**Case 1. The *NYSEG* Corporate Responsibility Program \_\_\_\_\_\_\_\_\_\_\_\_**

*We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens and support good works and charities….We must encourage civic improvements and better health and education.*

Many large corporations operate consumer responsibility or community responsibility programs, which aim to return something to the consumer or to the community in which the company does business. The motivation is at least twofold: these programs create a positive image of the company, and they make life much better for various unlucky members of the community. However, these programs are not good for corporate profits. They operate at a net loss and are, in effect, a form of corporate philanthropy.

New York State Electric and Gas Corporation (NYSEG) has created a program to fulfill what its officers consider to be the company’s social responsibility to its public, in particular its consumers. When this program started two decades ago, NYSEG was a New York Stock Exchange – traded public utility with approximately 60,000 shareholders. Recently, NYSEG became a subsidiary of the Energy East Corp., a superregional energy services and delivery company with more than 5,800 employees. Energy East Corp. serves 1.4 million electricity customers and 600,000 natural gas customers in the northeastern United States. It is traded on the New York Stock Exchange.

In general, eastern public utilities have not enjoyed strong returns to shareholders in recent years because of relatively mild winters, increased plant costs, and a lower electric market price. However, Energy East has been able to increase earnings per share and dividends per share every year. Operating revenues have also gone up significantly. Energy East has been aggressively attempting to increase profitability by selling power plants and focusing on energy delivery. It has expanded its services rapidly and intends to continue the expansion. NYSEG itself continues to deliver electricity to more than 800,000 customers and natural gas to around 250,000 customers across more than 40 percent of upstate New York.

NYSEG’s corporate responsibility program has not, as yet, been altered by the change to Energy East Corporation or by the relatively weak financial returns for utilities in recent years. NYSEG designed the program – and continues to today – to aid customers who are unable to pay their utility bills. The program does more than simply help customers pay their bills. It locates and attempts to remedy the root causes of bill nonpayment, which almost invariably involve financial distress. However, NYSEG attempts to reach beyond financial exigency. It seeks to rescue people in the community who are in unfortunate circumstances because of industrial injury, the ill health of a spouse or child, drug dependency, and the like. The company offers its assistance whether or not it is reasonable to suppose that the assistance provided will restore a paying customer.

To implement this plan, NYSEG has created a system of consumer advocates – primarily social workers trained to deal with customers and their problems. Since the program’s 1978 inception, NYSEG has maintained a staff of several consumer representatives. Each of them handles approximately one hundred cases a month, over half of which result in some form of financial assistance. The remaining cases are referred to other organizations for assistance.

The process works as follows: When the company’s credit department believes that a special investigation should be made into customer’s situation, the employee refers the case to the consumer advocate. Referrals also sometimes come from human service agencies and from customers directly. Examples of appropriate referrals include unemployed household heads; paying customers who suffer serious injury, lengthy illness, or death of a wage-earner; and low-income senior citizens or those on fixed incomes who cannot deal with rising costs of living. To qualify for assistance, NYSEG requires only that the customers suffer from hardships that they are willing to work to resolve.

Consumer advocates are concerned with preventing the shutoff of service to these customers and to restore them to a condition of financial health. They employ an assortment of resources to put customers back on their feet, including programs offered by the New York State Department of Social Services and the federal Home Energy Assistance Program (HEAP), which awards annual grants of varying amounts to qualified families. In addition, the consumer advocates provide financial counseling and help customers with their medical bills and education planning. They arrange for assistance from churches and social services, provide food stamps, and help coordinate Veterans Administration benefits.

NYSEG also created a direct financial-grants program called Project Share, which is funded by a foundation created by NYSEG and by direct contributions from NYSEG employees, retirees, and customers. The latter can make charitable donations through their bills. They are asked voluntarily to add one, two, or five extra dollars to their bill each month. This special fuel fund is intended to help customers pay for energy emergencies, repairs to heating equipment, home weatherization, and water heater replacements. Rants of up to $200 are available to households in which someone is over 60 years old, has a disability, or has a serious medical condition – and with insufficient means of paying basic bills. The special fund of money created is overseen by the American Red Cross, which receives applications, determines eligibility, and distributes the collected funds. By 2002, over $4 million has been distributed to more than 20,000 customers since Project Share began in 1982.

The rationale or justification for this corporate responsibility program is rooted in the history of public utilities and rising energy costs in North America. Public utilities originally provided a relatively inexpensive product. NYSEG and the entire industry considered its public responsibility limited to the functions of providing energy at the lowest possible cost and returning dividends to investors. NYSEG did not concern itself with its customers’ financial troubles. The customer or the social welfare system handled all problems of unpaid bills, which was considered strictly a matter of business.

However, the skyrocketing energy costs in the 1970s changed customer resources and NYSEG’s perspective. The energy crisis caused many long-term customers to encounter difficulty in paying their bills, and the likelihood of power shutoffs increased as a result. NYSEG accepted the responsibility to assist its valued customers by creating the Consumer Advocate system. NYSEG believes that its contribution is especially important now because recent reductions in federal assistance programs have shifted the burden of addressing these problems to the private sector.

The costs of NYSEG’s involvement in the program are paid for from company revenues, which in principle (and in fact) entail that returns to shareholders are lowered. However, these costs are regarded by company officers as low. The program has few costs beyond office space and the consumer advocates’ salaries and benefits, which total a half-million dollars. All expenses are treated as operating expenses. To augment Project Share’s financial support, NYSEG shareholders have voted the program an annual, need-based grant. In the past, these shareholder gifts have ranged from $40,000 to $100,000 annually. NYSEG shareholders also fund related personnel and printing costs. The company itself has also supported Project Share through direct contributions to the Red Cross.

The company views some of the money expended for the corporate responsibility program as recovered funds because of the customers retained and the bills paid through the program. NYSEG officials assume that these charges would, under normal circumstances, have remained unpaid and would eventually have been written off as losses. NYSEG’s bad-debt level is 20 percent lower than that of the average U.S. utility company. The company believes that its corporate responsibility policy is *both* altruistic *and* good business, despite the program’s maintenance costs. Though these costs well exceed recovered revenue, the service builds excellent customer relations. In other words, staffing and otherwise paying for these programs is a net financial loss for the company and its shareholders – what many businesses would call a “losing proposition” – but managers and shareholders do not (in public) complain about these unnecessary expenses, and most seem to feel good about the extra services the company provides to its customers.

It is unknown what view Energy East Corp. will ultimately take of this program, which is acquired from prior management at NYSEG. The program could be disbanded, cut back, or enlarged to serve all of Energy East’s several utility services.

**Questions**

1. Identify the problems identified in the case. Evaluate the options of possible solutions presented by the authors.
2. Do you agree that NYSEG’s Project Share is both altruistic and good business? Why, or why not? Explain.
3. Would Milton Friedman and R. Edward Freeman believe that Project Share is consistent with NYSEG’s fiduciary responsibility to its shareholders? Why, or why not? Explain.
4. Would Hon Boatright believe that Project Share is consistent with NYSEG’s fiduciary responsibility to its shareholders? Why, or why not? Explain.
5. What was the author's recommend solution? Do you agree or disagree with their recommendation? Why or why not?