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December 7, 2007

Luly Massaro, Clerk  
**Public Utilities Commission**  
89 Jefferson Boulevard  
Warwick, RI 02888

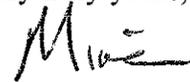
In Re: Narragansett Electric  
Docket No. 3902

Dear Luly:

Enclosed are an original and nine copies of John Farley's testimony on behalf of The Energy Council of Rhode.

If you have any questions, please feel free to call.

Very truly yours,



Michael R. McElroy

MRMc:tmg  
TecRI:3802-Massaro2  
cc: Service list

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BEFORE THE  
STATE OF RHODE ISLAND  
AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

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\_\_\_\_\_  
In Re: NARRAGANSETT ELECTRIC CO. )  
d/b/a/ NATIONAL GRID CO. )  
\_\_\_\_\_

Docket No. 3902  
January 2008  
Electric Retail Rate Filing

TESTIMONY OF  
JOHN FARLEY  
ON BEHALF OF  
THE ENERGY COUNCIL OF RHODE ISLAND

December 7, 2007

1 **Q. Please identify yourself.**

2 A. My name is John Farley. I am the Executive Director of The Energy  
3 Council of Rhode Island (TEC-RI), One Richmond Square, Suite 340D,  
4 Providence, RI 02906. I have been the TEC-RI Executive Director since  
5 July 2004.

6  
7 **Q. Please identify TEC-RI.**

8 A. TEC-RI is a non-profit energy consortium made up of many of the largest  
9 commercial and industrial users of energy in Rhode Island. TEC-RI's  
10 objective is to lower the cost of energy for Rhode Island businesses while  
11 preserving environmental quality and adequate supply. A list of the  
12 businesses and other organizations that are members of TEC-RI is  
13 attached hereto as Exhibit JF-1.

14  
15 **Q. What is your background?**

16 A. I am currently the President of John Farley Consulting, an independent  
17 energy consulting firm specializing in the retail energy business. My  
18 practice focuses on demand-side management, utility rates, energy  
19 efficiency, performance contracting, cost-effectiveness, and measurement  
20 & verification. I have twenty-three (23) years of professional experience in  
21 the energy field. A native Rhode Islander, I have completed demand-side  
22 management projects to benefit customers in over 30 states and several  
23 foreign countries. I have held senior technical, executive, and sales  
24 positions with several leading firms and organizations spanning

1 government, utility, consulting, energy services, and end user customer  
2 perspectives.

3 Before forming my own company, I served as Vice President of Sales and  
4 Marketing for EPS Solutions, an information technology company serving  
5 the utility industry. Prior to that, I was the Manager of Information Services  
6 for TASC/LODESTAR, where my duties included building and managing an  
7 information service in conjunction with EPRI to provide critical data to  
8 utilities for DSM planning and impact evaluation. Prior to that, I served as  
9 Senior Analyst for seven years at COM/Energy, a combination gas and  
10 electric utility that has since merged into NSTAR. At COM/Energy, I led a  
11 team of 6 staff in conducting demand side management (DSM) impact and  
12 process evaluations, as well as DSM planning and cost-effectiveness. My  
13 career began as a technical advisor to the RI Governor's Energy Office  
14 managing projects with small commercial energy auditing, renewable  
15 energy, and other energy efficiency applications. I have a Bachelor of  
16 Science degree in Physics with highest honors from Providence College.

17  
18 **Q. What is the purpose of this testimony?**

19 **A.** In this testimony, TEC-RI will limit its remarks to one issue having to do with  
20 the Last Resort Service ("LRS") reconciliation.

21  
22 The Last Resort Service reconciliation compares the total cost of purchased  
23 power for Last Resort Service to revenue billed to Last Resort Service  
24 customers. Any excess or deficiency is to be refunded to or collected from

1 customers, with interest, under a methodology approved by the  
2 Commission at the time of the Company's annual reconciliation filing.

3  
4 The Company's Last Resort Service reconciliation for the period October  
5 2006 through September 2007 reveals an over recovery of \$577,904.

6  
7 The Company tracks the recovery of Last Resort Service expenses for the  
8 Residential and Commercial & Industrial ("C&I") classes separately  
9 because the retail rates charged to each class, and the monthly wholesale  
10 prices incurred by each class, are different.

11  
12 Residential customers are charged the Standard Offer Service rate for Last  
13 Resort Service, while C&I customers are charged the monthly prices  
14 specified in the C&I Last Resort Service contract.

15  
16 Thus, the reconciliation by class shows an under recovery of \$89,124 for  
17 the Residential class for the period October 2006 through September 2007,  
18 while the C&I reconciliation for the same period shows an over recovery of  
19 \$667, 028.

20  
21 **Q. What is Narragansett Electric proposing?**

22 **A.** In this docket, Narragansett Electric Company ("the Company") is proposing  
23 to use the Last Resort Service over recovery to offset fuel index payments  
24 in the Standard Offer Service ("SOS") reconciliation.

25

1 In effect, therefore, the Company proposes to take the \$667,028 it over-  
2 collected from C&I customers and use some of it to cover Residential LRS  
3 under collection, with the balance going to offset fuel index payments in  
4 Standard Offer Service.

5  
6 **Q. Does TEC-RI agree with this proposal?**

7 A. No, because no single C&I customer on Last Resort Service will ever  
8 benefit from adding funds to the Standard Offer Service account, because  
9 C&I customers are prohibited from ever returning to SOS once they leave  
10 for a competitive supplier.

11  
12 **Q. Please explain.**

13 A. Considering the group of accounts (those of C&I customers who were on  
14 Last Resort Service during the period October 2006 through September  
15 2007) adversely affected by the over collection, the Company's proposed  
16 method suffers from the basic deficiency that it will fail to provide a penny of  
17 relief to even a single member of the affected group!

18  
19 It would be the equivalent, for instance, of taking an over collection from  
20 low income customers and allocating the money to non low income  
21 accounts.

22  
23 The undersigned is aware of no other situation of retail ratemaking in  
24 Rhode Island where the Commission has approved taking an over

1 collection in the reconciliation of one retail account and applying that over  
2 collection to another account of non-overlapping ratepayers.

3  
4 In this docket, there are several different accounts being reconciled, and in  
5 every other case the over or under collection is addressed within the same  
6 account in which it occurred. That is the case for the Standard Offer  
7 Service, for the Transition charge, and the Transmission charge. Even if an  
8 example were to be found, it would certainly not be considered sound  
9 ratemaking practice.

10  
11 Now, if it were the case that one year the Company over collected from C&I  
12 Last Resort Service customers, but the next year there was an under  
13 collection, and so on, such that on average things netted out, this would be  
14 much less of a concern.

15  
16 **Q. What is the history of overpayment by C&I Last Resort Service**  
17 **customers?**

18 **A.** The facts demonstrate that C&I Last Resort Service customers have  
19 systematically overpaid over the last six years for which data are readily  
20 available.

21  
22 According to records filed with the Commission by the Company for similar  
23 year end retail reconciliations in past years, here is the record of over  
24 collection on Last Resort Service:

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Beginning with this current reconciliation (covering the period October 2006 thru September 2007) and going back five additional years (back to the period October 2001 thru September 2002), there has been an over collection in the Last Resort Service account in six of those six years.

The average over collection for the LRS account as a whole has been \$477,411 per year, for a total of \$2,864,463 over collected in the last six years.

The cases in question are dockets 3479, 3571, 3648, 3706, and 3788 as well as the instant docket.

For the most recent four years, where Residential and C&I accounts have been separately tracked, the total over collection has been \$1,625,430, of which \$1,551,907 has been over collected from the C&I customers (representing 94% of the total).

It appears that this practice of using Last Resort Service over recovery to offset Standard Offer Service fuel index payments can be traced back to docket 3479 and the reconciliation of the period October 2001 through September 2002. But in reading the Company's testimony from that case, it seems reasonable to conclude that this adjustment was seen as an offsetting adjustment to one which occurred the prior year, when in docket

1 3402 the Commission approved using Standard Offer over recovery to  
2 offset a one-time under recovery of Last Resort expenses.

3  
4 The Company in fact argued back then in docket 3402 that the under  
5 recovery of Last Resort expenses “was due to unusual circumstances that  
6 were unlikely to reoccur in the future” (cited on page 26 of Jeanne A.  
7 Lloyd’s testimony in docket 3479). And indeed, time has proven the  
8 Company to have been correct in so arguing.

9  
10 In that same docket, docket 3479, the Company noted that many customers  
11 had moved from Last Resort Service to competitive suppliers since the  
12 reconciliation period, and the very small number of LRS customers would  
13 result in a credit factor in excess of 3 cents a kWh (see page 27 of witness  
14 Lloyd’s testimony in docket 3479).

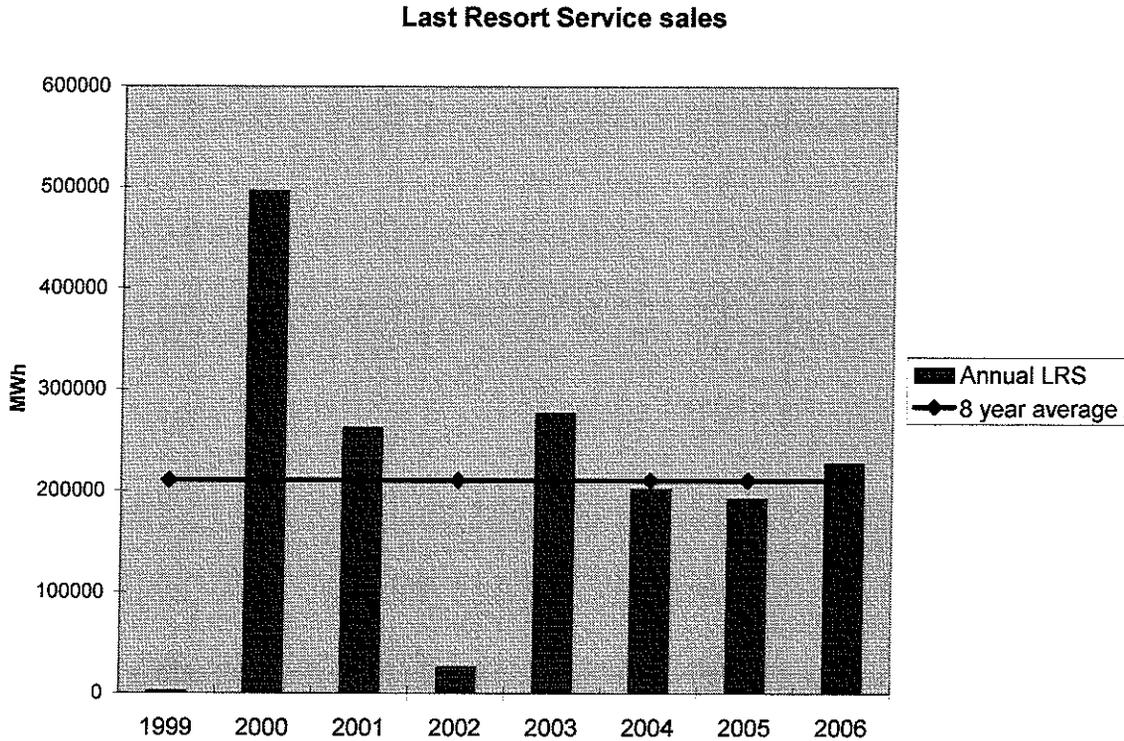
15  
16 That was certainly a valid concern in 2002 given the tremendous volatility  
17 occurring with Last Resort Service volumes at the time.

18  
19 **Q. Is that a valid concern at this time?**

20 **A.** No. The data bear out the fact that last Resort Service today enjoys  
21 significantly more stable conditions with respect to the change in volumes  
22 year to year.

23

1 The following chart illustrates how much more consistent the LRS volumes  
2 have been in the four years since docket 3479, relative to the years prior to  
3 and including that reconciliation:



4

5

6 Thus the concern, valid then, that any credit applied to LRS might produce  
7 a windfall to future customers seems to have a much lower probability of  
8 occurring now.

9

10 **Q. What is TEC-RI asking the Commission to do?**

11

12 **A.** We respectfully request that the Public Utilities Commission allocate the  
13 over recovery of Last Resort Service costs from Commercial and Industrial  
14 customers more appropriately, in a manner that provides benefits to the

1 affected group of C&I accounts. Again the accounts in question are those  
2 who were on Last Resort Service during the reconciliation period, and are  
3 now either still on Last Resort Service or are served by the competitive  
4 market.

5  
6 One way to accomplish this would be to perform an individual customer  
7 true-up similar to what the Company does today for gas customers who  
8 move from gas system sales to transportation. Failing that, the over  
9 collection should be allocated to the Last Resort Service account going  
10 forward and used to offset future expenses in that account.

11  
12 **Q. Does TEC-RI have any other request?**

13 A. Yes. We further request that the Public Utilities Commission ask the  
14 Division of Public Utilities and Carriers and/or the Company to investigate  
15 the reason or reasons for the systematic over collection for Last Resort  
16 Service from Commercial and Industrial customers for the past six years,  
17 and to formulate a satisfactory solution that will fix the problem.

18  
19 **Q. Does that conclude your testimony?**

20 A. Yes.

21  
22  
23 **DATED: December 7, 2007**

24 **John Farley**  
25 **Executive Director, TEC-RI**  
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27 **Providence, RI 02906**  
28 **Tel. (401) 621-2240**  
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TEC-RI MEMBERS

Amica Mutual Insurance Company	Newport Athletic Club
B. A. Ballou & Company, Inc.	Newport Hospital
Brown University	North Safety Equipment
Bryant University	Original Bradford Soapworks
Calise & Sons Bakery, Inc.	OSRAM Sylvania
Clariant Corporation	Pease and Curren
Cooley, Inc.	Polytop Corporation
Colibri Group	Providence College
Fairfield Resorts (The InnGroup)	Raytheon Company
Electric Boat	Rhode Island Hospital
GTECH Corporation	Rhode Island School of Design
Hasbro, Inc.	R.I. Dept. of Administration
Hudson Companies	Rhodes Technologies
Hyatt Regency Newport	Roger Williams University
International Packaging Corporation	Soluol Chemical Company, Inc.
Jay Packaging Group	Stanley-Bostitch
Johnson & Wales University	TACO Inc.
Kenney Manufacturing Company	TECH Industries Inc.
Kenyon Industries	Teknor Apex Company
J. H. Lynch & Sons, Inc.	Toray Plastics America Inc.
Mahr Federal Inc.	U.S. Naval Station Newport
Matrix, Inc.	U.S. Navy, NUWC Division
Microfibres, Inc.	UVEX Safety Inc.
The Moore Company	Westerly Hospital