact that usage may vary by individual households contrary to your conclusions?

A. No. I am not using usage as a surrogate for income. Nor am I using usage as a means to identify low-income consumers (saying that a person can be assumed to be low-income if they are found to have low usage). There will quite clearly be some low-income consumers with high usage, just as some higher income customers will have low usage. Nonetheless, taken as a group, it is indisputable that low-income households are low use consumers. Accordingly, to take cost savings produced as a function of customers and to distribute those savings on a per unit of energy basis will systematically deny low-income consumers their fair share of the merger savings.

Q. Can you provide some idea of the magnitude of this redistribution?

A. Yes. I estimate that 23 percent of all UtiliCorp/SJLP residential accounts are low-income accounts. In addition, the RECS data cited above reports that low-income electric consumption is 22.7 mmBTU/household (6,661 kWh). Using these figures, one can thus compare the low-income "share" of merger savings *generated* as a function of numbers of customers but which are, in fact, *distributed* on a per unit of energy basis. Total jurisdictional electric sales and customers for the combined companies were obtained from the U.S. Energy Information Administration and are presented in RDC-7. Using this data, low-income customers represent 20% of all customers, while they represent only six percent (6%) of all electric use. On a per thousand dollar basis, therefore, if benefits are distributed on the basis of usage (6%) -- low-income usage equals 347,406,187 kWh of the total merged company's 1998 jurisdictional sales of 6,091,369,000 kWh -- rather than numbers of customers (20%), low-income customers will "lose" roughly $140.

Q. Have you applied this rate of misallocation to the appropriate areas of synergies projected by the Company?

A. No. The Department of Natural Resources (DNR) requested a copy of the detailed synergy study prepared by the Company and provided to the PSC staff. DNR has been unable to obtain a copy of that synergy study.

Q. Please describe the appropriate remedy to the two problems that you have identified above.

A. I recommend a merger condition will address both the adverse impacts that I have identified above and the misallocation of merger-related savings away from low-income consumers. This recommendation would require that UtiliCorp and SJLP to implement a Community Energy Partnership Program (CEPP) as a condition of the merger. The CEPP would consist of the following parts:

- Implementation of a 25-site BOSS pilot project, with a commitment to expand the program as appropriate if found to successfully deliver benefits to low-income customers.
- Implementation of a space heating and base load energy efficiency program directed toward high use payment-troubled low-income customers.
- Implementation of a pilot solar energy program directed toward high use low-income customers.

- ♦ Implementation of a periodic survey process through which the merged Company will take proactive efforts to identify which of its payment-troubled customers represent low-income households.
- ♦ Implementation of an Outcome-based Performance Reporting System (OPRS) through which the customer service outcomes to low-income customers can be systematically tracked over time.

Q. What is the first component to the proposed Community Energy Partnership Program (CEPP)?

A. The first component would require the merged Company to implement a Benefits Outreach and Screening Software (BOSS) initiative. Through BOSS, the customer service personnel of a merged UtiliCorp/SJLP can help payment-troubled customers identify those public benefit programs for which they are eligible.

Q. What is BOSS?

A. BOSS is a computer software screening tool that allows a utility to help its low-income consumers respond to inability-to-pay problems. BOSS not only reduces the complexity and time required to identify assistance programs for which utility customers may be eligible, but also greatly increases the ability of customer assistance representatives to ensure that eligible low-income utility customers (or those with special needs) obtain all the services to which they are entitled. Nationwide, BOSS has the following capabilities:

- ♦ To screen low-income households for potential eligibility for a wide array of community resources, volunteer services, employment and job training opportunities, and utility assistance programs;

- ♦ Print a resource eligibility report for each person that lists the programs for which that person is eligible, telephone numbers of the contact person, addresses, times to apply, and required documentation; and
- ♦ Use scanning technology to store brochures and other agency forms so that information about any agency is available at any site.

Indeed, in some places, BOSS can generate completed applications to selected benefits programs for those persons identified as potentially eligible and electronically transfer the application data to the appropriate agency for processing. In some places, also, BOSS can use scanning technology to scan client documents (such as birth certificates) into the system and transfer the scanned image along with the completed application to the appropriate agency.

Q. Why do you recommend a BOSS system for the merged company?

A. Having the merged Company provide assistance through BOSS is merited because it makes no sense for a customer who is having problems paying their utility bill to *not* be getting the benefits for which they are eligible. Some people quite rightfully question what a utility can offer low-income customers that the entire range of social service agencies can not. The fact is that a monopoly utility occupies a unique position in the energy market place. First, unlike social service agencies, utilities have a continuing contact with these households. Every month, at a minimum, the Company sends these households a bill. This constant contact does not occur with social services agencies. Second, utilities have a way to target outreach. Rather than doing comprehensive mailings to *all* low-income consumers, or buying blanket radio and television ads, the merged Company can say to customers in payment-trouble and/or facing service disconnections: "You owe us money. Rather than having your service disconnected in the near future, please contact us and let us help find you assistance to keep your service on."

Q. Please explain the benefits of BOSS to the Company.

A. Assuring that low-income consumers have ready access to all benefits to which they are entitled is one way to help those consumers pay their utility bills, both current and past-due. Consumers who gain access to additional household resources are more likely to pay current bills and to reduce their arrears. One Edison Electric Institute (EEI) staff person cites the Earned Income Tax Credit (EITC) as an example of this phenomenon. The EEI staffperson noted that the EITC, a tax credit available to the working poor, "can be a vital supplement to families that have difficulty affording basic energy services." He reports that "in a 1993 Gallup survey of callers to New Jersey's EITC Hot Line, more than 90 percent of EITC recipients used the money to pay household bills. Approximately a quarter used part of the refund to pay utility bills, and a third paid overdue bills.

Q. Have other utilities implemented BOSS?

A. Yes. In October 1996, Public Service Electric and Gas agreed to implement the BOSS system for its New Jersey service territory. In addition, GPU is implementing BOSS throughout its Pennsylvania service territory. Implementation of BOSS at a merged UtiliCorp/SJLP is merited as a response to the harms of consolidation, decreased flexibility, dilution, and increased standardization.

Q. Please explain how the key attributes of BOSS address the adverse impacts of the merger that you identified.

A. An effective strategy to deal with low-income payment troubles involves several attributes, including flexibility, integration and personalization. By these terms, I mean:

- Flexibility refers to the ability to customize both the types of response and the degree of response to individual circumstances. Not all low-income customers have the same inability-to-pay. To respond to a welfare family, a working poor family, a recently unemployed laborer, and a retired widow on Social Security in the same fashion is not likely to be as effective and efficient as being able to respond to individual circumstances. Flexibility is an important component of a strategy to deal with low-income payment troubles.
- Integration refers to the ability to call upon different resources to deal with a customer's specific inability-to-pay problems. In addition to recognized state and national energy assistance resources such as LIHEAP, various local communities have local energy assistance available through churches, local governments, and the like. In addition, other resources may be available. For example, households with earned income may take advantage of the Earned Income Tax Credit; renters may take advantage of rent assistance programs. To the extent that program integration increases, the ability to match specific resources with specific problems is enhanced.
- Personalized contact is important to identifying individual needs and crafting an appropriate response to those needs. If nothing else has been learned through the federal REACH program (administered as part of the federal LIHEAP program), it is that individual contact to identify and address family needs is an important component to reaching beyond the immediate energy crisis and dealing with the ability of a low-income

household to become self-sufficient. REACH is the Residential Energy Assistance Challenge Option Program. Funded with federal LIHEAP dollars, REACH is a competitive grants program designed to provide funds for states to adopt holistic approaches to reduce low-income energy burdens and to promote household self-sufficiency.

This need for personalized contact is what gave rise to the Customer Assistance Referral and Evaluation Service (CARES) operated by Pennsylvania's public utilities. In May 1985, the Pennsylvania PUC issued a Secretarial Letter encouraging each of that state's major electric and gas utilities to establish a CARES program. The purpose of CARES is to provide a cost-effective service that helps selected, payment-troubled customers maximize their ability to pay utility bills. A utility CARES representative works with program participants on a personal basis to help them secure energy assistance funds. Besides directly providing assistance to needy customers, CARES representatives also perform the task of strengthening and maintaining a network of community organizations and government agencies that can provide services to program clients. Beginning in 1998, each Pennsylvania gas company, along with three of the state's electric utilities, began to track the "direct dollars" generated by CARES. "Direct dollars" refer to any money applied to a customer's account from sources other than the customer. In 1998, the reporting utilities received $13 million in direct dollars.

Q. Please describe the costs associated with implementing BOSS.

A. The Portsmouth Group, Inc. is the corporation that developed the latest iteration of BOSS-type software, referred to now as *Chronicles*. According to the Portsmouth Group, the first-time set-up costs for a program involving from 25 to 75 sites is, on average, $2,500 per site. The ongoing annual maintenance costs are $500 per site. A pilot project involving 25 sites throughout the Companies' service territory would thus cost $62,500 to establish and roughly $12,500 per year thereafter. In addition, based on its experience with GPU, the Portsmouth Group recommends that each site be provided with new computer hardware. While they note that "computer hardware is becoming cheaper by the day," a cost of $3,000 per site is reasonable. I recommend that the merged company establish a pilot BOSS program involving 25 sites. If found to be successful, the initiative should be expanded as found to be appropriate.

Q. Please describe the second component of your proposed Community Energy Partnership Program.

A. I propose that the second component of the proposed CEPP involve the implementation of an energy efficiency program for low-income high use payment-troubled customers modeled after the Smart Comfort Program implemented by Duquesne Power Company.

Q. Please describe the Duquesne Light Smart Comfort program.

A. In 1992, Duquesne Light Company developed an end-use program designed to reduce electric bills for low-income payment-troubled, electric baseload (non-space heating) customers. The program was developed because fewer than five percent of the company's customers heat with electricity. The company believed, therefore, that a usage-reduction program that focused on baseload customers would offer more cost-effective electric reduction than one which focused exclusively on space heating.

The Smart Comfort program is targeted to low-income non-electric-heating customers with monthly bills exceeding $70. Trained company personnel visit qualified homes to provide energy education on energy saving opportunities specific to the customer's home, as identified by a walk-through energy audit. New refrigerators are provided if metering at the time of the premise visit identifies the existing appliance as being energy inefficient. Duquesne has found that the primary technical sources of savings include lighting, refrigerator replacement and replacing water beds with conventional bedding.

The initial home visit by Duquesne personnel is followed-up by ongoing contact between the company and the customer for one-year after the visit. Monthly telephone conversations occur between customers and the company to discuss changes in energy consumption and to provide an opportunity for the customer to ask questions. Additional site visits are made in a selected number of cases to determine whether the measures which were installed at the first visit were still in place.

The Duquesne program was found to be highly successful in reducing energy. In 1993, the program was found to have a mean energy reduction (pre- to post-) of 37 percent. The average utility program cost in 1994 was approximately $1,100 per household, which resulted in an average annual bill reduction of $356 per household. The levelized cost of saved energy to the utility is approximately $0.03/kWh of saved energy.

In addition to the energy savings, the program was found to have a substantial positive impact on arrears. During the pilot stage of the program, participants had paid an average of 78 percent of their total billing prior to their program participation. After participating in the program, customers were paying 106 percent of the total billing (meaning that they were paying their entire current bill plus retiring arrears).

Q. Why do you propose to condition the merger approval upon the adoption of this specific program?

A. This program has several attributes which commend its adoption. First, it is specifically directed toward mitigating the merger harms that I have identified above. It is directed toward payment-troubled customers who otherwise would be calling upon the reduced services of the company. Second, it has a proven track record of success in helping customers to address those payment-troubles. We thus *know* that it will succeed in doing what it purports to do: moving low-income customers away from a reliance on those services. Third, it generates substantial and demonstrated additional benefits to the company. This program, in other words, can accomplish the mitigation which the Department of Natural Resources seeks while at the same time helping to improve the company's competitive position, which is what it seeks. Finally, it directs the mitigation measures toward, and achieves the benefits for the Company from, a class of customers that is not historically reached through low-income weatherization initiatives, *i.e.*, low-income electric baseload customers.

Q. Are you proposing a budget line item to be included for this program as a condition of merger approval?

A. Yes. A line item budget for energy efficiency equal to one quarter of one percent of total jurisdictional revenues is consistent with the support found to be an appropriate low-income energy efficiency investment by electric utilities in other states. Application of that 0.25%

figure to SJLP's total 1998 jurisdictional revenues as reported by the Energy Information Administration would yield a low-income energy efficiency investment of $217,268. I recommend that such an energy efficiency investment be implemented for the first five years of the merger, with a five year renewal unless explicitly eliminated by the PSC. These funds would flow to DNR and would be distributed by DNR to weatherization service providers in the SJLP service territory in compliance with the U.S. Department of Energy Weatherization Assistance Program (WAP) funding regulations. In the event Missouri moves to retail choice for the electric industry, this energy efficiency funding mechanism will be converted to a mils/kWh for total distribution kWh delivered.

Q. Please explain the third component of your proposed CEPP.

A. I recommend that the merged Company solicit proposals from contractors to install 15 units of photovoltaic electricity panels at 1 kW in 2001 and 30 units of PV in 2002 on the dwellings of the Company's low-income customers. This solicitation should seek bids in a price range of $5.00 per Watt. In the same (or a different) RFP, the Company should also seek proposals to install up to $150,000 worth of passive or active solar hot water heating on the dwellings of low-income customers. The Company should conduct a process and impact evaluation of the installations capturing such features as customer acceptance of the measures, landlord acceptance in the case where the customer is a renter, cost per unit, payback per unit, Total Resource Cost on a present value basis per unit, and the like. The Company should finally submit a report to the PSC in both 2001 and 2002 concerning the status of the pilot and the findings of any evaluations, together with recommendations as to whether to renew the pilot or extend the pilot.

Q. What would be the proposed cost of this pilot project?

A. I estimate the cost of the renewables pilot project would be as follows:

- $175,000 over two years for the solar hot water project, commencing in 2001;
- $75,000 in 2001 for the 15 PV units; and
- $150,000 in 2002 for the 30 PV units.

In addition, the Company will require some administrative expense to develop the RFP, conduct the proposal process, enter into contracts, conduct data tracking, and the like. Assuming a 10% administration factor, the total administrative cost would be $37,500. An process and impact evaluation should cost no more than $35,000. The total cost for the renewables pilot would thus be roughly $450,000.

Q. Why is a renewables pilot project an appropriate remedy for the passing-on problems you have identified above?

A. When PV can reach the necessary critical mass for reducing the cost and thus the payback time, it promises to address not only affordability concerns, but environmental concerns as well. Moreover, distributing merger synergy savings to low-income customers in the form of a PV pilot will allow the merged Company to test a mechanism for addressing affordability concerns that addresses many of the issues I have identified above. PV is a low-maintenance installation. It does not require complex interactions between customers and machines to deliver its benefits. It does not readily break down. If these qualities persist, the ease of maintenance, both rural and urban, will be a significant value to this resource. With respect to solar hot water, these technologies are proven. What is not yet understood as well is the viability of these installations in rental situations and existing low-income housing stock of various kinds. As in the case of the PV pilot, the use of an RFP process can permit the Company to obtain the insights of solar experts, while maintaining significant control over the prices it will incur for these installations.

Q. Please describe the fourth component of your proposed CEPP.

A. I propose an annual process by the merged company designed to identify the low-income payment troubled customers on the Company's system. At present, the Company has no information that allows it to track whether the customer service outcomes identified above will arise for low-income consumers in particular. Because of the customer service implications associated with being able to identify and track these customers, I propose an affirmative, proactive process that provides for such identification and tracking. I do not propose a specific methodology in my testimony. My experience as a consultant to the process being used by Ameritech Ohio to identify the "no-phone households" in its service territory is that the best process is to allow qualified firms respond to an RFP, including a proposed methodology in that response.

I *do*, however, wish to emphasize that it is not necessary for the Company to seek to identify *all* low-income customers. The process should be directed to assessing which of the Company's payment-troubled customers are low-income. In this respect, I propose that "payment-troubled" include all customers who the Company's CIS reports as meeting any one of the following criteria:

- A customer who has been disconnected for nonpayment one or more times in the immediately preceding 12 months; or

- A customer who has defaulted on at least one deferred payment arrangement in the immediately preceding 12 months; or
- A customer who has failed to make full and timely payment in six or more of the immediately preceding 12 months; or
- A customer who has failed to make full and timely payment in three or more months in the immediately preceding heating season; or
- A customer who has a current arrears of more than 90-days in age.

Q. Please describe the final component of your proposed CEPP.

A. I propose an outcome-based performance reporting system (OPRS) for customer service relative to low-income payment troubles. More specifically, I propose that the Company be required to report on four outcome-based performance measures as follows:

1. Rate of disconnection for nonpayment (*i.e.*, percent of total customers disconnected for nonpayment) (DNP Rate);
2. Rate of arrearage accounts placed on deferred payment arrangements (DPAs) (*i.e.*, percent of accounts in arrears placed onto DPAs) (DPA Rate);
3. Rate of unsuccessful deferred payment arrangements (*i.e.*, percent of DPAs that default before successful completion) (DPA Failure Rate);
4. The "bills behind" for accounts in arrears (Bills Behind Statistic).

Q. What is the source of data for establishing the baseline performance to be used in your proposed OPRS?

A. With the exception of the average monthly bill that is used in the "bills behind" statistic, and the number of residential customers used in the DNP Rate, the data needed to determine the baseline residential performance for each of these measures should be easily extractable from the existing CIS system. The average monthly bill for residential customers should be readily available to the Company. Clearly, too, the Company will know the number of its residential customers.

Q. What is the source of data for establishing the "low-income residential" performance to be used in your proposed OPRS?

A. Data should collected for all customers who have been identified on the Company's customer information system as recipients of assistance through LIHEAP or any other program that might lead the Company to identify and track a customer as low-income. In addition, as I recommend above, the Company should be required to develop and periodically exercise proactive processes through which low-income customers can be identified on the Company system.

Q. Please explain why your proposed OPRS is appropriate to adopt as a condition of this merger.

A. For all of the reasons I outline above (with respect to consolidation, remoteness, a lack of flexibility, dilution, and standardization), substantial evidence exists that the merger will adversely affect customer service relative to the payment troubles of low-income customers. I have proposed a series of remedies to mitigate those harms. In addition, however, the Company's *performance* should be tracked. As described above, "satisfactory" performance is when performance relative to the low-income population is no worse than performance relative to the total Company residential customer population.

Q. Please explain why the DNP rate is an appropriate outcome-based performance measure.

A. Every residential involuntary termination of service for nonpayment represents a failure of the Company and its customer to adequately address the customer's payment problems. The disconnection of service represents not only a social problem for those households disconnected, but represents a business problem for the Company as well. The Company must spend money on the physical act of disconnecting service. Moreover, the disconnection of service represents a loss of a future revenue stream to help offset fixed company costs. If the Company is performing well with respect to identifying its low-income customers in arrears, negotiating reasonable deferred payment plans, providing effective outreach for participation in LIHEAP, and doing related activities, no reason exists that the DNP Rate for the low-income population should differ from the DNP Rate for the residential population as a whole.

Q. Please explain why the DPA rate is an appropriate outcome-based performance measure.

A. When customers become delinquent on their bills, the Company has an incentive to either obtain immediate payment or to place those customers on deferred payment arrangements (DPAs) through which the arrears may be retired over time. Households that are in arrears to the Company, but which have *not* entered into a deferred payment agreement, represent a serious risk of loss to the Company. Moreover, by entering into a deferred payment plan, the risk that the household will ultimately lose its utility service is lessened. If the Company is performing well, it will be identifying its low-income customers in arrears and negotiating DPAs with those customers. No reason exists that the DPA Rate for the low-income population should differ from the DPA Rate for the residential population as a whole.

Q. Please explain why the DPA failure rate is an appropriate outcome-based performance measure.

A. The successful completion of a deferred payment agreement involves a household which retires its arrears without need for renegotiation of the agreement and without need for the disconnection of service. Given that the Company presumably only enters into *reasonable* deferred payment agreements, virtually all DPAs should be successfully completed. More importantly for this measure, if the Company is entering into reasonable DPAs with its low-income population, no reason exists that the DPA Failure Rate for the low-income population should differ from the DPA Failure Rate for the residential population as a whole.

Q. Please explain why the bills behind statistic is an appropriate outcome-based performance measure.

A. The "bills behind" statistic calculates a weighted arrears for all households who are not in deferred payment agreements. This statistic calculates the number of average bills contained in an average arrearage by dividing the total monthly arrears not subject to deferred payment agreements by the average monthly customer bill. Hence, if one customer has an arrears of $400 and an average monthly bill of $200, that customer has a weighted arrears of 2.0 "bills behind." If a different customer has an arrears of $400 and an average monthly bill of $140, that customer has a weighted arrears of 2.86 bills behind. The second customer is considered to be in more serious payment trouble. A high "bills behind" statistic points to a practice of allowing household arrears to persist without placing such households on to deferred payment agreements or otherwise placing them in the collection cycle. If the Company is reasonably reaching its low-income population, and offering the same type and quality of customer service as it offers to its total population, no reason exists that the Bills Behind Statistic for the low-income population should differ from the Bills Behind Statistic for the residential population as a whole.

A weighted "bills behind" statistic is calculated to account for the potential difference in bills between time periods. Without such a weighted statistic, a comparison of arrears between time periods can be misleading because of a difference in bills (whether due to rates or weather or some other factor). A weighted statistic is calculated, in other words, so that the effect of different average bills is taken into consideration. As the Bureau of Consumer Services (BCS) of the Pennsylvania Public Utility Commission observes, use of a weighted arrears measure "permits comparisons to be drawn between companies by eliminating the effects of different customer bills on arrearages." Without such a measure, "the interpretations of average arrearages, either over time or in comparison between companies presents some difficulties." (Bureau of Consumer Services, *Utility Payment Problems: The Measurement and Evaluation of Responses to Customer Nonpayment*, Pennsylvania Public Utility Commission: Harrisburg, PA (October 1983)).

Q. Why do you include all four measures in your proposed OPRS?

A. The four parts are designed to avoid creating unintended incentives for the Company to engage in harmful activities. Thus, for example, if one were to look only at whether the Company minimizes service terminations, the Company would have an incentive to reduce terminations while not improving its collections. If one were to look only at whether the Company minimizes arrearages, the Company would have an incentive to disconnect customers rather than to place them on deferred payment arrangements. If one were to look only at DPAs without looking also at DPA success, the Company would have an incentive to place delinquent customers on DPAs without regard for the affordability of such plans. The four-part structure is necessary for the Company to address *each* aspect of the OPRS.

Q. Is the purpose of your proposed OPRS to determine whether the Company is doing a "good" or "bad" job of credit and collection relative to low-income customers?

A. No. The proposed OPRS provides only that low-income customers will have customer service outcomes (e.g., disconnections for nonpayment, negotiated DPAs, successful DPAs, timely DPAs) that are no worse than the population as a whole. If the Company does a "good" or a "bad" job relative to its total population, the proposed OPRS will not capture that. Instead, the OPRS is structured to capture only a divergence in the outcomes for low-income customers relative to the outcomes for the total residential customer population.

Q. Do you propose to impose financial penalties or incentives based on the data reporting?

A. Not at this time. The purpose of the reporting mechanisms at this time is simply to track the customer service outcomes for low-income customers. However, if customer service outcomes begin to degrade subsequent to the merger, it would be appropriate to consider financial rewards and penalties. That, however, is a future issue to be considered if, and only if, the need arises and I do not make that proposal in this proceeding.

Q. What year do you propose to use as the baseline for the proposed oprs?

A. Performance must be measured in terms of a baseline year. The Company should not be allowed to let performance degrade for *all* customers and thus avoid the outcome-based performance incentives. Accordingly, I propose that the baseline year be set as the average performance for the three years immediately preceding the merger.

Q. With respect to your proposed CEPP as a whole, is the implementation of a programmatic remedy appropriate to the "passing-on" problems that you have identified?

A. Yes. Programmatic remedies are common responses to adverse impacts that adversely affect distinct markets in a merger setting. Consider, for example, the recent merger of Butterworth Health Corporation with Blodgett Memorial Medical Center in Michigan (946 F.Supp. 1285 (W.D. Mich. 1996), *aff'd per curiam*, No. 96-2440 (6th Cir. July 8, 1997)). In that proposed merger, the principal claim of "efficiency savings" involved claims of "capital avoidance." Concerns were raised, however, that the capital avoidance really involved excluding the offer of products and services that consumers would otherwise demand from an unmerged hospital. In response to these concerns, the federal court hearing a challenge to the merger required the merging hospitals to enter into a consent decree to implement a "Community Commitment" plan proposed by the hospitals as a condition of allowing the merger to proceed. The Community Commitment provided a binding commitment by the hospitals "not to raise prices *or otherwise injure the community*. . ." (emphasis added). The Community Commitment has five elements: (1) a freeze on prices and charges; (2) a freeze on prices to managed care plans to pre-merger levels; (3) a commitment to limit margins; (4) a commitment to the medically underserved and needy (The merged company will provide a minimum of $6.0 million each fiscal year to assist the underserved and general community. The funds are distributed through 30 specific programs to address specific locally-identified needs); and (5) a commitment to governance of the merged hospitals with community input. In the decision approving the merger, the court found that the hospitals' Community Commitment plan *partially* described how efficiencies achieved would benefit all consumers. The court required the merging hospitals to enter into the consent decree partially to ensure that they complied with the plan's commitment to pass along benefits to consumers.

Similarly:

- The merger of two corporate parents of three hospitals in central Pennsylvania was recently allowed by the Pennsylvania Attorney General's office on the condition that the merged entity pass on at least 80% of the net savings to consumers through reduced prices (or limited actual price increases for existing services), and low-cost or no-cost health care programs for the indigent (Pennsylvania v. Providence Health Sys., No. 4CV-94-772, 1994 WL 374424, at *2-3 (M.D. Pa. May 26, 1994); *see also*, Pennsylvania v. Capital Health Sys. Servs., No. CIV.A.4:CV-95-2096, 1995 WL 787534 (M.D.Pa. Dec. 15, 1995));
- Massachusetts recently settled its objections to the merger of that state's second and third largest HMOs on the latters' agreement to freeze group rates for one year, double enrollment in the Medicare risk program, and spend $4 million on services placed at risk by the merger, such as health care for the homeless, violence prevention, and AIDS prevention. (Merging HMOs Agree to State Plan on Social Spending, Contract Approvals, 4 Health L. Rep. (BNA) 6 (Jan. 20, 1995)).

Q. Has this type of programmatic response ever been adopted by utility regulators as a condition to a proposed merger?

A. Yes. In California, for example, the SBC/Pacific Bell merger was specifically conditioned on the implementation of a Community Partnership Commitment, under which PacBell promised to fund $80+ million in education and community technology projects over the next ten years. A description of the Community Partnership Commitment is attached as Exhibit RDC-8. Similarly, in Ohio, based on testimony regarding the disproportionate sharing of merger savings for the poor, the stipulated agreement endorsing the proposed SBC/Ameritech merger was conditioned on Ameritech's funding a $12+ million commitment to consumer education, technology diffusion, and community computer centers. (I/M/O Joint Application of SBC Communications Inc, SBC Delaware, Inc., Ameritech Corporation and Ameritech Ohio for Consent and Approval of a Change of Control, Case No. 98-1082-TP-UNC, Public Utility Commission of Ohio (1999)).

These telecommunication merger agreements were specific responses to specific adverse impacts that would have been caused or substantially exacerbated by the proposed mergers. The mergers were explicitly proposed as one mechanism to facilitate the development and distribution of high technology telecommunication services. The information presented in the merger proceedings, however, demonstrated the existing and widening technology gap for low-income consumers. As a result, the benefits of the merger were found to be largely denied to low-income consumers. The Community Partnership Agreement, as well as the Ameritech-Ohio programmatic commitments, were the mechanisms for assuring that the adverse effects of each merger, which impeded the passing-on of merger benefits, were redressed.

Q. What do you conclude?

A. Traditional merger analysis requires that a company seeking approval of a proposed merger not only demonstrate that efficiency savings will arise, but that those savings will be "passed on" to consumers. Part of the "passing on" analysis is to consider the potential adverse impacts of the proposed merger that might impede or eliminate the benefits of the merger entirely to particular markets. In the proposed merger now pending before the PSC, there are distinct merger-induced adverse impacts for the low-income market that will impede compliance with the passing-on requirement.

In other merger situations where such adverse impacts have been found to exist, programmatic responses to mitigate these impacts have been found to be an appropriate condition of the merger. Akin to the programmatic responses I have discussed immediately above in the health care and telecommunications industries, I have recommended the CEPP as a specific package of programmatic responses that are appropriate to redress the merger-induced harms from this proposed merger. Implementation of the CEPP should be required as a condition of any approval of this merger.

Q. Will the proposed CEPP be paid for by other ratepayers of the merged Company?

A. No. The proposed CEPP will be paid for by merger savings.

Q. Is there a necessary relationship between the misallocation of merger savings you have identified and the cost of the proposed CEPP?

A. No. The programmatic response represented by CEPP is not a mechanism, unto itself, by which merger-related savings are distributed to consumers. Instead, the proposed CEPP is a package of remedies which redress specifically identified *adverse* impacts that would not exist in the absence of the merger. These adverse impacts impede compliance with the passing-on requirement. *In addition to these specific merger-induced harms*, the merger does not result in an equitable distribution of benefits to the low-income market.

The CEPP is designed to address both problems, not merely the inequitable distribution of merger benefits.

Q. Does this conclude your testimony?

A. Yes it does.

COLTON TESTIMONY EXPERIENCE
1988 - PRESENT

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
I/M/O UtiliCorp Merger with St. Joseph Light & Power	Witness	Missouri Dept. of Natural Resources	Merger impacts on low-income	Missouri	00
I/M/O UtiliCorp Merger with Empire District Electric	Witness	Missouri Dept. of Natural Resources	Merger impacts on low-income	Missouri	00
I/M/O PacifiCorp	Witness	The Opportunity Council	Low-income energy affordability	Washington	00
I/M/O Merger of PECO Energy and Commonwealth Energy	Witness	Office of Consumer Advocate	Merger impacts on low-income	Pennsylvania	00
I/M/O Public Service Co. of Colorado	Witness	Colorado Energy Assistance Foundation	Natural gas rate design	Colorado	00
I/M/O Avista Energy Corp.	Witness	Spokane Neighborhood Action Program	Low-income energy affordability	Washington	00
I/M/O TW Phillips Energy Co.	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O PECO Energy Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O National Fuel Gas Distribution Corp.	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O PFG Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O UGI Energy Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
Re. PSCO/NSP Merger	Witness	Colorado Energy Assistance Foundation	Merger impacts on low-income	Colorado	99 - 00
I/M/O Peoples Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
I/M/O Columbia Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
I/M/O PG Energy Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
I/M/O Equitable Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
Allerruzzo v. Klarchek	Witness	Barlow Allerruzzo	Mobile home fees and sales	Illinois	99
I/M/O Restructuring New Jersey's Natural Gas Industry	Witness	Division of Ratepayer Advocate	Universal service	Pennsylvania	99
I/M/O Bell Atlantic Local Competition	Witness	Public Utility Law Project	Lifeline telecommunications rates	New Jersey	99
I/M/O Merger Application for SBC and Ameritech Ohio	Witness	Edgemont Neighborhood Association	Merger impacts on low-income consumers	Ohio	98 - 99
Davis v. American General Finance	Witness	Thomas Davis	Damages in "loan flipping" case	Ohio	98 - 99
Griffin v. Associates Financial Service Corp.	Witness	Earlie Griffin	Damages in "loan flipping" case	Ohio	98 - 99
I/M/O Baltimore Gas and Electric Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99

SCHEDULE RDC-1

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
I/M/O Delmarva Power and Light Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
I/M/O Potomac Electric Power Co. Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
I/M/O Potomac Edison Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
VMHOA v. LaPierre	Witness	Vermont Mobile Home Owners Association	Mobile home tying	Vermont	98
Re. Restructuring Plan of Virginia Electric Power	Witness	VMH Energy Services, Inc.	Consumer protection/basic generation service	Virginia	98
Mackey v. Spring Lake Mobile Home Estates	Witness	Timothy Mackey	Mobile home fees	State ct: Illinois	98
Re. Restructuring Plan of Atlantic City Electric	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Re. Restructuring Plan of Jersey Central Power & Light	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Re. Restructuring Plan of Public Service Electric & Gas	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Re. Restructuring Plan of Rockland Electric	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Appleby v. Metropolitan Dade County Housing Agency	Witness	Legal Services of Greater Miami	HUD utility allowances	Fed. court: So. Florida	97 - 98
Re. Restructuring Plan of PECO Energy Company	Witness	Energy Coordinating Agency of Philadelphia	Universal service	Pennsylvania	97
Re. Atlantic City Electric Merger	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97
Re. IES Industries Merger	Witness	Iowa Community Action Association	Low-income issues	Iowa	97
Re. New Hampshire Electric Restructuring	Witness	NH Comm. Action Ass'n	Wires charge	New Hampshire	97
Re. Natural Gas Competition in Wisconsin	Witness	Wisconsin Community Action Association	Universal service	Wisconsin	96
Re. Baltimore Gas and Electric Merger	Witness	Maryland Office of Peoples Counsel	Low-income issues	Maryland	96
Re. Northern States Power Merger	Witness	Energy Cents Coalition	Low-income issues	Minnesota	96
Re. Public Service Co. of Colorado Merger	Witness	Colorado Energy Assistance Foundation	Low-income issues	Colorado	96
Re. Massachusetts Restructuring Regulations	Witness	Fisher, Sheehan & Colton	Low-income issues/energy efficiency	Massachusetts	96
Re. FERC Merger Guidelines	Witness	National Coalition of Low-Income Groups	Low-income interests in mergers	Washington D.C.	96
Re. Joseph Keliikuli III	Witness	Joseph Keliikuli III	Damages from lack of homestead	Honolulu	96
Re. Theresa Mahaulu	Witness	Theresa Mahaulu	Damages from lack of homestead	Honolulu	95
Re. Joseph Ching, Sr.	Witness	Re. Joseph Ching, Sr.	Damages from lack of homestead	Honolulu	95
Joseph Keaulana, Jr.	Witness	Joseph Keaulana, Jr.	Damages from lack of homestead	Honolulu	95
Re. Utility Allowances for Section 8 Housing	Witness	National Coalition of Low-Income Groups	Fair Market Rent Setting	Washington D.C.	95

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
Re. PGW Customer Service Tariff Revisions	Witness	Philadelphia Public Advocate	Credit and collection	Philadelphia	95
Re. Customer Responsibility Program	Witness	Philadelphia Public Advocate	Low-income rates	Philadelphia	95
Re. Houston Lighting and Power Co.	Witness	Gulf Coast Legal Services	Low-Income Rates	Texas	95
Re. Request for Modification of Winter Moratorium	Witness	Philadelphia Public Advocate	Credit and collection	Philadelphia	95
Re. Dept of Hawaii Homelands Trust Homestead Production	Witness	Native Hawaiian Legal Corporation	Prudence of trust management	Honolulu	94
Re. SNET Request for Modified Shutoff Procedures	Witness	Office of Consumer Counsel	Credit and collection	Connecticut	94
Re. Central Light and Power Co.	Witness	United Farm Workers	Low-income rates/DSM	Texas	94
Blackwell v. Philadelphia Electric Co.	Witness	Gloria Blackwell	Role of shutoff regulations	Penn. courts	94
U.S. West Request for Waiver of Rules	Witness	Wash. Util. & Transp. Comm'n Staff	Telecommunications regulation	Washington	94
Re. U.S. West Request for Full Toll Denial	Witness	Colorado Office of Consumer Counsel	Telecommunications regulation	Colorado	94
Washington Gas Light Company	Witness	Community Family Life Services	Low-income rates & energy efficiency	Washington D.C.	94
Clark v. Peterborough Electric Utility	Witness	Peterborough Community Legal Centre	Discrimination of tenant deposits	Ontario, Canada	94
Dorsey v. Housing Auth. of Baltimore	Witness	Baltimore Legal Aide	Public housing utility allowances	Federal district court	93
Penn Bell Telephone Co.	Witness	Penn. Utility Law Project	Low-income phone rates	Pennsylvania	93
Philadelphia Gas Works	Witness	Philadelphia Public Advocate	Low-income rates	Philadelphia	93
Central Maine Power Co.	Witness	Maine Assn Ind. Neighborhoods	Low-income rates	Maine	92
New England Telephone Company	Witness	Mass Attorney General	Low-income phone rates	Massachusetts	92
Philadelphia Gas Co.	Witness	Philadelphia Public Advocate	Low-income DSM	Philadelphia	92
Philadelphia Water Dept.	Witness	Philadelphia Public Advocate	Low-income rates	Philadelphia	92
Public Service Co. of Colorado	Witness	Land and Water Fund	Low-income DSM	Colorado	92
Sierra Pacific Power Co.	Witness	Washoe Legal Services	Low-income DSM	Nevada	92
Consumers Power Co.	Witness	Michigan Legal Services	Low-income rates	Michigan	92
Columbia Gas	Witness	Penn. State Office of Consumer Advocate (OCA)	Energy Assurance Program	Pennsylvania	91
Mass. Elec. Co.	Witness	Mass Elec Co.	Percentage of Income Plan	Massachusetts	91
AT&T	Witness	TURN	Inter-LATA competition	California	91
Generic Investigation into Uncollectibles	Witness	Penn OCA	Controlling uncollectibles	Pennsylvania	91

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
Union Heat Light & Power	Witness	Kentucky Legal Services (KLS)	Energy Assurance Program	Kentucky	90
Philadelphia Water	Witness	Philadelphia Public Advocate (PPA)	Controlling accounts receivable	Philadelphia	90
Philadelphia Gas Works	Witness	PPA	Controlling accounts receivable	Philadelphia	90
Mississippi Power Co.	Witness	Southeast Mississippi Legal Services Corp.	Formula ratemaking	Mississippi	90
Kentucky Power & Light	Witness	KLS	Energy Assurance Program	Kentucky	90
Philadelphia Electric Co.	Witness	PPA	Low-income rate program	Philadelphia	90
Montana Power Co.	Witness	Montana Ass'n of Human Res. Council Directors	Low-income rate proposals	Montana	90
Columbia Gas Co.	Witness	Penn. OCA	Energy Assurance Program	Pennsylvania	90
Philadelphia Gas Works	Witness	PPA	Energy Assurance Program	Philadelphia	89
Southwestern Bell Telephone Co.	Witness	SEMLSC	Formula ratemaking	Mississippi	90
Generic Investigation into Low-income Programs	Witness	Vermont State Department of Public Service	Low-income rate proposals	Vermont	89
Generic Investigation into Dmnd Side Management Measures	Consultant	Vermont DPS	Low-income conservation programs	Vermont	89
National Fuel Gas	Witness	Penn OCA	Low-income fuel funds	Pennsylvania	89
Montana Power Co.	Witness	Human Resource Develop. Council District XI	Low-income conservation	Montana	88
Washington Water Power Co.	Witness	Idaho Legal Service Corp.	Rate base, rate design, cost-allocations	Idaho	88

2000 Poverty Levels (48 contiguous states)						
	Number of Household Members					
	1	2	3	4	5	6
100% Poverty	$8,350	$11,250	$14,150	$17,050	$19,950	$22,850

NOTES:

/a/ Each additional person: add $2,900.

SOURCE: Federal Register, February 15, 2000, at pages 7555 - 7557.

Distribution of Persons in Missouri By Poverty Range		
	No. of Households	Percent of Households
Under 50%	282,524	6%
50% - 74%	170,170	3%
75% - 99%	210,381	4%
100% - 124%	231,950	5%
125% - 149%	233,485	5%
Total below 150%	1,128,510	23%
All persons	4,970,573	xxx
SOURCE: Table 121, Summary Tape File 3A, 1990 U.S. Census.		

Consumption in Midwest Region Households: 1993 Average of Major Energy Sources (mmBTU) (West North Central Division)	
All households	30.1
Below 100% of Poverty	22.3
Below 125% of Poverty	22.7
SOURCE: Energy Information Administration. Household Energy Consumption and Expenditures: 1993 Supplement, at Table 31, U.S. Department of Energy: Washington D.C. (1993).	

Consumption in Midwest Region Households: 1993 Average of Major Energy Sources (mmBTU) (West North Central Division)	
All households	30.1
Less than $10,000	19.8
$10,000 - $19,999	24.2
$20,000 - $34,999	30.4
$35,000 and more	40.2
SOURCE: Energy Information Administration. Household Energy Consumption and Expenditures: 1993 Supplement, at Table 39, U.S. Department of Energy: Washington D.C.	

Residential Energy Use (mmBTUs): All Households and Low-Income Households		
	All Households	Low-Income Households
Electricity as main htg fuel	54.3	44.4
SOURCE: Administration for Children and Families, U.S. Department of Health and Human Services (October 1994). *Low-Income Home Energy Assistance Program: Report to Congress for Fiscal Year 1993*, at 17, U.S. Government Printing Office: Washington D.C.		

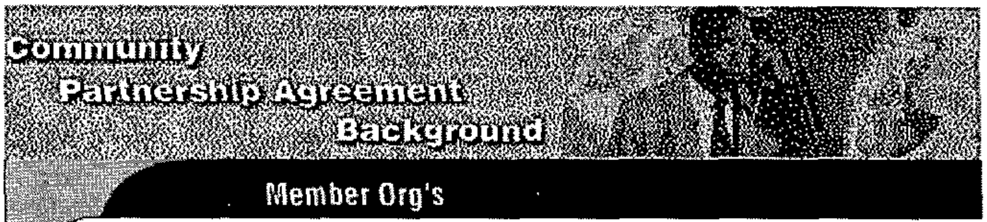
Residential Energy Use (mmBTUs): All Households and Low-Income Households 1997 Income and Energy Use Data		
	All Households	Low-Income Households
Electricity as main htg fuel	105.1	69.4
SOURCE: Energy Information Administration (1999). *1997 Residential Energy Consumption Survey*, at Table CE1-3C, Energy Information Administration, U.S. Department of Energy.		

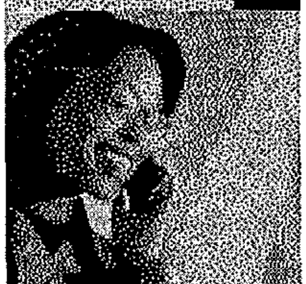
	Residential /a/		Total /b/	
	Customers	Residential Sales	Customers	Total Sales (kWh)
UtiliCorp (Missouri)	171,680	634,165,000	61,988	4,451,441,000
St. Joseph Light and Power	55,082	2,000,398,000	197,350	1,639,928,000
Total	226,762	2,634,563,000	259,338	6,091,369,000

SOURCE:

/a/ Energy Information Administration, U.S. Department of Energy, Electric Sales and Revenue: 1998, Table 14 (October 1999).
/b/ Energy Information Administration, U.S. Department of Energy, Electric Sales and Revenue: 1998, Table 17 (October 1999).

Community
Partnership
Agreement





Pacific Telesis/SBC Communications Merger
Leads to Community Partnership Agreement

As part of the 1997 merger between Pacific Telesis and SBC Communications, the California Public Utilities Commission (CPUC) approved a unique approach to expanding support for California's communities.

Pacific Bell worked with nine community coalition groups-representing 134 different Latino, Asian American, African American, civil rights, and disability organizations and individuals--to determine the most effective ways to bring the benefits of telecommunications to traditionally underserved communities.

The result is the historic Community Partnership Agreement, which combines the strengths and inspiration of community leadership, corporate resources, and telecommunications technology.

For Pacific Bell, the Agreement is part of its commitment to invest in all of California's communities and to help ensure the telecommunications revolution--both new technologies and competitive markets-benefits all California communities, not just the more lucrative residential and business districts traditionally targeted by competitors. Pacific Bell has pledged up to $80 million to the various initiatives agreed on by the nine coalition groups.

On November 18, 1998, Ed Whitacre, Chairman and CEO of SBC Communications, presented the initial $10 million funding to launch the new $50 million Pacific Bell Community Technology Fund and the larger foundation which will govern it, the nonprofit Community Technology Foundation of California. Additional funding will be distributed during the next decade.

Community leaders have hailed the Agreement and the Fund as landmarks for community telecommunications.

"This fund can make a real difference and set a model for the nation," Moore says. "I am excited that the program has the broad-based and collaborative involvement of community based organizations throughout California that are committed and dedicated to reaching the underserved." **Gwen Moore**, former California Assembly member and a Los Angeles-based community member who chairs the committee of nine coalitions and the Community Technology Foundation.

"Many community leaders now recognize the discriminatory access to the information superhighway as the civil and economic rights issue of the 21st Century. At stake is the opportunity to compete and contribute equally, with full and equal access to education, governmental services, health care, employment, even political access." **Mark Savage** of San Francisco-based Public Advocates, one of the nation's oldest civil rights law firms.

"An unprecedented and important aspect of this fund is its continuity. The changes in telecommunications in just the past five years have been incredible. For the first time, this fund can insure that California's underserved communities can be a part of shaping and benefiting from those changes." **Jess Haro**, of the community coalitions representing San Diego Urban Corps.

"People with disabilities are disproportionately unemployed and underemployed. This fund allows us to begin dismantling the barriers to achievement by providing equitable access to tomorrow's tools." **Jackie Brand**, coordinator of the San Rafael-based Universal Service Alliance and founder of the Alliance for Technology Access, a nationwide organization for bringing technology to people with disabilities.

"Because of language and cultural barriers, Asian Americans have historically been neglected on telecommunications issues. California generally and telecommunications utilities specifically have a lot of catching up to do, and the fund will help secure the benefits of the information superhighway for all of California's underserved communities." **Anni Chung**, executive director of Self Help for the Elderly in San Francisco and chair of the Asian Pacific American Community Partnership.

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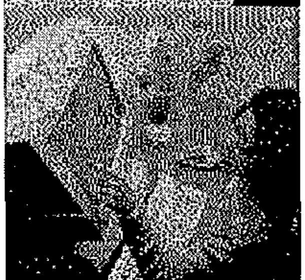


CHARTER

The company remains deeply committed to improving the availability of basic and advanced telecommunications services to underserved communities throughout the state.

Pacific Bell intends to maintain its leadership position in enhancing the availability and penetration of telecommunications services and will make a good faith effort toward helping California achieve 98% penetration in low-income, minority and limited-English speaking communities within the next seven years.

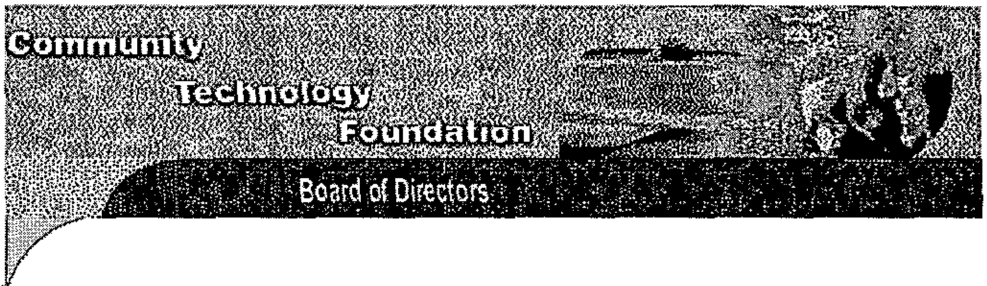
Given the advent of competition, Pacific Bell's efforts to achieve increased penetration cannot succeed without the complete commitment of the other providers of telecommunications services in California. Pacific Bell intends to lead the industry effort in this respect.

Pacific Bell will form a Universal Service Taskforce to work in partnership with community leaders in assessing methods for improving the penetration of basic and advanced communication services and removing barriers to universal service. Specifically, it will:

- Develop recommendations to move California toward 98% penetration in low income, minority and limited English speaking communities within seven years.
- Review all aspects of Lifeline service.
- Study language and physical barriers to universal service.
- Recommend methods for measuring penetration within the disability community.
- Pacific Bell will provide reports on regulatory, policy, technology and other issues affecting basic and advanced communications services and barriers to universal service.
- The Task Force will communicate as needed with the Pacific Bell Board of Directors and meet with the Board once a year.
- Pacific Bell officers will participate in an annual community forum during which the Task Force will present a Universal Service status report to a broad array of community leaders.

Distillation of points from the Community Partnership Agreement approved by the California Public Utilities Commission, effective April 1, 1997.

Community
Partnership
Agreement



Universal Service
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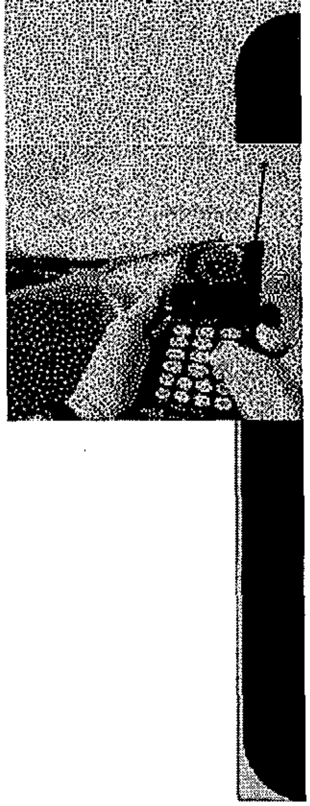

Bridge the Digital Divide:
Community Technology Foundation of California

Innovations in communications technologies are creating tremendous opportunities for success and prosperity around the world. From internet access to high speed data transmission to wireless communications, innovative technologies are changing the way we connect with society around us. It's now not only possible, but commonplace, to communicate from virtually anywhere on earth.

But the benefits of technology are not evenly spread through society.

To ensure that all Californians have access to emerging technology, nine statewide community coalitions and Pacific Bell agreed on the $50 million Pacific Bell Community Technology Fund, and the nonprofit organization that will oversee it, the Community Technology Foundation of California. Pacific Bell provided the initial $10 million funding on November 18, 1998.

The Foundation's grantmaking focus will be bringing existing and new communications technologies to traditionally underserved communities, defined as low-income, inner-city, minority, disabled, limited-English-speaking, and low-income senior. The Foundation may match other funding sources, issue challenge grants, or leverage money to achieve the maximum benefit of target community projects.

The Foundation will distribute at least $5 million in grants each year for the next decade. It also hopes to raise additional money for grants from other sources for the same general purposes. The Foundation is governed by a Board of Directors, a broad-based committee of community and public interest group leaders as well as technology experts.

The Community Technology Foundation of California has released its General Grantmaking Guidelines for the year 2000.

Sign-up to be added to our mailing list.

For more information, please contact us at:
Community Technology Foundation of California
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Toll free number: 1-877-836-1499

Community Partnership Agreement

Research Fund

Think Tank Concentrates on Public Issues: Pacific Bell Funds $1 Million Research Fund

The telecommunications industry is undergoing rapid and massive evolution as both state and federal laws transform the industry from a monopolistic environment to a competitive marketplace. Competition will bring benefits such as lower prices, but it will also profoundly change long-established and effective systems. No one can predict how this evolution will affect consumers.

In this new environment, consumer and public interest groups can serve their constituencies more effectively with ongoing, quality research studies that address the interests of underserved communities.

As part of Community Partnership Agreement, the nine coalition groups and Pacific Bell are developing a research unit that is completely independent, nonpartisan, and not affiliated with any signatory to the Agreement.

In addition to studies, the research unit may also fund conferences, seminars, and other educational sessions aimed at increasing understanding of the competitive environment among consumer and public interest group leaders and the general public.

Pacific Bell will contribute $200,000 a year for five years to the research fund, in addition to the $5 million annual contribution to the Community Technology Fund.

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