

Exhibit No.:
Issues: Collection Activities
Witness: David Hendershot
Sponsoring Party: Missouri Gas Energy
Case No.: GR-2001-292

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2001-292

REBUTTAL TESTIMONY OF

DAVID HENDERSHOT

Jefferson City, Missouri

May 22, 2001

Exhibit No. 210
Date 210 Case No. GR-2001-292
Reporter Stewart

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MAY 22, 2001

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

3 **A. Yes. My name is David Hendershot, and my business address is Missouri Gas**
4 **Energy, 3420 Broadway, Kansas City, Missouri, 64111.**

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

7 **A. I am employed by Missouri Gas Energy ("MGE" or "Company") as Manager,**
8 **Credit and Collections. My responsibilities include oversight of the range of**
9 **collection activities undertaken by the Company. This includes responsibilities**
10 **such as development of deposit policies, collection and/or disconnect notice**
11 **policies, field collection policies and, unfortunately, sometimes disconnecting**
12 **customers' service. Prior to my employment with MGE, I was employed by**
13 **TransUnion, a national credit reporting agency, for more than 15 years in a variety**
14 **of positions, where my responsibilities included management functions pertaining**
15 **to credit reporting. I have worked in the Credit and Collections industry for over**
16 **20 years.**

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

2 A. I received a Bachelor of Arts degree in Economics from Cleveland State
3 University. I have also done post-graduate level work in Economics at Cleveland
4 State University and Management at Baker University.

5

6 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

7 A. The purpose of my testimony is to address the direct testimony of Public Counsel
8 witness Roger Colton (at pages 12-19) related to the collection activities of MGE.

9

10 **Q. PUBLIC COUNSEL WITNESS COLTON LEVELS HEAVY CRITICISM**
11 **AT THE COMPANY'S COLLECITON ACTIVITIES. DO YOU AGREE?**

12 A. No. Although MGE is always engaged in efforts to continuously improve its
13 collection activities (which, by definition, means that some of its current activities
14 are less than perfect), the tone of Mr. Colton's direct testimony (pages 12-19)
15 would leave the reader with the impression that MGE has placed no emphasis on
16 collection activities or in developing ways to improve those activities. This is
17 categorically untrue.

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1 **Q. PLEASE DESCRIBE WHY YOU BELIEVE MR. COLTON'S TESTIMONY**
2 **LEAVES THE READER WITH A FALSE IMPRESSION WITH RESPECT**
3 **TO MGE'S COLLECTION ACTIVITIES.**

4 **A. As a credit and collection professional with more than twenty (20) years in the**
5 **business, it is my opinion that:**

- 6 1. MGE maintains reasonable procedures to collect its receivables.
- 7 2. MGE makes reasonable attempts to work proactively with
8 customers in collecting receivables.
- 9 3. MGE is actively pursuing a wide range of credit and collection
10 procedures and tools to protect receivables.
- 11 4. MGE works closely with community agencies to assist customers in
12 need.
- 13 5. MGE's overall objective is to maximize the collection of
14 receivables while minimizing instances of disconnection. Although
15 disconnection of service is necessary at times for collection
16 purposes, MGE does not generally derive revenues from customers
17 whose service is disconnected, so disconnection is used only as a
18 last resort.

1 **Q. PLEASE DESCRIBE MORE SPECIFICALLY WHAT YOU MEAN WHEN**
2 **YOU SAY THAT MGE MAINTAINS REASONABLE PROCEDURES TO**
3 **COLLECT ITS RECEIVABLES.**

4 A. MGE makes use of separate guidelines for collection of commercial and residential
5 accounts that vary depending on the time of year and the condition of receivables.
6 We also make use of collection letters and early intervention via outbound
7 telephone messages in an effort to contact customers prior to field collections. Our
8 field collectors are generally given authority to use their judgment and do what is
9 appropriate under the circumstances apparent to them, instead of being required to
10 adhere to rigid collection criteria. MGE makes use of collection agencies and
11 credit reporting agencies and makes flexible payment options and terms available
12 under appropriate circumstances.

13
14 **Q. PLEASE EXPLAIN WHAT YOU MEAN WHEN YOU SAY THAT MGE**
15 **MAKES REASONABLE ATTEMPTS TO PROACTIVELY WORK WITH**
16 **CUSTOMERS.**

17 A. This past winter provides a good example. In December 2000, when the weather
18 turned bitterly cold, MGE publicly requested those without gas service to call for
19 service re-connection. In many cases, service was initiated for little more than the
20 customer's good faith promise to pay, and would not have otherwise qualified for
21 service initiation. In this fashion, service was initiated for approximately 700
22 customers at terms considerably more favorable to the customer than those
23 required under the Commission's "cold weather rule." In addition, throughout this

1 winter as a result of the unprecedented high bills caused by the combination of
2 cold weather and high gas prices, MGE permitted customers to enroll in the ABC
3 ("average bill calculation") plan, which is MGE's version of the level pay plan,
4 without requiring customers to become current prior to enrollment. While this
5 liberal application of the ABC plan caused MGE to carry a significantly greater
6 amount of deferred ABC settlement balances, our belief is that this action was
7 reasonable to help prevent customers from being overwhelmed by the level of their
8 gas bills and to help keep them in the habit of paying on a monthly basis. These
9 are just two examples. MGE also has many paystations located throughout its
10 service territory for the convenience of those customers who desire to pay in
11 person.

12
13 **Q. PLEASE DESCRIBE WHAT YOU MEAN WHEN YOU SAY THAT MGE**
14 **IS ACTIVELY PURSUING A WIDE RANGE OF CREDIT AND**
15 **COLLECTION PROCEDURES AND TOOLS TO PROTECT**
16 **RECEIVABLES.**

17 **A.** MGE just hired approximately ten (10) new field employees to undertake field
18 collection activities this summer. Upon their completion of collection activities,
19 these employees will also be trained to work in the Installation & Service ("I&S")
20 department. We have recently contracted with a third party vendor, Utility
21 Services NA, Inc., to perform field collections work and supplement our internal
22 field operations group. These resources will assist us in managing the increase in
23 collection activity necessitated by the winter of 2000-2001.

1
2 MGE has also just recently begun to experiment with pursuing the full range of
3 collection activities on Fridays. In the past, we severely restricted collection work
4 on Fridays in recognition of limited resource availability to perform re-connect
5 work on Saturdays. Although we must continue to manage this effort carefully to
6 ensure that we have sufficient resources available on Saturdays to perform any re-
7 connect work, early results of this have been favorable.

8
9 We have also discussed with the Commission's Staff the possibility of increasing,
10 on an experimental basis, permissible hours of field collection during daylight
11 savings time.

12
13 These are just a few examples of changes, which are either under way or are being
14 considered.

15
16 **Q. PLEASE DESCRIBE WHAT YOU MEAN WHEN YOU SAY MGE WORKS**
17 **CLOSELY WITH THE COMMUNITY AND VARIOUS COMMUNITY**
18 **AGENCIES IN PROVIDING ASSISTNACE TO THOSE IN NEED.**

19 **A.** MGE works closely with a number of different low-income programs including
20 ECIP, LIHEAP, Neighbors Helping Neighbors, Salvation Army, and many others.
21 MGE provides many support services to the agencies and the customers being
22 served by them through the use of Customer Advisors. Those services include
23 attending and assisting in community-based meetings and programs for low-

1 income customers. MGE's Customer Advisors assist elderly, disabled and low-
2 income customers by providing information and they act as a liaison between
3 customers in need and the social service organizations. Five full time employees
4 are dedicated to providing these support services. Additionally, MGE made a
5 charitable donation of \$250,000 to the Mid-America Assistance Coalition for the
6 purpose of providing energy assistance to low-income customers during the winter
7 of 2000.

8
9 **Q. PLEASE DESCRIBE WHAT YOU MEAN WHEN YOU SAY MGE'S**
10 **OVERALL STRATEGY IS TO MAXIMIZE COLLECTION OF**
11 **RECEIVABLES, BUT THAT DISCONNECTION IS USED ONLY AS A**
12 **LAST RESORT.**

13 A. I certainly agree with Public Counsel witness Colton that field collection is
14 expensive work. It is even more expensive when service is disconnected and, in
15 some cases, immediately thereafter the customer pays and MGE then re-dispatches
16 a service person to re-connect service. In conjunction with the fact that
17 disconnected customers generate no revenues, this is the primary reason why MGE
18 views service disconnection as a last resort tool.

19
20 Our collection letters and early intervention via outbound telephone messages are
21 all designed to spur customer payment prior to the more formal and expensive
22 collection process (e.g., field visit, collection agencies, etc.) being undertaken.

1 Even when field collection of an account becomes necessary, experience shows
2 that MGE does not operate on a "disconnect or else" policy. For example, in
3 calendar year 2000 only 43% of all field collections worked resulted in
4 disconnection of service. MGE left notes on 36% of those field collections and
5 actually collected payments on 20% of them.

6

7 **Q. DO YOU HAVE ANY FURTHER COMMENT WITH RESPECT TO THE**
8 **DIRECT TESTIMONY OF PUBLIC COUNSEL WITNESS COLTON?**

9 A. Yes. At numerous points throughout pages 12-19 of his direct testimony Mr.
10 Colton misconstrues or misinterprets information he received from MGE. For
11 example, on page 15, lines 3-6, Mr. Colton portrays a series of numbers as if they
12 represent the experience of the total Company for the time period involved. In
13 fact, these numbers represent only field collections worked by third party
14 contractors and exclude field collections worked by Company employees. They
15 represent only a small portion of the overall field collection activity during this
16 period of time. Had Mr. Colton or Public Counsel ever discussed this matter with
17 MGE prior to the filing of direct testimony, MGE would have been more than
18 happy to explain this data.

19

20 Another example is found on page 16 of his direct testimony, lines 9-16, where
21 Mr. Colton asserts that over 90% of the field collection payments collected are
22 used by the company as an expense to collect these receivables. This in fact is not
23 true and the information in OPC-DR-5143 (E) is being misread and misinterpreted.

1 These dollars spent include such items as the cost for paystations, Intell-A-Check
2 payments (signatureless checks from our contact center), and others. Had Mr.
3 Colton or Public Counsel ever discussed this matter with MGE prior to the filing
4 of direct testimony, MGE would have been more than happy to explain this.

5
6 Yet another example is found on page 18 of his direct testimony, lines 10 - 16
7 where Mr. Colton asserts that MGE significantly lags behind other natural gas
8 utility companies in certain credit and collection measurements. Again this
9 information is being misread and misinterpreted. The study being referred to at
10 lines 11-15 on page 18 of Mr. Colton's direct testimony (TB & A Benchmarking)
11 is based on 1998 data and includes electric and gas utility industry respondents.
12 Our belief is that electric utility companies as a whole have lower levels of
13 delinquency and bad debt which would make a direct comparison of MGE to the
14 TB & A Benchmarking misleading and inaccurate.

1 He also indicates in the testimony that "net MGE write-offs reached 1.46%
2 compared to an industry average standard of 1.07%." Again this is very
3 misleading as indicated by the following actual MGE net charge-offs and percent
4 of revenue.

5

<u>Fiscal Year</u>	<u>% of Revenue</u>
FY 99	1.2%
FY 00	1.0%

9

10 As can be clearly seen, significant improvements have been realized over
11 the last three years, yet Mr. Colton's direct testimony would leave the reader with
12 the false impression that MGE has made no improvements.

13

14 Other examples can be found in Mr. Colton's direct testimony.

15

16 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

17 **A.** Yes, it does.

18

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

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Case No. GR-2001-292

AFFIDAVIT OF DAVID C. HENDERSHOT

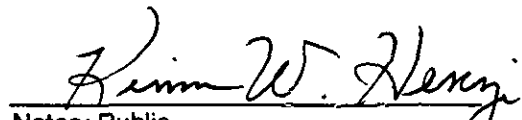
STATE OF MISSOURI)
)
COUNTY OF JACKSON) ss.

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



DAVID C. HENDERSHOT

Subscribed and sworn to before me this 18th day of May 2001.



Notary Public

My Commission Expires: _____

