

December 11, 2003

**VIA EMAIL ONLY**

**RE: I/M/O the Petition of New Jersey-American Water Company, Inc. for  
an Increase in Rates for Water and Sewer Service and Other Tariff  
Modifications  
BPU Docket No. WR03070511  
OAL Docket No. PUCRL 07279-2003N**

**TO SERVICE LIST MEMBERS:**

Enclosed please find the electronic copies of the direct testimonies of the Division of the Ratepayer Advocate's witnesses, Robert J. Henkes, James A. Rothschild, Barbara R. Alexander, Howard J. Woods, and Brian Kalcic, in connection with the above referenced matter.

Should you require anything further, please do not hesitate to contact our office.

Very truly yours,  
SEEMA M. SINGH, ESQ.  
RATEPAYER ADVOCATE

By: \_\_\_\_\_  
Robert J. Brabston, Esq.  
Deputy Ratepayer Advocate

RJB/slc

**STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES  
OFFICE OF ADMINISTRATIVE LAW**

**IN THE MATTER OF THE PETITION OF )  
NEW JERSEY-AMERICAN WATER ) BPU Docket No. WR03070511  
COMPANY, INC. FOR AN INCREASE IN ) OAL Docket No. PUCRL 07279-2003N  
RATES FOR WATER AND SEWER SERVICE )  
AND OTHER TARIFF MODIFICATIONS )**

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**DIRECT TESTIMONY AND EXHIBITS OF BARBARA R. ALEXANDER  
ON BEHALF OF THE  
NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE**

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Filed: December 1, 2003



1 **Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

2 A. My name is Barbara R. Alexander. I use a business title of Consumer Affairs Consultant. My  
3 address is 83 Wedgewood Dr., Winthrop, ME 04364. I appear in this case as a witness on  
4 behalf of the New Jersey Division of the Ratepayer Advocate (“Ratepayer Advocate”).

5 **Q. PLEASE DESCRIBE YOUR BACKGROUND AND QUALIFICATIONS FOR YOUR**  
6 **TESTIMONY IN THIS PROCEEDING.**

7 A. I opened my consulting practice in March 1996, after nearly ten years as the Director of the  
8 Consumer Assistance Division of the Maine Public Utilities Commission. While there, I testified as  
9 an expert witness on consumer protection, customer service and low-income issues in rate cases  
10 and other investigations before the Commission. My current consulting practice is directed to  
11 consumer protection, customer service, and low-income issues associated with the regulation of  
12 public utilities and the move to retail competition. My recent clients include the Pennsylvania  
13 Office of Consumer Advocate, New Jersey Division of Ratepayer Advocate, Maine Office of  
14 Public Advocate, Texas Public Utility Commission, West Virginia Office of Consumer Advocate,  
15 AARP, and the National Center for Appropriate Technology. Among my publications are: Retail  
16 Electric Competition: A Blueprint for Consumer Protection, (U.S. Department of Energy, Office of  
17 Energy Efficiency and Renewable Energy, October, 1998)<sup>1</sup>, “How to Construct a Service Quality  
18 Index in Performance Based Ratemaking,” The Electricity Journal, April, 1996, and “The  
19 Transition to Local Telecommunications Competition: A New Challenge for Consumer Protection”

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<sup>1</sup>Available on the Internet: [http://www.eren.doe.gov/electricity\\_restructuring](http://www.eren.doe.gov/electricity_restructuring).

1 (Public Counsel Section, Washington Attorney General, October, 1997). My most recent  
2 publication explores how states have implemented Default Service policies to accompany the  
3 move to retail electric competition, “Default Service for Retail Electric Competition: Can  
4 Residential and Low-Income Customers be Protected When the Experiment Goes Awry?” (April  
5 2002).

6 I have assisted the Ratepayer Advocate in its participation in restructuring activities  
7 concerning both electricity and natural gas since 1997. I submitted testimony on behalf of the  
8 Ratepayer Advocate in all the electric utility restructuring proceedings on consumer education,  
9 customer protection, and Code of Conduct issues. I submitted testimony on behalf of the  
10 Ratepayer Advocate on all the natural gas restructuring proceedings on these same issues. Most  
11 recently, I filed testimony on behalf of the Division of Ratepayer Advocate on the proposed merger  
12 of FirstEnergy and GPU Energy (Jersey Central Power and Light Co.) and the proposed merger  
13 of Conectiv with Potomac Electric Power Co.

14 Finally, I filed testimony on behalf of the Ratepayer Advocate in the Joint Petition of New  
15 Jersey-American Water Co. and Thames Water Aqua Holdings GmbH for Approval of a Change  
16 in Control of New Jersey-American Water Co. (BPU Docket No. WM01120833) in 2002. My  
17 testimony addressed service quality, customer service, and universal service issues associated with  
18 the proposed change in control.

19 I am also an attorney, and a graduate of the University of Michigan (1968) and the  
20 University of Maine School of Law (1976).

1 My resume is attached as Exhibit BA-1.

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

3 A. The purpose of my testimony is to respond to the base rate case filing made by New Jersey-  
4 American Water Co. (“NJAW”) which seeks a \$51.9 million rate increase which will increase  
5 rates by 20.6%. I will address issues relating to the NJAW’s provision of adequate and safe  
6 customer service quality and the Company’s implementation of certain promises with respect to  
7 service quality and low-income issues it agreed to in the Stipulation that resolved the recent  
8 approval of the change in control of American Water Works, the parent company of NJAW.

9 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.**

10 A. My key conclusions and recommendations are as follows:

11 **A. CUSTOMERS OF NJAW HAVE NOT SEEN ANY BENEFITS FROM THE**  
12 **CHANGE IN CONTROL WITH RESPECT TO CUSTOMER SERVICE AND**  
13 **QUALITY OF SERVICE.**

- 14
- 15 • NJAW and its parent promised that the Change of Control authorized by the Board in 2002 in  
16 Docket No. WM01120833 would result in improved customer service, more efficient operations,  
17 and that the change in ownership would not result in any degradation of customer service quality.  
18
  - 19 • Neither NJAW nor its parent have evaluated the potential customer savings or synergies that may  
20 result from the coordinated management and oversight of the three New Jersey water utilities. As  
21 a result, NJAW customers are being asked to pay higher rates without any of the benefits that may  
22 result from efficiencies associated with customer service, billing, call center operation, credit and  
23 collection, and complaint handling.  
24
  - 25 • Your Honor and the Board should not ignore the company’s failure to identify cost savings and  
26 synergies that are likely to flow from an integrated operation of the three operating companies for  
27 customer service, credit and collection, the call center, billing, and complaint handling. There are  
28 several reasonable approaches that Your Honor and the Board should consider, including an  
29 imputation of an amount of savings that would reduce the pending rate increase to reflect a proxy  
30 for the cost savings and synergies, such as an amount equal to 1% of the company’s operation and

1 maintenance expenses or \$1.08 million based on 2002 operation and maintenance expenses of  
2 \$108,697,766. Alternatively, Your Honor and the Board may want to reduce NJAW's  
3 authorized rate of return on equity for a time until the company has in fact followed through on its  
4 promises made in the Change in Control docket, similar to how the Board recently handled a  
5 failure to provide adequate and reliability service by Jersey Central Power and Light in the recent  
6 base rate case.

7  
8 **B. NJAW'S SERVICE QUALITY PERFORMANCE**

- 9
- 10 • NJAW's call center performance was abysmal in 2002 and after some improvement early in 2003,  
11 has deteriorated to unacceptable levels.
  - 12
  - 13 • Certain areas of NJAW's service territory (Camden/Burlington and Shrewsbury) have more  
14 frequent outages of more than 6 hours than other operating areas.

15  
16 **C. PROPOSED SERVICE QUALITY PERFORMANCE PLAN FOR NJAW**

- 17
- 18 • I recommend that Your Honor and the Board adopt enforceable service quality performance  
19 standards that are applicable to NJAW (and the other two operating companies as well, as I  
20 explain in my Direct Testimony filed in those rate case filings). NJAW made a commitment not to  
21 degrade its service quality in the Change in Control proceeding and promised that the integration of  
22 the three operation companies would be beneficial to consumers. This has not occurred.  
23 Therefore, I recommend a system of gradual penalties in the form of an annual customer rebate for  
24 the failure to meet reasonable service quality performance standards in the future. My  
25 recommendations reflect both the required reporting requirements in effect as a result of the  
26 Change in Control Stipulation and the required performance standards and reporting applicable to  
27 Elizabethtown Water Co.
  - 28
  - 29 • I propose that 10 service quality performance areas be monitored—composed of the seven items  
30 currently reported to the Board as a requirement of the Change in Control Stipulation, plus three  
31 items that are applicable to Elizabethtown Water Co.. A total of \$2 million should be a risk for the  
32 failure to perform at the required performance levels for any calendar year. This represents .85%  
33 of NJAW's 2002 operating revenues, an amount equivalent to the penalty amount applicable to  
34 Elizabethtown Water Co. for the failure to achieve specific customer service performance areas.

35  
36 **D. UNIVERSAL SERVICE PROGRAMS**

- 37
- 38 • During the pendency of the litigation involving the Change in Control, NJAW announced that it had  
39 initiated a low-income assistance program known as H2O Help to Others. In the Stipulation, the  
40 Joint Petitioners recognized that an “increasing number of residential water and wastewater

1 customers face significant financial challenges that threaten their ability to pay for basic necessities,  
2 including utility services.” [Stipulation at p. 28] NJAW committed to continue its existing low  
3 income assistance program and “further pledge to make the program available to customers of any  
4 other regulated New Jersey utility owned by the Joint Petitioners.” The Joint Petitioners also  
5 pledged to support the efforts of the Board and the Ratepayer Advocate “to make utility services  
6 affordable for all customers, including low-income and financially distressed customers.”  
7

- 8 • NJAW has implemented a poorly designed and inadequate low-income assistance program and,  
9 as I will discuss in my Direct Testimony filed in the Elizabethtown Water and Mt. Holly Water rate  
10 increase dockets, failed to comply with its promise to implement any low-income program in the  
11 other operating companies.  
12
- 13 • Because NJAW’s current program has been implemented so poorly and has assisted so few  
14 customers, I propose a more robust program that is targeted to customers with household income  
15 at or below 175% of federal poverty guidelines. These customers should then be provided a  
16 tariffed 15% discount on the rates for consumption charges. Alternatively, these customers should  
17 be exempted from the monthly service charge (currently \$7.18 per month for a 5/8" meter, but  
18 NJAW has proposed to increase this charge to \$8.80/month).  
19
- 20 • In order to enroll eligible customers promptly, Your Honor and the Board should require the water  
21 utilities to implement an automatic enrollment program, similar to that recently approved by the  
22 Board for Verizon’s Lifeline program for reduced local exchange service and implemented for the  
23 Universal Service Fund program for all low-income electricity and natural gas customers through  
24 the Department of Human Services. Automatic enrollment should seek to rely on the eligibility of  
25 customers who have already been certified as eligible for LIHEAP, Lifeline, TANF, Social  
26 Security Disability, Food Stamps, Medicaid, and other programs that are targeted to low-income  
27 households whose household income is equal to or less than 175% of federal poverty guidelines.  
28 Under this approach, the utility and the social service agencies that deliver these programs will  
29 exchange information on the name and address of the eligible customers. The utility would then  
30 enroll those names and address that match their residential customer records, notify the customer  
31 of their enrollment in the program, its benefits, and how to decline enrollment if they choose. In the  
32 following month, the discount should be reflected on the customer’s bill.  
33
- 34 • NJAW should be authorized to seek recovery of the “net” program costs associated with this bill  
35 payment assistance program in the rates for all customers at the company’s next base rate case.  
36 Alternatively, the company could be authorized to consider the net effect of this program in the  
37 context of its future proposal to formally merge the operations of all Thames-owned operating  
38 companies in New Jersey.  
39



1 reducing the time and cost of delivery.” He stated that both corporations “will continue this  
2 commitment to have a goal of enhancing customer service by utilizing the best practices of both  
3 organizations.” [McGivern at 19-20]

4 **Q. HAS NJAW IMPLEMENTED ANY BEST PRACTICES OR IDENTIFIED ANY**  
5 **SYNERGIES ADOPTED OR IMPLEMENTED WITH RESPECT TO CUSTOMER**  
6 **SERVICE QUALITY IN THIS RATE INCREASE FILING?**

7 A. No. NJAW’s Synergy Savings Study has not identified best practices or savings with respect to  
8 service quality and customer service that might be achieved as a result of the integration and joint  
9 ownership of NJAW, Elizabethtown Water, and Mt. Holly Water Co. As a result, NJAW  
10 customers have not seen any benefits from the change in control and the integrated ownership of  
11 these three utilities in these areas. In fact, Mr. Chapman testifies in this filing for a 20.6% rate  
12 increase for NJAW customers that there will be no integration of the customer service function  
13 until 2007 and that the business functions of the three utilities will remain mostly separate for the  
14 near future.

15 **Q. ARE YOU ABLE TO IDENTIFY CUSTOMER SAVINGS OR IMPROVEMENTS**  
16 **THAT SHOULD BE ADOPTED OR THAT COULD REDUCE THE PROPOSED**  
17 **RATE INCREASE?**

18 A. No, I did not conduct a study or determine the amount of savings or potential customer impact due  
19 to improved customer service operations, but NJAW should have done so. As a result of  
20 NJAW’s failure to even look at these potential synergies, the three companies operate different

1 billing systems, different calling centers, different customer complaint systems, and different credit  
2 and collection systems. It is improper for the companies to have sought approval for the change in  
3 the control on the grounds that such an action would result in best practices and synergies for New  
4 Jersey water customers of all three utilities and then fail to even evaluate or implement any of these  
5 potential savings or synergies prior to filing for a base rate increase the following year.

6 **Q. WHAT IS YOUR RECOMMENDATION TO THE ADMINISTRATIVE LAW JUDGE**  
7 **(ALJ) AND THE BOARD WITH RESPECT TO THE PENDING RATE CASES IN**  
8 **LIGHT OF THIS FAILURE TO IDENTIFY COST SAVINGS AND SYNERGIES?**

9 A. Your Honor and the Board should not allow this failure to evaluate and identify cost savings to  
10 pass unnoticed in the context of this request for a 20% increase in customer rates. Your Honor  
11 and the Board could reasonably adopt a variety of approaches. I propose two alternatives. First,  
12 Your Honor and the Board could impute a reasonable level of savings in the form of a reduction in  
13 the revenue requirement in this rate case and the rate case increase filed by the other two operating  
14 companies. For example, as a proxy for the reasonable level of savings that are likely to flow from  
15 the effect of synergies and combined operations of the customer service function, Your Honor and  
16 the Board could impose a reduction in the rate increase sought by each of the three water utilities  
17 equal to 1% of the 2002 operations and maintenance expenses incurred by each utility. With  
18 respect to NJAW, this would amount to a \$1.09 million reduction in the pending rate increase  
19 based on its operations and maintenance expenses of \$108, 697,766 in 2002.<sup>3</sup>

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<sup>3</sup>Exh. P-2, Schedule 2 (Watkins).

1           As an alternative, Your Honor and the Board could reduce NJAW's return on equity to  
2 reflect a management's failure to properly follow through on its promises in the Change in Control  
3 proceeding, similar to the Board's response to the failure of Jersey Central Power and Light to  
4 provide adequate and reliable service in its most recent base rate case. Under this approach, Your  
5 Honor and the Board could hold out the option to restore the reduction in return on equity once  
6 the required analysis and implementation of cost savings and synergies occur.

1           **II. RECENT SERVICE QUALITY AND RELIABILITY PERFORMANCE OF NJAW**

2           **Q. PLEASE DESCRIBE THE PROVISIONS IN THE STIPULATION RELATING TO**  
3           **THE CHANGE IN CONTROL CONCERNING SERVICE QUALITY**  
4           **PERFORMANCE OF NJAW.**

5           A. NJAW agreed to report certain service quality performance measurements to the Board in the  
6           Stipulation approved in November 2002 (BPU Docket No. WM01120833). The following table  
7           shows each performance area and the performance results as reported to the Board<sup>4</sup>:

8

9           Performance Area	2003-1st Q	2003-2nd Q
10          Percentage of Calls Answered within 30 11          seconds	77.63%	62.27%
12          Percentage of Calls Abandoned after 30 13          seconds	3.73%	4.007%
14          Percentage of Satisfied Customers as 15          measured by Call Center IVR	96.89%	96.17%
16          Percentage of Customers that Experience 17          Service Interruption of more than 12 Hrs.	0.00%	0.00%
18          Percentage of customers that experience an 19          interruption in service for more than 6 Hrs.	0.07%	0.02%
20          Percentage of Calls Answered by Live 21          Interaction with a customer service 22          representative	87.04%	87.97%
23          Percentage of Actual Meter readings	72.58%	87.33%

24

25

In addition, the Stipulation stated that these reports would be reported, “for the purpose of

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<sup>4</sup>Response to RAR-SQ-2.

1 developing a baseline against which to track future performance, and ultimately to permit the  
2 Board to consider whether to establish customer service performance standards (“CSPS”) in the  
3 future, provided that no existing New Jersey operating utility will have its CSPS lowered as a  
4 result of this transaction.” [Stipulation, p. 21]

5 **Q. DO YOU HAVE ADDITIONAL COMMENTS ON NJAW’S CUSTOMER CALL**  
6 **CENTER PERFORMANCE?**

7 A. Based on NJAW’s monthly performance data, it is clear that a significant deterioration in call  
8 center performance has occurred since May 2003.<sup>5</sup> In 2002 the Company’s call center failed to  
9 operate at the typical industry standard of answering 80% of the calls within 30 second  
10 performance level in any month, and operated at a service level below 50% for five of the twelve  
11 months. This call center answered only 50% of its incoming calls within 30 seconds on average  
12 during 2002. In 2003, the call center performance appeared to be improving in the January-April  
13 period, but beginning in May 2003, the call center performance level has dropped from 58% to  
14 50% in June, 58% in July, and 40% in August. For the period January-August 2003, the call  
15 center answered only 65% of the calls within 30 seconds. The percentage of calls abandoned  
16 within 30 seconds is a direct function of the call center’s ability to answer incoming calls in a timely  
17 manner, increasing to 11% in August 2003.

18 **Q. DO YOU HAVE ADDITIONAL COMMENTS ON NJAW’S RELIABILITY OF**  
19 **SERVICE AND OUTAGE FREQUENCY?**

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<sup>5</sup>Data Response to RAR-SQ-3.

1 A. While NJAW is evidently operating its system so as to prevent long outages (those over 12 hours),  
2 the frequency of outages over six hours in duration is troubling<sup>6</sup>. Customers in the  
3 Camden/Burlington service area have been especially troubled with frequent outages of this type,  
4 as well as those in Shrewsbury. While the number of customers is small in comparison to the total  
5 number served by NJAW, the fact that 415 Camden/Burlington customers and 139 customers in  
6 Shrewsbury suffered interruptions of service for more than 6 hours during the January-September  
7 period in 2003 is cause for concern.

8 **Q. PLEASE DISCUSS NJAW’S CUSTOMER SERVICE AT ITS CALL CENTER.**

9 A. American Water Works operates a customer call center in Alton, IL for billing problems, service  
10 quality problems, drinking water problems, and credit/collection issues, such as responding to a  
11 disconnection notice. This call center serves approximately 1.8 million customers of the AWW  
12 system, of which NJAW’s customers currently represent 21% of the total customer base. This  
13 call center has been operating at least for the New Jersey American customers since early 2002.  
14 However, this call center does not serve the other Thames-owned water utilities in New Jersey,  
15 namely Elizabethtown Water and Mt. Holly Water.

16 **Q. PLEASE PROVIDE YOUR OVERALL OPINION OF NJAW’S SERVICE QUALITY**  
17 **PERFORMANCE**

18 In general, it is my opinion that the customer service performance at this call center is not  
19 adequate. The overall performance, while meeting the typical 80% service standard in some

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<sup>6</sup>Data Response to RAR-SQ-3.

1 months in 2003, does not consistently perform at this level and often performs at a very low level.  
2 A clear deterioration of service since May 2003 through August 2003 (the most recent month for  
3 which I have performance data) is evident.

4 With regard to reliability of service and frequency of interruptions, the spate of  
5 interruptions of over 6 hours for the two portions of the Company's service territory  
6 (Camden/Burlington and Shrewsbury) is troubling, but the lack of historical performance data with  
7 which to compare this 2003 performance does not allow a definitive conclusion. With  
8 respect to meter reading, the Company's most recent quarterly performance (87%) should be the  
9 norm and the first quarter results (73%) is too low.

10

1           **III. PROPOSED REGULATORY APPROACH TO ASSURE ADEQUATE CUSTOMER**  
2                                   **SERVICE AND SERVICE QUALITY FOR NJAW CUSTOMERS**

3           **Q. PLEASE GIVE AN OVERALL SUMMARY OF YOUR RECOMMENDED**  
4                                   **APPROACH WITH RESPECT TO NJAW’S PROMISES AND ACTUAL SERVICE**  
5                                   **QUALITY PERFORMANCE.**

6           A. In general, the Board should move promptly to adopt enforceable service quality performance  
7                                   standards that are applicable to NJAW (and the other two operating companies as well, as I  
8                                   explain in my Direct Testimony filed in those rate case filings). NJAW made a commitment not to  
9                                   degrade its service quality as a result of the change in control and that the result of the acquisition of  
10                                  Thames by RWE and the integration of the three operation companies would be beneficial to  
11                                  consumers. This promise has not been kept. Therefore, I recommend a system of gradual  
12                                  penalties in the form of an annual customer rebate for the failure to meet reasonable service quality  
13                                  performance standards. My recommendations reflect both the required reporting requirements in  
14                                  effect as a result of the Change in Control Stipulation and the required performance standards and  
15                                  reporting applicable to Elizabethtown Water Co.

16           **Q. PLEASE EXPLAIN YOUR PROPOSED SERVICE QUALITY AND CUSTOMER**  
17                                   **SERVICE PERFORMANCE AREAS, BENCHMARK STANDARDS, AND**  
18                                   **PREDETERMINED PENALTIES.**

19           A. I recommend that NJAW continue to report the 7 performance areas currently required by the  
20                                  Change in Control Stipulation. However, I also recommend that NJAW be subject to the same

1 performance standards applicable to Elizabethtown Water. These areas capture the key service  
2 quality criteria relating to billing, meter reading, customer call center performance, and complaint  
3 handling.

4 **Q. WHAT BASELINE PERFORMANCE STANDARDS SHOULD BE APPLICABLE TO**  
5 **NJAW FOR THESE PERFORMANCE AREAS?**

6 A. NJAW should be subject to performance standards that reflect its recent performance, except  
7 where recent performance is unacceptable (i.e., its customer call center) or where there is no  
8 historical performance data available, in which case the performance standards applicable to  
9 Elizabethtown Water should be applied to NJAW.<sup>7</sup> There is no apparent reason why the  
10 performance of either utility or the regulatory expectations for performance for either utility should  
11 be different under the common control and ownership of the three operating companies. It is  
12 discriminatory to suppose that the customers of one of the commonly owned utilities should be  
13 subjected to poorer service quality than customers of the other utility under the same ownership.  
14 Furthermore, the Change in Control Stipulation promised that deterioration in service quality  
15 would not occur.

16 **Q. HOW SHOULD THE ALJ AND THE BOARD ENFORCE THE RESULTING**  
17 **SERVICE QUALITY PERFORMANCE STANDARDS?**

18 A. Similar to the program already in place for Elizabethtown Water, Your Honor and the Board  
19 should also link the failure to obtain a minimum annual performance level with pre-established

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<sup>7</sup>NJAW has stated that, “the Company strives to meet all EWC targets for all its subsidiaries.” Data  
Response RAR-SQ-7(1).

1 penalties that will reduce the Company's revenues for the annual period in question. The dollar  
2 amount at risk should reflect a reasonable percentage of each utility's regulated revenues. If any  
3 standard is not met, all ratepayers should be reimbursed for a failure to provide adequate service  
4 quality or reliability of service. The effect of these ratepayer reimbursements is to reduce the  
5 Company's revenues, thus affecting its ability to earn its authorized rate of return. In the case of  
6 Elizabethtown Water, the dollar amount at risk has been established and I do not propose to alter  
7 that decision. However, an equivalent amount should be put at risk for NJAW. The \$1.35 million  
8 at risk for service quality failures at Elizabethtown Water represents .9% of the total revenues  
9 approved in its most recent rate case before the BPU<sup>8</sup> and .8% of the company's 2002 revenues.<sup>9</sup>  
10 Since NJAW's total revenues for 2002 were \$244,347,075, I propose that .85% of those  
11 revenues or \$2 million be established as the maximum penalty for service quality failure for any  
12 calendar year. I have allocated that maximum penalty equally to 10 performance areas as shown  
13 below.

14 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED PERFORMANCE AREAS,**  
15 **PERFORMANCE STANDARDS, AND PREDETERMINED PENALTY AMOUNTS.**

16 A. The following Table lists the performance areas, my proposed performance standards, and the  
17 maximum penalty amount that should be assigned to each performance area. The penalty amount

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<sup>8</sup> BPU Docket No. WR01040205, January 23, 2002, Page 7 states that the revenue increase of \$17.4 million will be added to the present revenues of \$134,213,263, to be implemented beginning in March 2002. The percentage relationship of \$1.35 million to \$151.6 million is .89%.

<sup>9</sup> Petition of Elizabethtown Water Co. to Increase Rates, Docket No. WR-03070510, Exhibit P-2, Schedule 2 (Prettyman).

1 that is incurred in any calendar year should reflect the percentage deterioration below the baseline  
 2 amount so that a 10% deterioration in performance should result in a penalty equal to 10% of the  
 3 maximum penalty amount.  
 4

5 **PROPOSED SERVICE QUALITY PERFORMANCE REQUIREMENTS FOR NJAW**

6

7 <b>Performance Area</b>	<b>Performance Standard</b>	<b>Maximum Penalty Amount</b>
8 1. Percentage of Calls Answered within 30 9 seconds	80%	\$200,000
10 2. Percentage of Calls Abandoned after 30 11 seconds	3%	\$200,000
12 3. Percentage of Customers that Experience 13 Service Interruption of more than 12 Hrs.	0.00%	\$200,000
14 4. Percentage of customers that experience 15 an interruption in service for more than 6 Hrs.	0.02%	\$200,000
16 5. Percentage of Calls Answered by Live 17 Interaction with a customer service 18 representative	90%	\$200,000
19 6. Percentage of Actual Meter readings	88%	\$200,000
20 7. Written Customer Correspondence 21 Replied to within 5 Working Days	95%	\$200,000
22 8. Turn-On after Receiving Payment for Shut- 23 off for Non-Payment	<2 Hours	\$200,000
24 9. Customer Appointments Met within 4 25 Hour Window (excluding misses due to 26 customer)	95%	\$200,000

10. Percentage of Satisfied Customers as measured by Call Center IVR	96%	\$200,000
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1  
2  
3  
4  
5 **Q. HOW SHOULD THE CUSTOMER RESTITUTION AMOUNT BE CALCULATED IN**  
6 **ANY YEAR IN WHICH THE COMPANY FAILS TO PERFORM AT THE BASELINE**  
7 **PERFORMANCE STANDARD IN CONDITION TWO?**

8 A. To calculate a reasonable, adequate and equitable customer restitution, I propose, similar to the  
9 plan applicable to Elizabethtown Water, that a specific dollar amount should be assigned to each  
10 performance area. If annual performance falls beneath the baseline or target, the amount of  
11 revenue assigned to that measure (plus interest) should be returned to customers in the form of a  
12 one-time rebate identified on customer bills as “Customer Rebate for Failure to Achieve Customer  
13 Service Quality Performance Standards.”

14 **Q. HOW SHOULD THE AFFECTED UTILITIES REPORT THE SERVICE QUALITY**  
15 **RESULTS WITH RESPECT TO ALL THREE CONDITIONS TO THE BOARD, THE**  
16 **RATEPAYER ADVOCATE, AND OTHER INTERESTED PARTIES?**

17 A. The Company should report the service quality performance data quarterly to the Board, the  
18 Ratepayer Advocate, and other interested parties. In addition, an annual report should be filed in  
19 April for the prior calendar year which provides the monthly performance, the annual average, the  
20 dollar amount of any penalties incurred. This annual report should be accompanied by either an  
21 independent verification by a third party or an affidavit signed by a senior officer which attests that  
22 the information is accurate and verifiable.

1     **Q.     HOW SHOULD THE COMPANY REPORT THE RESULTS OF THE SERVICE**  
2           **QUALITY INDEX TO CUSTOMERS?**

3     A.     The affected utilities should report the results of its service quality and reliability performance to its  
4           customers annually. This report should include a full report on performance in all categories, both  
5           where the Company performed better than the baseline standards and any failures, as well as any  
6           monetary restitution being returned to customers.

1 **IV. UNIVERSAL SERVICE PROGRAMS**

2 **Q. PLEASE EXPLAIN THE CONDITIONS INCLUDED IN THE CHANGE IN**  
3 **CONTROL STIPULATION CONCERNING LOW-INCOME PROGRAMS.**

4 A. During the pendency of the litigation involving the Change in Control, NJAW announced that it had  
5 initiated a low-income assistance program known as H2O Help to Others. In the Stipulation, the  
6 Joint Petitioners recognized that an “increasing number of residential water and wastewater  
7 customers face significant financial challenges that threaten their ability to pay for basic necessities,  
8 including utility services.” [Stipulation at p. 28] NJAW committed to continue its existing low  
9 income assistance program and “further pledge to make the program available to customers of any  
10 other regulated New Jersey utility owned by the Joint Petitioners.” The Joint Petitioners also  
11 pledged to support the efforts of the Board and the Ratepayer Advocate “to make utility services  
12 affordable for all customers, including low-income and financially distressed customers.”

13 **Q. DID NJAW PROPERLY IMPLEMENT THIS PROVISION OF THE CHANGE IN**  
14 **CONTROL STIPULATION?**

15 A. NJAW has implemented a poorly designed and inadequate low-income assistance program and,  
16 as I will discuss in my Direct Testimony filed in the Elizabethtown Water and Mt. Holly Water rate  
17 increase dockets, failed to comply with its promise to implement any low-income program in the  
18 other operating companies.

1 **Q. PLEASE EXPLAIN NJAW’S LOW-INCOME PROGRAM AND HOW IT HAS BEEN**  
2 **IMPLEMENTED.**

3 A. NJAW has implemented a crisis program similar to a “fuel fund” in which it solicits donations from  
4 its customers and then donates a corporation contribution that matches every dollar contributed by  
5 customers. This H2O Help to Others program is described as a source of funds to help “families  
6 and individuals who find it difficult to pay their water bills.” Customers are asked to send their  
7 contributions to Dollar Energy Fund in Pittsburgh, PA or include a donation with their regular bill  
8 payment every month. The Dollar Energy Fund in Pittsburgh, PA operates the NJAW fund,  
9 accepts applications from customers for assistance, and works with an NJAW employee in New  
10 Jersey to decide which customers will receive assistance and in what amount.

11 I have a number of concerns with the implementation of this program:

- 12 • While NJAW has solicited donations from its customers, it has never advertised to its customers  
13 how to apply for assistance for this program and the criteria for obtaining assistance. In other  
14 words, the only way that customers have evidently found their way into this program is through a  
15 personal referral from a NJAW company representative, presumably at its call center. This  
16 method of program entry is inherently discriminatory.
- 17 • The location of Dollar Energy Fund in Pittsburgh, PA is unlikely to stimulate the maximum interest  
18 and donations from New Jersey customers. Furthermore, the fact that customers who seek  
19 assistance must call the Fund in Pittsburgh (albeit on a toll free number) is also a barrier to entry.
- 20 • Neither the customer bill nor the disconnection notice informs customers about the existence of this

1 program.

- 2 • The dollar amount raised and the dollar amount of assistance provided to NJAW customers is  
3 extremely small. Since the program's inception in September 2002, only 141 customers have  
4 been provided with a grant, an average of 13 per month. A total of \$30,074 has been provided to  
5 NJAW customers over the 12-month period September 2002-August 2003. This amount  
6 presumably reflects donations from customers equal to \$15,000 and a corporate contribution of  
7 the same amount.
- 8 • The program<sup>10</sup> is designed to respond to a crisis situation for a customer who has a balance of  
9 more than \$100, but an exception may be made for a senior citizen who may have a zero balance  
10 as long as there is no credit on the account. A customer can receive only one grant per year per  
11 utility for a maximum of \$400. Furthermore, applicants must have paid at least \$50 on their  
12 account in the last 90 days.

13 **Q. WHY ARE THE NEEDS OF LOW INCOME HOUSEHOLDS OF CONCERN IN THIS**  
14 **PROCEEDING?**

- 15 A. An increase in rates will likely have the most adverse impact on low-income customers because  
16 their annual household income is so low and the fact that utilities as a whole comprise a very high  
17 percentage of that household income. Furthermore, low-income customers are likely to seek  
18 access to customer service centers, call centers, payment arrangement options, and trained

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<sup>10</sup>Dollar Energy Fund Grant Program Guidelines for NJ American Water Customers, Data Response RAR-SQ-5.

1 customer service representatives more than other residential customers. When service quality  
2 declines, at it has recently in NJAW's call center, low-income customers are the most adversely  
3 affected.

4 **Q. HOW DOES NJAW'S LOW-INCOME PROGRAM COMPARE WITH LOW-**  
5 **INCOME PROGRAMS OPERATED BY OTHER AMERICAN WATER WORKS**  
6 **UTILITIES?**

7 A. There are several examples of other state or utility programs that provide bill payment assistance  
8 to low income customers. As documented in the Change in Control proceeding, several American  
9 Water Works subsidiaries in California, Illinois, Iowa, Kentucky, Missouri, Ohio, Pennsylvania,  
10 and West Virginia provide such assistance. The California-American Water Co. exempts low-  
11 income customers from the monthly service charge under the Program for Alternative Rates tariff.  
12 The Pennsylvania-American Water Co. provides a 20% rate discount on the prevailing service  
13 charge or minimum bill. In addition to these programs, I am familiar with the Massachusetts Low-  
14 Income Sewer and Water Assistance Program that provides eligible low-income households with  
15 bill payment assistance. In FY 1999, 6,592 households were assisted under this program.  
16 Eligibility is keyed to the criteria for LIHEAP (fuel assistance) and local Community Action  
17 Program Agencies (CAPs) provide the outreach and intake for this program. Benefit amounts are  
18 capped at 25% of the annual water and sewer bill or a maximum dollar amount.

19 **Q. PLEASE DESCRIBE WHAT CHANGES TO NJAW'S LOW-INCOME PROGRAM**  
20 **THAT YOU RECOMMEND THAT THE ALJ AND THE BOARD ADOPT AS A**

1           **CONDITION OF ANY RATE INCREASE IN THIS PROCEEDING?**

2           A.     Because NJAW’s current program has been implemented so poorly and has assisted so few  
3           customers, I propose a more robust program that is targeted to customers with household income  
4           at or below 175% of federal poverty guidelines. These customers should then be provided a  
5           tariffed 15% discount on the rates for consumption charges. Alternatively, these customers should  
6           be exempted from the monthly service charge (currently \$7.18 per month for a 5/8" meter, but  
7           NJAW has proposed to increase this charge to \$8.80/month). This approach would be similar to  
8           that used in California. This discount should be coupled with a commitment to pay the resulting  
9           monthly bill on a timely basis (or a commitment to apply for additional financial assistance in a  
10          timely manner to pay the balance of the monthly bill).

11          **Q.     HOW SHOULD CUSTOMERS BE ENROLLED IN THIS PROGRAM?**

12          A.     Customers should be informed of the existence of this program in bill inserts (issued at least semi-  
13          annually as part of the regular monthly bill) and solicited for eligibility when the Company is  
14          contacted in response to disconnection notices or when customers call the Company to find out  
15          about payment arrangements. In order to enroll eligible customers promptly, Your Honor and the  
16          Board should require the water utilities to implement an automatic enrollment program, similar to  
17          that recently approved by the Board for Verizon’s Lifeline program for reduced local exchange  
18          service and implemented for the Universal Service Fund program for all low-income electricity and  
19          natural gas customers through the Department of Human Services. Automatic enrollment should  
20          seek to rely on the eligibility of customers who have already been certified as eligible for LIHEAP,

1 Lifeline, TANF, Social Security Disability, Food Stamps, Medicaid, and other programs that are  
2 targeted to low-income households whose household income is equal to or less than 175% of  
3 federal poverty guidelines. Under this approach, the utility and the social service agencies that  
4 deliver these programs will exchange information on the name and address of the eligible  
5 customers. The utility would then enroll those names and address that match their residential  
6 customer records, notify the customer of their enrollment in the program, its benefits, and how to  
7 decline enrollment if they choose. In the following month, the discount should be reflected on the  
8 customer's bill.

9 **Q. WHAT WOULD SUCH A PROGRAM COST AND WHO SHOULD BEAR THE**  
10 **COSTS OF THE DISCOUNTED RATES?**

11 A. It is difficult to estimate costs for such a program because NJAW has not studied the  
12 demographics of its customer population, has not analyzed the impacts of water bills on its low-  
13 income customers or the impact of this proposed rate increase on its customers. However, I do  
14 recommend that the reasonable and prudent net costs of a low-income bill payment assistance  
15 program be included in rates paid by all customers.

16 The most recently available U.S. Census data for New Jersey indicates that 6.3%  
17 of the State's families live in poverty (defined as income at 100% or less of the federal  
18 poverty guidelines)<sup>11</sup> and 11.5% of the State's population has an income at or below

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<sup>11</sup> U.S. Bureau of the Census, Census 2000, Table DP-3 (New Jersey).

1 125% of federal poverty guidelines.<sup>12</sup> While county-level data is not available for the  
2 2000 Census, the extent of poverty by county in New Jersey was most recently estimated  
3 in 1998<sup>13</sup>, showing that the highest incidence of poverty occurs in Atlantic County (10.5%  
4 of population), Camden County (12.2%), Cape May County (10.7%), Essex County  
5 (16%), all of which are served by NJAW. Within the Elizabethtown Water service area,  
6 Mercer County has a 9.2% rate of poverty, and Union County, 9%.

7 It would seem reasonable for Your Honor and the Board to order the affected  
8 utilities to conduct studies to determine the potential number of eligible customers (at  
9 175% of poverty level) and the cost of the proposed rate discount or exemption from the  
10 minimum monthly service charge within 180 days of the Board's order in this proceeding.  
11 A subsequent compliance proceeding should then establish the final structure of the  
12 program, the approval of a tariff, financial parameters of the discount program and the  
13 method of including net costs of such a program in future base rate cases.

14 **Q. HOW SHOULD NJAW BE REIMBURSED FOR ITS ADDITIONAL EXPENSES**  
15 **INCURRED TO IMPLEMENT THE BILL PAYMENT ASSISTANCE PROGRAM?**

16 A. NJAW should be authorized to seek recovery of the "net" program costs associated with this bill  
17 payment assistance program in the rates for all customers at the company's next base rate case.  
18 Alternatively, the company could be authorized to consider the net effect of this program in the

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<sup>12</sup> U.S. Bureau of the Census, Census 2000, Table 25, Poverty Status by State in 2000.

<sup>13</sup> U.S. Census Bureau, County Estimates for People of All Ages in Poverty for New Jersey: 1998.

1 context of its future proposal to formally merge the operations of all Thames-owned operating  
2 companies in New Jersey. By “net” I refer to those program expenses, both program benefits and  
3 incremental administrative costs, that are in excess of savings that the utility will almost certainly  
4 experience in its collection costs associated with serving the customers enrolled in the program. I  
5 cannot project those savings, but the Company should be required to monitor the impact of this  
6 program on its collection costs, including uncollectible expenses, collection activities, including  
7 disconnection of service, and the positive impact on its working capital due to increased customer  
8 payment behavior.

9 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

10 **A.** Yes, it does.

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### Recent Clients

AARP

Pennsylvania Office of Consumer Advocate

New Jersey Division of Ratepayer Advocate

Texas Legal Services Center

Colorado Office of Consumer Counsel

Texas PUC

Maine Office of Public Advocate

Maine PUC

Oak Ridge National Laboratory, DOE

West Virginia Consumer Advocate Division

Regulatory Assistance Project

Vickery and Waldner, LLP, Houston, TX [Expert Witness]

Carr, Korein, Tillery, Kunin, Montrov, Cates, Katz & Glass, LLC, St. Louis, MO [Expert Witness]

Shearman-Denenea, L.L.C., New Orleans, LA [Expert Witness]

Rosner, Law, and Mansfield, San Diego, CA [Expert Witness]

National Center for Appropriate Technology

Washington Office of Public Counsel

Vermont Department of Public Service

D.C. Office of People's Counsel

Consumer Energy Council of America

Citizens Utility Board (Illinois)

### Areas of Expertise.

- Default Service, Consumer Protection, Service Quality, and Universal Service policies and programs associated with the move to competition in the electric, natural gas, and telecommunications industries.
- Policies and programs associated with the regulation of competitive energy and telecommunications providers

- The regulatory policies associated with the development and funding of consumer education programs to accompany the move to competition for energy and telecommunications services.
- Code of Conduct and affiliated interest rules applicable to regulated utilities and their affiliates.

## Prior Employment

DIRECTOR 1986-96  
*Consumer Assistance Division*  
*Maine Public Utilities Commission* *Augusta, Maine*

One of five division directors appointed by a three-member regulatory commission and part of commission management team. Direct supervision of 10 employees, oversight of public utility consumer complaint function, appearance as an expert witness on customer services, consumer protection, service quality and low income policy issues before the PUC. Chair, NARUC Staff Subcommittee on Consumer Affairs.

SUPERINTENDENT 1979-83  
*Bureau of Consumer Credit Protection*  
*Department of Professional and Financial Regulation* *Augusta, Maine*

Director of an independent regulatory agency charged with the implementation of Maine Consumer Credit Code and Truth in Lending Act. Investigations and audits of financial institutions and retail creditors, enforcement activities, testimony before Maine Legislature and U.S. Congress.

## Education

JURIS DOCTOR 1973-76  
*University of Maine School of Law* *Portland, Maine*

Admitted to the Bar of the State of Maine, September 1976.

B.A. (WITH DISTINCTION) IN POLITICAL SCIENCE 1964-68  
*University of Michigan* *Ann Arbor, Michigan*

## Publications and Testimony

“How to Construct a Service Quality Index in Performance-Based Ratemaking”, The Electricity Journal, April, 1996

“The Consumer Protection Agenda in the Electric Restructuring Debate”, William A. Spratley & Associates, May, 1996

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Direct Testimony on behalf of AARP, West Virginia PUC Investigation into Retail Electric Competition (consumer protection, universal service, Code of Conduct), June 15, 1999.

Direct and Surrebuttal Testimony on behalf of the Pennsylvania OCA, Gas Restructuring proceedings (8 natural gas utilities): consumer protection; consumer education; code of conduct, before the Pennsylvania PUC, October, 1999-April, 2000.

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Direct Testimony on behalf of the Maine Office of Public Advocate, Central Maine Power Company Alternative Regulation Plan [Docket 99-666] on service quality issues, before the Maine PUC, May, 2000.

Direct Testimony on behalf of AARP, Universal Service Programs and Funding of low-income programs for electric and natural gas service, before the New Jersey Board of Public Utilities, Docket No. EX000200091, July, 2000.

Comments (on behalf of NASUCA and AARP) on Uniform Business Practices Reports, May and September, 2000.

Direct Testimony on behalf of the Pennsylvania OCA, Verizon-Pennsylvania Structural Separation Plan on service quality, customer service and consumer protection issues [Docket No. M-00001353] before the Pennsylvania PUC, October, 2000.

Direct and Rebuttal Testimony on behalf of the Maine Office of Public Advocate, Verizon-Maine Alternative Form of Regulation on service quality issues [Docket No. 99-851] before the Maine PUC, January and February, 2001.

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## Presentations and Training Programs:

- National Low Income Energy Consortium (NLIEC) Conference
- NARUC
- NASUCA
- State Legislatures: New Jersey, Texas, Kentucky, and Maine
- Commissions: Pennsylvania, Georgia, Kentucky, Illinois, New Jersey
- DOE-NARUC National Electricity Forum
- AIC Conference on Reliability of Electric Service
- Institute of Public Utilities, MSU (Camp NARUC)
- Training Programs for international regulators (India and Brazil) on behalf of Regulatory Assistance Project
- Georgia Natural Gas Deregulation Task Force [December 2001]