STATE OF MAINE
PUBLIC UTILITIES COMMISSION

DOCKET NO. 2002-140
May 16, 2002

PUBLIC UTILITIES COMMISSION
Management Audit of Northern Utilities, Inc.'s Customer Service And Investigation to Implement Service Quality Incentive Plan

ORDER INITIATING MANAGEMENT AUDIT AND INVESTIGATION OF SERVICE QUALITY INCENTIVE PLAN

Welch, Chairman; Nugent and Diamond, Commissioners

I. SUMMARY

By this Order, we take the following three actions: 1) we initiate a management audit of Northern Utilities, Inc.'s (Northern) customer services to determine their adequacy; 2) we initiate a formal investigation for the purpose of developing and implementing a service quality incentive plan for Northern to ensure that reasonable customer service levels are clearly established and maintained; and 3) we adopt interim service quality standards, for effect May 1, 2002, for credit and collection line calls, as well as an associated penalty structure to remain in place pending further review of the issues raised in these proceedings. In these proceedings, we will explore whether Northern's customer service performance has suffered since its merger with NiSource, Inc. and, if so, determine whether we should take any further regulatory action.

II. BACKGROUND

Northern has provided natural gas service in Maine since 1966. During much of that time, it existed, along with Northern's New Hampshire Division, as a subsidiary of Bay State Gas Company (Bay State), a Massachusetts local distribution company. These companies shared operations and management personnel pursuant to approved affiliate agreements.

In 1998, Northern and its parent, Bay State, merged with NIPSCO, Industries (NIPSCO), an Indiana corporation (later renamed NiSource). See *Northern Utilities, Inc., Request for Approval of Reorganization – Merger with NIPSCO Industries,* Docket No. 98-216, Order Approving Stipulation and Merger (June 12, 1998). In 2000, NiSource, Northern's and Bay State's parent corporation, merged with Columbia Energy Group (Columbia).[1] See *Northern*

[1] NiSource was also the parent company of two utilities providing gas service in Indiana, Kokomo Gas and Fuel Company and Northern Indiana Fuel and Light Company, and of a utility that provides both gas and electric service in Indiana, Northern Indiana Public Service Company (NIPSCO). Columbia owned

Utilities, Inc., Request for Approval of Reorganization (Merger and Related Transactions), Docket No. 2000-322, Order (June 30, 2000). Our Order notes that, in seeking approval of the NiSource/Columbia merger, company officials represented that the merger would not result in any change in the management of Northern and Bay State or have any material impact on the local operations of Northern. Order at 4.

We approved the merger with conditions designed to help ensure that: 1) the financial risk associated with the merger would not adversely impact Northern, 2) Northern's customers would not have diminished service, 3) Northern would not decrease system maintenance expenditures, and 4) the level of management service charges assessed to Northern by other members of the NiSource corporate family under the new corporate structure and allowed in rates would not be unreasonable.

A. Service Quality Monitoring

As a condition of our approval of the NiSource/Columbia merger, Northern is required to report annually on eight service quality measures for at least five years, beginning with calendar year (CY) 2000. Those criteria are: 1) service appointments completed on the scheduled day; 2) PUC complaints per 1,000 residential customers; 3) lost time incidents per 100 employees; 4) one hour responses to odor calls; 5) main and service damage not the fault of third parties; 6) telephone response time for billing and service calls; 7) telephone response time for emergency calls; and 8) actual on-cycle meter reads. Order at 15-16. The service quality reporting measures are derived from those implemented for Northern's parent corporation, Bay State Gas Company, by the Massachusetts Department of Telecommunications and Energy (MA DTE) as part of a performance based regulation plan. See *Bay State Gas Company,* D.T.E. Docket No. 97-97, Settlement Agreement dated August 22, 2000, Appendix III.

In approving the merger, we noted that customer service quality can suffer when utility funds are short or when management's interest in this aspect of a utility subsidiary is diluted after a merger and that in other reorganizations we had implemented service standards and related penalties to ensure that customer service quality would be maintained. The service quality indicia on which Northern is required to report do not carry any formal requirements or penalties for particular performance results. Northern's rates are currently set using traditional rate setting methodologies that do not impose any direct penalties for poor service quality problems, relying instead on rate of return allowances to discipline utilities.

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several gas distribution companies in Ohio, Kentucky, Pennsylvania, Maryland, and Virginia.

The short time frame of the NiSource/Columbia merger case did not allow development of service standards and penalties. Consequently, we left open the question whether, at a later date, we would open an investigation

> to review the adequacy of Northern's service quality, its reporting criteria, and to determine whether we should adopt any mechanisms, programs, standards, or penalties to ensure that Northern provides adequate service quality to its customers. Consistent with our general authority, in the event that Northern's service quality is inadequate, we will order an appropriate remedy, one that could include financial directives or instituting a performance based regulatory mechanism.

Order at 16.

On May 4, 2001, Northern filed its first report of the service quality criteria listed in the merger order, as listed above, including available historical information on Northern's performance in these areas during the preceding six years. The report provided information for CY 2000, for 2001 through March 1, 2001, as well as for fiscal years 1995 through 1999 where available. [2]

On July 3, 2001, we issued a further order in Docket No. 2000-322 indicating that, although our Director of the Consumer Assistance Division (CAD) was working with Northern to resolve recent billing issues, we would not open a broad service quality proceeding at that time but would not hesitate to do so if there were indications that Northern's service performance warranted it. See Docket No. 2000-322, Order (July 3, 2001) at 4-5. Subsequently, we became aware of call center performance problems that could not be successfully resolved by the Director of CAD, a high level of estimated billing complaints, and merger-related staff cuts and local facilities closures. We recently opened an investigation into customer complaints regarding large make-up bills issued by Northern after a long period of billing based on estimated usage. See *Maine Public Utilities Commission, Investigation of Complaints Regarding Northern Utilities, Inc.'s Billing Practices,* Docket No. 2002-101, Notice of Investigation (March 5, 2002).

Thus, Northern's service performance reports did not directly give rise to our decision to open this proceeding. Rather, it is our experience over the last two years with problems that impact customers or otherwise raise concerns

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[2] Northern's second annual service criteria report was only recently filed on May 3, 2002.

about possible service quality deterioration that provides the impetus for these initiatives.

B. Draft Order

On March 29, 2002, we issued a Draft Order Initiating a Management Audit and Investigation of Service Quality Incentive Plan (Draft Order). In addition to proposing to initiate management audit and service quality proceedings, we proposed to establish an interim performance standard and penalty structure for service and billing calls pending the conclusion of these proceedings.

In our Draft Order, we looked to regulatory precedent and industry practice to identify an appropriate interim call answer metric for all billing and service calls (excluding emergency calls). We further proposed to apply, pending conclusion of the management audit and investigation, the same metric and penalty to which Northern's affiliate operating in Massachusetts, Bay State Gas Company (BSG or Bay State), agreed to comply as part of its performance-based rate making plan with the MA DTE in DTE 97-97. We chose this approach because: 1) we believed that it would help ensure adequate customer service, at least on an interim basis; 2) it is similar to call answer metrics currently in place for other utilities in Maine; and 3) it would help to ensure that the Company responds to calls equally, given that the same customer representatives answer customer calls from the affiliated Maine, New Hampshire and Massachusetts companies.[3]

The Draft Order noted that, as part of a settlement entered into by Bay State, the Massachusetts Attorney General, and the Massachusetts Division of Energy Resources, and approved by the MA DTE, Bay State agreed to implement eight specific service quality measures, targets and associated penalties for a two-year period beginning on October 1, 1997.[4] This settlement included a call answer measure for billing and service calls of 80% of customer

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[3] Northern separated Maine and New Hampshire credit department calls from Massachusetts credit department calls on September 21, 2001. The same office, however, receives calls from all three states. In addition, the same staff continue to take all other customer calls, e.g. general inquires, service calls, etc., in the Springfield office.

[4] See MA DTE Order issued in Docket 97-97. In our Draft Order, we noted that, pursuant to the settlement in DTE 97-97, these standards were to apply for two years but it was not clear whether Bay State is currently subject to the same standards. We are also aware that the MA DTE has recently adopted generic service quality standards for gas and electric companies (DTE 99-84), but it had not yet ruled on Bay State's compliance filing.

calls answered within 30 seconds, and a total annual penalty of $250,000 for failure to meet these measures. [5]

The Draft Order noted that the call answer measure for service and billing calls implemented by MA DTE is the same as the call answer measure with which Central Maine Power (CMP) agreed to comply as part of its Alternative Rate Plan (ARP) proceeding and is similar to the call answer measure of at least 76.9% of calls to the business office answered in 20 seconds established for Verizon as part of its Alternative Form of Regulation. For these reasons, we proposed it for Northern's interim call response standard for all service and billing calls.[6]

C. Northern's Comments

On April 8, 2002, Northern filed comments objecting to our proposed interim call answering performance standard and the magnitude of the potential penalties.[7] Nevertheless, Northern stated that it was "actively pursuing the necessary labor and technical resources to achieve the proposed 80/30 performance target" through such efforts as adding trunk lines dedicated to Maine calls and hiring new call center representatives. Northern further stated that "[w]ith these enhancements, Northern expects that it will be able to meet the proposed performance standard on or about April 15, 2002."

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[5] The BSG settlement also established a call answer measure for emergency calls of 95% of customer calls answered within 30 seconds for calls to Northern's emergency number, (800) 525-8222, to report gas leaks or odor. We are not including emergency response calls in our interim standard or penalty structure. Our Gas Safety Inspector is engaged in a review Northern's emergency response rate in a separate initiative. Northern's emergency response performance, standards and penalties will also be assessed in the management audit.

[6] See, respectively, *Central Maine Power Co. Request for Approval of Post-Merger Alternative Rate Plan (ARP 2000)*, Docket No. 99-666 (CMP must answer at least 80% of calls to its customer service business line, as well as to its outage reporting line, within 30 seconds. Under its ARP, outage calls and business office calls are two separate measures with separate, annual penalties of $400,000 for each percentage point that actual performance falls below the established benchmark.) and *Investigation into Bell Atlantic Maine's Alternative Form of Regulation*, Docket No. 99-851 (Verizon must answer at least 76.9% of customer calls to its business office within 20 seconds. For each percentage point that Verizon's performance falls below the baseline standard, Verizon will incur a penalty of $93,500, up to total potential penalty of $1.135 million.)

[7] The Office of the Public Advocate (OPA) did not file comments.

In addition, Northern suggested that the Commission use its 2001 service quality report as the basis for further investigation in this docket of additional service quality measures. Northern also suggested that the Commission consider setting a positive financial incentive to reward the Company for exceeding the standards that are set in any final service quality plan.

Finally, Northern noted that while it did not dispute our authority to conduct a management audit, it did not concur that "the Commission's legal authority in conducting a management audit extends to forced divestiture of the Company, or to that of affiliated entities operating in other states" or that this was a condition of the merger.

D. Interim Proposal

Pending deliberations, to facilitate the Commission's decision on the matter of interim standards and penalties for the credit and collection line, Staff, Northern and the OPA reached agreement on the following proposal:

1. Call Response Metric: 80% of calls to NUI credit and collection lines answered by a live person within 30 seconds.

2. Implementation Date: May 1, 2002

3. Performance Evaluation: Both monthly and annually

4. Penalties:

   - $5,000 monthly penalty for failure to meet Call Response Metric on average over the term of an individual calendar month.
   - $60,000 maximum annual penalty for failure to meet Call Response Metric on average over the term of a calendar year; if annual penalty is assessed, Company will pay net of annual penalty minus total monthly penalties for the year.

5. Call answer time to be measured as described in Section V(B)(1) of this Order (or Draft Order at pages 23-24.) The Company will discuss any proposed changes to its IVR menu system with the Commission Staff so that it may propose appropriate adjustments to the call answer time measurement method as warranted.

6. This agreement is not intended to establish precedent or in any way limit or define the parties' positions with respect to

> the final resolution of any regulatory service standards and penalties for Northern.

We considered this proposal in conjunction with the Draft Order and Northern's April 8th comments at our deliberations on May 6, 2002.

III. LEGAL AUTHORITIES

Title 35-A section 301 requires every public utility to furnish safe, reasonable and adequate facilities and service. The Commission may initiate a management audit of the operations of any public utility, pursuant to 35-A M.R.S.A. section 113, to determine

> the degree to which a public utility's operations are conducted in an effective, prudent and efficient manner judged by the standards prevailing in the utility industry [and] the degree to which a utility minimizes or avoids inefficiencies which otherwise would increase costs to customers.

35-A M.R.S.A. § 113 (1) (B) and (C).

If the Commission finds that a management audit is reasonable, it may select the independent auditor, require the Company to execute a contract with the auditor, and require the public utility to pay for the costs of the audit. However, the full costs of the management audit are to be recovered from the utility's ratepayers.

In addition to the audit evaluating Northern's service performance, the Commission intends to establish service quality standards and implement an incentive mechanism to ensure that Northern maintains adequate service quality for its customers. Pursuant to 35-A M.R.S.A. §§ 1303 and 1304, the Commission may, on its own motion, take action when it believes that an investigation of any matter relating to a public utility should for any reason be made, including when a service is inadequate or cannot be obtained. After reasonable notice and opportunity to be heard, the Commission may issue a temporary order pending the conclusion of formal public hearings. 35-A M.R.S.A. § 1304 (5), (Commission authorized to act on an expedited basis.) In issuing the order, the Commission shall consider "the benefit to the public or affected customers compared to the harm to the utility or other customers of issuing the order and the public interest." Id. Moreover, at any time, when the Commission finds, after public hearing, that a service provided by a utility is inadequate or unreasonable, it may, by order, establish or change terms, conditions, measurement, practice, service or acts, as it finds to be just and reasonable. 35-A §1306(2). Finally, pursuant to 35-A M.R.S.A. § 4706, the Commission has authority to adopt alternative ratemaking mechanisms to

promote efficiency in operations and create appropriate positive or negative financial incentives.

IV. INITIATION OF MANAGEMENT AUDIT AND INVESTIGATION OF SERVICE PERFORMANCE ISSUES

A. Basis for Regulatory Action

Over the last two years, we have observed persistent problems with the adequacy of Northern's response to customer calls placed to its call center for credit, collection and disconnection matters, as well as with its billing accuracy.[8] The existence of these problems creates further concern that other customer-related services may not be adequate. At this point, we believe that, as the regulatory agency charged with oversight of utility service, it is our obligation to ensure that these problems are corrected and that degradations in other areas of service are not occurring. In addition, given Northern's status as a small part of a very large corporate entity, it is incumbent on us to implement appropriate incentives to ensure that Northern's customer service quality meets adequate standards.

In addition to issues regarding Northern's call center response to customer needs (described in detail below), we have become increasingly concerned, due to successive post-merger cuts in staffing levels and local facilities closures, with Northern's ability to provide adequate service in several other areas, such as its capacity to provide an adequate frequency of meter reads and to respond to large scale outages and other service emergencies.[9] The accuracy of Northern's estimated bills and the percentage of billing errors also require further evaluation, given that heavy reliance on estimations of usage, rather than actual meter readings, can compromise the accuracy of customer bills. In a recent case in which we considered the reasonableness of Northern's estimated billing algorithm, we stated

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[8] See *Northern Utilities, Inc., Request for Approval of Reorganization (Merger),* Docket No. 2002-322, Order (July 3, 2001); *Maine Public Utilities Commission, Investigation of Complaints Regarding Northern Utilities, Inc.'s Billing Practices,* Docket No. 2002-101, Notice of Investigation (March 5, 2002); and discussion below regarding credit and collection line call answer performance.

[9] The Commission, through its Gas Safety Inspector, has solicited information from Northern's Vice President of Operations regarding the Company's current resources and operations to enable us to evaluate the Company's capability to respond to emergency calls and outages compared to what existed prior to its mergers.

> Because we cannot draw a definitive conclusion on whether these results are reasonable, we will continue our review of Northern's use of the [estimated billing] algorithm in another proceeding. Finally, we expect that this is an issue that should be part of a service quality index for Northern should one be adopted.

See *Northern Utilities, Inc., Request for Approval of Rate Design and Partial Unbundling Proposal – Tariff Issues,* Docket No. 97-393(II), Order (January 8, 2002) at 7.

B. Regulatory Action

Due to Northern's ongoing and apparently increasing customer service problems, we determine that Northern's customer service performance warrants comprehensive review at this time. Accordingly, we will open a formal investigation of Northern's customer service practices pursuant to 35-A M.R.S.A. §§ 1303, 1304.

We also hereby initiate, pursuant to 35-A M.R.S.A. §113, a management audit of all of Northern's customer services to determine Northern's service quality performance in each area as compared to similarly sized and structured utilities across the nation, as well as to recognized industry standards and benchmarks, and to develop recommendations for appropriate service standards to which we should hold Northern by imposing proper incentives. Specifically, the audit will evaluate the following areas:

- Call center performance
  - Informational calls
  - Disconnections, reconnections, billing and service calls
  - Emergency calls, i.e. reports of gas odors and leaks
- Estimated Meter Reads and Bills
  - Frequency of meter reads
  - Accuracy of estimated bills when meters not read
  - Effectiveness of Northern's billing system
- Accuracy of Bills
  - Percentage of correct bills issued
- Response to Service Calls/Gas Odor Calls
  - Effect of closing Lewiston service center and cuts in operational staff on Northern's ability to respond to safety, service and gas odor calls.
- Service Appointments Met/Not Met

Furthermore, we will instruct the auditor to evaluate the adequacy of Northern's tracking and reporting of customer service monitoring criteria

required by the Order, and the extent to which staff cuts, office closures, and other reorganizations of its operations and management may be contrary to representations made to the Commission in the merger docket.[10] The auditors will also evaluate what regulatory action should be taken to ensure adequate customer service in the future, as well as to establish necessary and appropriate service quality metrics.[11]

Finally, we establish, pursuant to §1304(5), an interim customer service quality standard and related penalties to help ensure that Northern's call center response performance for its credit and collection line calls meets, and remains at, reasonable levels. Because the management audit will take several months, and because we believe that, at a minimum, Northern's response to customer calls requires immediate attention, we establish a temporary service quality standard for Northern's credit and collection call responses, similar to the regulatory requirements placed by the MA DTE in 1997 on Northern's affiliate, Bay State, with which it shares operational resources. These temporary service quality standards are discussed in more detail below.

V. INVESTIGATION OF NORTHERN'S CREDIT AND COLLECTION LINE CALL RESPONSE PERFORMANCE

Pursuant to 35-A M.R.S.A. §1303(1), we have summarily investigated Northern's credit and collection call center response performance over the last several months. As described in detail below, the evidence at hand indicates that Northern's poor call center response performance requires that we put in place standards and mechanisms to provide Northern with necessary incentives to effect rapid improvement.

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[10] For instance, in its petition seeking approval of the NiSource/Columbia merger, Northern asserted that "the merger will facilitate the provision of new products and services to Northern's customers, will enhance Northern's efforts to maintain operational excellence through technological improvements, process enhancements, and effective cost management." See Northern's Petition, Docket No. 2000-322, at 5. Northern also represented that the merger would have no appreciable impact on local operations.

[11] Northern has expressed concern - over the potential cost of the audit - which will be borne by ratepayers - and the benefits. We intend, in developing the precise scope of the audit and contracting with the auditor, to ensure that the audit is appropriately focused and performed as efficiently and at as low a cost to ratepayers as possible.

A. Chronology of Events

1. Overview

In early 2000, after implementing a new, Y2K-compliant Customer Information System (CIS) and making changes to its call center operations, Northern experienced difficulty meeting an adequate call center response time but it worked with our Director of CAD to improve those results. Subsequently, Northern's decision to simultaneously close several walk-in centers serving customers of Northern (both Maine and New Hampshire Divisions) and its parent corporation, Bay State Gas (Bay State or BSG) throughout Maine, New Hampshire and Massachusetts in early summer 2001 caused renewed call center response problems.[12] In Maine, Northern maintained one walk-in center located on Forest Avenue in Portland.[13] The walk-in centers allowed customers to meet personally with a Northern representative to discuss billing questions and concerns, sign-up for service, or pay a bill. According to Northern, approximately 5% of its and BSG's customers, or approximately 17,000 customers in the three states combined, used the walk-in centers as their primary means of paying their bills.

In 2001, the CAD received 37 complaints between June 11 and November 15 from customers who were either unable to reach, or had difficulty reaching, Northern's credit and collections number. The complaints were distributed over the 6-month period, with 11 being received in June, four in July, seven in August, two in September,[14] nine in October, and three in November.[15] This number of complaints is significant, considering that Northern had a total of 37 complaints filed against it in all of 2000.

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[12] Calls from all three jurisdictions are handled in one call center operation located in Springfield, Massachusetts.

[13] The closure of the walk-in centers resulted in a total of 14 employees being laid off, two in the Portland office. Northern continues to use the Portland office for its meter reading and service call facility, but does not provide walk-in access to the public.

[14] The low number of complaints received in September was most likely due to the September 11 terrorist attack. Complaints in general were down significantly during the month of September.

[15] All complaints for November were received prior to November 15, the beginning date for the winter disconnection period.

2. Walk-In Service Center Closures

On April 6, 2001, Commission staff met with Northern's staff to discuss Northern's plans to close its walk-in service centers in Maine, New Hampshire, and Massachusetts on June 1, 2001. Northern informed Commission staff during that meeting that it intended to notify customers who used the walk-in centers of the pending closure by providing a "bag of information" to each person who used one of the centers between that time and June 1. The bag contained a brochure organized in question and answer format that explained why Northern was closing its walk-in centers, what to do if the customer had payment problems or smelled gas, the different options available to customers after June 1 for paying their bills, and the locations of other payment centers in Portland and Lewiston.[16]

3. Call Center Response Time Impact

Within a week of the closing of the walk-in centers, the Commission's Consumer Assistance Division (CAD) began receiving complaints from customers who could not reach Northern to discuss and resolve billing problems. Customers reported that they either received busy signals or were placed on hold for extended periods when dialing Northern's toll-free credit department number ((800) 552-3054). This number is provided to customers who have received a disconnection notice for non-payment, customers who have been disconnected for non-payment, tenants on a landlord posting, customers not eligible to use the auto attendant system to make a payment arrangement, or customers who wish to speak with a representative to request medical protection, fuel assistance information, or information on bad debts. These customers are directed into the credit queue after their call is answered by the automated answering system, known as IVR.

On June 6, 2001, Northern stated in a phone conversation with the Director of CAD that some customers dialing its credit department were receiving busy signals and were experiencing extended wait times (the time that the caller is on hold in the queue waiting for a live customer representative to answer to call).[17]

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[16] Payment centers are locations where customers can pay their gas bill in person and are typically located at shopping centers or other locales where customers can cash checks and make other financial transactions.

[17] According to Northern, its queue could hold 10 customers at one time. If an eleventh customer called while 10 other customers were already in the queue, that eleventh customer would receive a busy signal.

4. CAD Test Call Survey

The CAD began making test calls to Northern's credit department on June 18 to monitor Northern's call answer performance. The CAD made 58 calls during the first week (June 18 – June 22) and has made 20 calls per week (four calls per day) since June 25. The calls were evenly distributed throughout the day, with the first taking place at approximately 8 a.m. and the last at approximately 5 p.m. The following information was recorded for each call: 1) whether the call connected to Northern's IVR system or received a busy signal; 2) whether the caller reached a live person; 3) the length of time it took to connect to a live person; and 4) the length of time the caller waited on hold before either purposefully disconnecting the call or being disconnected by Northern's telephone system.[18] The results of this survey showed Northern was failing to respond within five minutes to calls to its credit and collection line 61% of the time.

The CAD made a total of 407 test calls to Northern's credit department billing number between June 18 and November 16 to monitor Northern's call answer performance.[19] Of these calls, only 164, or 39% of the calls, actually connected to a live person, rather than remaining in the automated queue or disconnecting while on hold. Of the 164 calls that connected to a live person, the average wait time was two minutes and 54 seconds.[20] A total of 61% of the test calls made, or 247 calls, failed to reach a live customer representative within a minimum of five minutes.[21] Results of the survey are listed in Attachment 1.

On September 21, 2001, Northern separated Maine and New Hampshire calls from Massachusetts calls to its billing center in an effort to increase the number of calls answered by a live representative, as well as reduce the wait time, for Maine and New Hampshire customers. On Monday, October 1, Northern discontinued its policy of limiting the disconnection of customers to only

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[18] The CAD's secretary made the test calls. She waited at least five minutes after being placed in the queue before disconnecting the call. Several of the calls resulted in disconnection without apparent reason.

[19] The CAD continues to make test calls to Northern's billing number, though only results through November 16 are set forth here.

[20] This is an average of the weekly wait times listed in Attachment 1.

[21] Some of these calls were disconnected by Northern's phone system while the call was in queue. The majority of calls, however, were terminated by the CAD test caller after a minimum period of five minutes. The test caller waited longer than five minutes on many calls.

those with whom it made personal contact with and reinstated its standard disconnection policy. This decision was based, according to Northern's staff, on the belief that customers could reach a customer representative in Northern's credit department in a reasonable amount of time.

A comparison of test calls made prior to September 21 to calls made after September 21 (the date when Maine and New Hampshire calls were separated from Massachusetts calls) shows:

- 64% of test calls were not answered within five minutes prior to September 21, compared to 53% of test calls not answered within five minutes after September 21; and
- the average wait for test calls that did reach a live representative was two minutes and 46[22] seconds prior to September 21 and 3 minutes seven seconds after September 21.[23]

These results indicate that the separation of Maine and New Hampshire calls from Massachusetts calls did not appreciably improve the answer rate for Maine calls.

5. Northern's Response

On August 10, 2001, the Director of the CAD met with Northern's staff to discuss the poor call response performance and what was being done to address the problem. Northern's staff indicated that the actual increase in call volume generated by the closing of the walk-in centers had significantly exceeded the anticipated increase and that measures were being taken to improve the call response time. These measures included: 1) increasing hours for taking billing calls from 8 a.m. to 5 p.m. Monday through Friday to 7 a.m. to 7 p.m. Monday through Friday and 9 a.m. to 2 p.m. on Saturday; 2) adding two phone lines; 3) transferring consumer assistance representatives from making outbound calls to taking inbound calls; 4) adding a message to the IVR system that advised customers of the increased hours and during heavy call times recommended that customers call back later,[24] and 5) changing the IVR to

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[22] This figure is an average of the weekly average wait times prior to September 21 listed in Attachment 1.

[23] This figure is an average of the weekly average wait times after September 21 listed in Attachment 1.

[24] It is not clear whether all customers receive this message or only customers placed in the queue for extended periods of time.

allow more than 10 people to be held in queue at the same time.[25] Northern also explained during the August 10 meeting that customer calls from Maine, New Hampshire and Massachusetts were collectively handled by its call center located in Springfield, Massachusetts and that it handles credit department calls separately from other customer calls.[26]

6. Disconnection Issues

The Director of CAD requested during the August 10 meeting that Northern cease the disconnection of customers until customers could reach a live customer representative with Northern's credit department in a reasonable amount of time. Northern agreed to cease customer disconnections until at least August 20, when a second meeting was scheduled to discuss Northern's progress in resolving the call response problem.

During a conference call on August 24, 2001, the CAD Director and Northern staff discussed call response times for the previous week, as well as the Northern's agreement not to disconnect customers until such time that customers could reach a customer representative in a reasonable amount of time. Northern also provided average call wait times for customers calling its credit department line during the period of August 13 through August 26.[27] The wait times reported by Northern were:

Monday, August 13	12 minutes 31 seconds
Tuesday, August 14	10 minutes 39 seconds
Wednesday, August 15	1 minute 53 seconds
Thursday, August 16	3 minutes 11 seconds
Friday, August 17	Unavailable
Monday, August 22	10 minutes 20 seconds
Tuesday, August 23	8 minutes 43 seconds

[25] Northern must have sufficient trunking and capacity in its IVR system, in addition to an adequate number of customer service representatives, to address customer calls. If Northern does not have sufficient trunking or capacity in its IVR system, some customers will receive busy signals. The Commission will closely monitor Northern's phone system to ensure that it is adequately handling all customer calls.

[26] As indicated above, Northern later split off Maine's credit and collection calls in an effort to better handle these call volumes.

[27] These wait times represent calls that were actually connected to a customer representative at the credit department during the weeks of August 13 through August 17 and August 22 through August 26. They do not include customers who hung up before being connected.

Wednesday, August 24	4 minutes 31 seconds
Thursday, August 25	3 minutes 11 seconds
Friday, August 26	Unavailable[28]

During the second week of September, Northern began disconnecting customers. Because of the ongoing, unreasonably long wait times for customers calling the credit department line, Northern agreed to disconnect only those customers with whom it was able to make personal contact at the time of the disconnection and who refused to agree to a payment arrangement. Northern also indicated that it would accept as little as 30% of the past due balance to avoid disconnection.[29] Northern continued with this policy through the November 15th start date of the winter disconnection moratorium. *See* Ch. 81 (17), "Winter Disconnection Rule."[30]

7. Conclusions

It seems apparent that for a utility in Northern's circumstances – one that has not recently had a rate case and has undergone two mergers and successive corporate reorganizations in the last several years - the traditional regulatory incentives have not proven adequate to maintain reasonable levels of service quality. The call response survey conducted by the CAD, complaints from customers who could not reach Northern's credit department toll free number, and Northern's own call response performance report, all support a finding that Northern is providing inadequate and unreasonable service to customers with regard to its call answer rate for customer calls to its credit department. Specifically, we conclude, based on CAD's preliminary investigation, that the percentage of test calls that were not answered by a customer representative within five minutes (61%) and the

[28] Northern did not provide an explanation why the data was not available for either of the Friday's during the two-week period.

[29] According to Northern, it typically requires a payment that represents 70% of the past due balance to prevent disconnection.

[30] Pursuant to Ch. 81, the winter disconnection moratorium ends on April 15th. Northern resumed disconnection activity this spring with modification of the practices of field representatives to deal flexibly with any customers who had difficulty reaching the Company.

average wait time for test calls that were answered by a customer representative (two minutes and 54 seconds) are both inadequate and unreasonable.[31]

Customers calling Northern's credit department line are in danger of losing their gas service due to non-payment. It is therefore critical that they be able to reach a customer representative at Northern in a reasonable amount of time to resolve their problems. This need is especially important for customers using natural gas to heat their homes. For this reason, we find that it is necessary for Northern to improve its call answer rate for customers calling its credit department line. The establishment of a call response metric will serve two purposes: 1) it will provide Northern with guidance as to what is considered "adequate service " by the Commission; and 2) it will ensure that customers who need to reach Northern to inquire about a bill, to prevent disconnection or to establish a payment arrangement, can reach a live person in a reasonable amount of time.

We further believe that call response standards should be established for all general business customer calls to Northern, not only for those to Northern's credit department, so that all customer calls received by Northern are answered by a customer representative within a reasonable amount of time. Having comprehensively applicable standards also helps ensure that resources are not transferred from call center lines that have no metric to ones that do. The audit we order today will help guide the extent to which such broader metrics should be implemented. In this Order, however, we address only the area where the most critical need has been shown and hereby establish the interim credit and collection line call answer metric discussed below, which will be deemed to have become effective on May 1, 2002.

B. Interim Service Standards And Penalties

1. Service standards

The proposal before us for an interim standard for Northern's credit and collection line – at least 80% of all calls from customers answered by a live customer representative within 30 seconds -- is consistent with the one applied to BSG by the MA DTE and also to those applied to Maine's utilities, as noted above. Consequently, we adopt it as an appropriate interim call answer metric for Northern's credit and collection line pending final resolution of this proceeding. The call answer time shall be measured beginning at the point a

[31] Average wait times in excess of 10 minutes, which Northern reported for three of the eight days for which provided data for August, 2001, are particularly troubling. We note that our average wait time significantly understates the problem as it does not include calls in which our caller hung up after waiting five minutes.

caller makes a service selection and ending at the point that a representative in the service area selected by the caller answers the call. If the caller does not make a selection, the response time shall be measured from the point following the completion of Northern's recorded menu options and ending at the point that a customer service representative answers to the call.[32]

2. Penalty structure

Because Northern has experienced periodic problems with its call answer rate since the fall of 1999 and has failed to resolve the problems without formal regulatory intervention, we determine that the assessment of a penalty for non-compliance with the foregoing metric is necessary to ensure that Northern dedicates sufficient resources to its customer call center, pending our further investigation of the overall adequacy of Northern's customer service performance. The Commission staff has worked closely with Northern since the walk-in center closures in June to improve the call answer rate, but these efforts have not thus far been successful. It is apparent that Northern, or its parent company NiSource, requires additional incentive to improve the call answer rate to its credit department line.

In its comments, Northern objected to using the same penalty structure that applies to its parent corporation, BSG, given that Northern is a significantly smaller company. The appropriate penalty amount is a subject worthy of careful consideration, and one that we prefer to resolve in the context of the overall management audit process. For the interim, we adopt the proposal to impose a proportional annual amount when gross revenues are considered.[33] To give the Company an immediate incentive, we adopt the proposal of a monthly evaluation of their call performance with an associated penalty for failure to achieve the 80/30 call response metric, as well as requiring the Company to achieve an annual goal subject to penalty if it fails.

Accordingly, for the interim credit and collection line call answer metric established by this Order, we adopt the proposed maximum penalty of $5,000 for each month Northern fails to meet the standard, and of $60,000, net of monthly penalties incurred within the year, should Northern fail to meet the standard, on average, for the year.

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[32] At this point in time, Northern's IVR system has only one menu level. Northern agrees to not alter its IVR menu format without first receiving approval from the Commission.

[33] Northern's Maine Division's annual revenues are approximately $50 million, or roughly one quarter of BSG's gross revenues $191 million. On this basis, our annual penalty of $60,000 is proportional to BSG's maximum annual penalty amount of $240,000. Our monthly penalty is simply one twelfth of the annual amount.

VI. CONCLUSION

We adopt in its entirety the interim proposal submitted with the concurrence of the Staff, OPA and Northern for effect on May 1, 2002. With these interim standards and penalties in place, we will focus fully on our management audit and on our evaluation of Northern's current service quality performance, appropriate benchmarks and standards, and the implementation of a comprehensive service quality incentive program as warranted. Finally, we clarify that the standards and penalties we adopt herein should not be viewed as setting any type of precedent or limiting in any way the Commission's authority to deal with service quality issues in other ways as we determine warranted.

Accordingly, we

O R D E R

1. A management audit of Northern Utilities, Inc.'s customer services to determine their adequacy;

2. A formal investigation of the quality of service provided by Northern Utilities, Inc. to its customers for the purpose of developing and implementing a service quality incentive plan for Northern Utilities, Inc. to ensure that reasonable customer service levels are clearly established and maintained; and

3. That the interim service quality standard for credit and collection line calls and the penalty structure described in this order be adopted for Northern Utilities, Inc., for effect on May 1, 2002, and that the service quality standard and penalty structure remain in place pending further review of the issues raised in these proceedings.

Dated at Augusta, Maine, this 16th day of May, 2002.

BY ORDER OF THE COMMISSION

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Raymond J. Robichaud
Assistant Administrative Director

COMMISSIONERS VOTING FOR: Welch
Nugent
Diamond

This Order has been designated for publication

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.

2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.

3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.