

State of New Hampshire
Public Utilities Commission

Unitil Energy Systems, Inc.
Docket No. DE 08-015
Response to Record Requests

Exhibit No. 5
Record Request No. 2:

Please explain why the Provision for Uncollected Accounts costs that appear on Schedule KMA-2, Page 3 is significantly higher than the estimates. Please also discuss the Company's collection practices with respect to bad debt and the steps it takes to contain these costs.

Response:

For the six month period August 2007 to January 2008, the Company wrote off an additional \$154,032 in supply related bad debt over the original estimated amount. This increase in write-offs appears to be due to a combination of; 1) rate increases due to high energy prices; and 2) other economic factors which are occurring simultaneously and may be more difficult to precisely quantify, such as a slowing economy, increases in the level of outstanding consumer debt, the increase in consumer prices for food and transportation, and the impact of the mortgage/credit crisis, all of which have negatively affected customer's ability to pay their utility bills.

Prior to 2007, the Company's over 90 day arrearages would reach its peak during the months of April or May with dramatic reductions occurring over the next five months as customer payments resumed at the conclusion of the winter moratorium period. This same pattern remained consistent despite the level of arrearages year after year until last year. Although the arrearage was high in May 2007, the total number of customers that comprised those arrearages decreased by 17% from the month prior – an indication that the same historical patterns would occur. However, rather than decreases in arrearages and customer counts over the next two months, the arrearages actually increased by 10% while the customer count remained constant. Last year's arrearage peak was eventually reached in July and continued at a very high level through September.

In addition, the makeup of the arrearage began to change dramatically during the year, with a 50% increase to the percentage of protected customers in the over-90-day category.

Since the regulations allow customers to spread out payment of their winter bills over several months, in some cases up through September, the Company felt that increases in the number of payment plans would be a positive indication that

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arrears would decrease over time. The amount owed from customers with payment plans beginning in April doubled from the same month in 2006. However, many of these customers proved unable to keep their payment arrangements and were ultimately disconnected for non-payment. The total number of customers that were not restored after a service disconnection for non-payment, increased by 22% compared to 2006, indicating a much greater level of difficulty in collecting amounts due. In addition, customer bankruptcies more than doubled in 2007 which resulted in an increase of \$17,464 over the prior year bankruptcies. These facts also contributed to the under-estimation of write-off amounts.

The Company determines its net write-offs by subtracting any write-off recovery payments from the original gross write-off balances. The majority of write-off recovery payments are received from third party collection agencies. There has been a recent decline in write-off recoveries relative to the total write-offs. This is a reflection of the collection agencies inability to collect on the already written off debt. Declining write-off recoveries have also impacted the level of final net write-off expenses.

The Company's collections and write-off procedures are discussed below.

Procedures:

The Company adheres to all NH Public Utilities Commission's rules and regulations pertaining to the collection of outstanding receivables regardless of their level, including notice and termination procedures, once a customer meets the criteria according to the rules and regulations. In addition, the Company collects security deposits according to rules and regulations for commercial and residential accounts. The Company offers energy efficiency programs and energy saving tips for reducing customer bills and a budget program and payment arrangements to assist customers who are having difficulty managing their bills.

We make every effort to encourage customers to call us when they are having difficulty in paying their bills and to work with customers to avoid service termination for non-payment. In cases where service is terminated, we will work with customers to resume service based on a satisfactory payment and continuing payment agreement. The most common pathway to account write-off is a termination of service followed by no further contact of any sort from the customer.

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Outstanding receivables are usually considered for write-off after service has been terminated at the Customer's request or by the Company for non-payment of service ("Termination of Service") with the exception of bankruptcy, as detailed below.

Collections:

Actions undertaken by the Company to collect amounts due from a Customer after termination of service include the following:

1. Within five (5) business days after Termination of Service, the Final Bill is rendered and mailed to the Customer.
2. Approximately forty-five (45) days after the Final Bill is mailed, if a balance is still outstanding, the customer appears on a weekly report. This report lists the customers that should be considered for further action by an external collection agency.
3. Prior to sending accounts to a collection agency, the report is reviewed by the credit & collections group for a final check for recent last minute payments or any customer contact.
4. If the Customer with amounts due and owing has made a payment, corresponded that a payment is forthcoming, or has an active payment plan, a grace period of fifteen (15) days will be afforded during which time no adverse action will be taken and the customer is mailed another Final Reminder Letter.
5. If the Customer has not made payment or communicated with the Company about a payment arrangement, or payment is not forthcoming, the account is sent to collections with no further notice.

Write Offs Procedures:

Write offs are performed each month on the last working day of the month.

Any inactivated account that is approximately one hundred and twenty (120) days old or more is considered for write off. The dollar amount of the customer accounts selected for monthly write-off (net of recoveries) is determined based upon the review of the customer account aging performed by the Credit Analyst under the oversight of the Manager of Customer Service, who approves the listing of accounts and authorizes the Credit Analyst to perform the monthly write-off.

1. Once the accounts are confirmed for write off, the Customer Service Manager communicates the information to the Credit Analyst, who will perform the actual write off of the accounts.

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2. The Credit Analyst reviews the Special Trial Balance (the monthly report that lists the accounts receivable aging of all accounts, including accounts that are coded for delinquency exemptions, such as bankruptcy, medical, elderly, budgets, payment plans and infant protections) for any bankruptcies. Bankruptcies are generally written off in the month the Company is notified of the bankruptcy, provided the billing has been completed and the account has been final billed.
3. To flag the bankruptcy for write off, the Credit Analyst goes into the billing system menu, "*Work with Customer Accounts*" and changes the status on the accounts from F (final) to C (collections).
4. The accounts noted as bankruptcies are selected for write off prior to identifying additional customer accounts to be written off.
5. The Credit Analyst runs a final bill report which lists all final bills for potential write off. The list is in order by month by final bill date, amount and customer.
6. The report is reviewed for payment agreements, partial payments and telephone calls as needed. Notes of the above are entered into miscellaneous customer information coded as "PA" for Payment Arrangement.
7. Once the review is complete, the Credit Analyst selects the accounts for write off based on the oldest receivables.

Person Responsible: Mark A. Lambert

Date: April 2, 2008