State of Rhode Island and Providence Plantations

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Patrick C. Lynch, Attorney General

June 12, 2008

Via First Class Mail And Electronically

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

Re: National Grid – Standard Offer Rate Adjustment Filing – PUC Docket No. 3960

Dear Ms. Massaro:

Enclosed for filing please find an original and nine (9) copies of the Position Memorandum of Patrick C. Lynch, Attorney General, for filing in the above-referenced proceeding.

Thank you for your attention to this matter.

Sincerely,

William K. Lueker (R.I. Bar # 6334)
Special Assistant Attorney General
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Encl.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

PUBLIC UTILITIES COMMISSION

IN RE: NATIONAL GRID – STANDARD OFFER RATE ADJUSTMENT FILING	**))**	**DOCKET NO. 3960**

<u>POSITION MEMORANDUM ON BEHALF OF PATRICK C. LYNCH, ATTORNEY GENERAL</u>

This position memorandum on behalf of the Attorney General of the State of Rhode Island is filed pursuant to Rule 1.20(k) of the *Rules of Practice and Procedure* (the "Rules") of the Public Utilities Commission (the "Commission").

First of all, let us preface our remarks by acknowledging that the Narragansett Electric Company, doing business in Rhode Island as National Grid ("National Grid"), has long been a well-run utility that has worked hard to meet its regulatory obligations to this Commission and to the ratepayers of this state. The majority of National Grid's rate increases in the past few years have been tied directly to spiraling fuel costs and not to the costs of distribution and transmission. National Grid has been a socially responsible corporate citizen doing a tough job in an economy that, over the last few years in particular, has been increasingly unfavorable. We are confident that it will continue to work hard to be a good corporate citizen here in Rhode Island.

Second, we recognize that in the instant docket National Grid is essentially seeking to pass through the effect of spiraling fuel costs to the ratepayers, not increase profits for its shareholders and bonuses for its officers and managers. As the cost of fuel, particularly crude oil and natural gas, goes up, the cost of the electricity generated by those fuels skyrockets, and when National Grid must buy that electricity to supply its Standard Offer Service customers, it must pass those costs along to the ratepayers. National Grid simply has very little control over this increase in costs other than the leverage it has as a major customer of power generators.

Having said all of that, however, the present case represents at least the seventeenth time since early 2001 that National Grid has filed to change the rates paid by Standard Offer Service customers, and the thirteenth time that the change was for a net increase in rates. In early 2001, the typical 500 kWh/month residential Standard Offer Service customer could expect a bill of about $55.75. *See* Commission report and order number 16635 dated June 13, 2001, in docket number 3138. If the proposed 15.6% increase (to 11.5¢ / kWh) is approved, that same typical residential ratepayer can expect a monthly bill of $88.75, an increase of 59.2% in just seven years. *See* Pre-Filed Direct Testimony of Jeanne C. Lloyd, Commission docket number 3960, at p. 3, lines 16-18. Unfortunately for all of us, ratepayer income has not kept pace, forcing ratepayers to make a lot of very hard choices if they are to keep the lights on and their homes (and businesses) open.

True, few of these increases, aside from the current proposed increase, have been more than a few percent. When looked at in isolation, it is hard to object to any specific increase including this most recent one. They are all reasonable and necessary when looked at by themselves, including the current proposal. But in the current economic climate it may no longer be reasonable to continue looking at these increases in isolation without concurrently reviewing all of the components of that monthly utility bill, including those components over which National Grid does have some control.

While ratepayers must absorb rising costs without a ready means of seeking the additional resources needed to offset those costs, utility distribution companies such as National Grid are allowed to cover their own rising costs through rate increases. In effect, utility companies are insulated by the nature of their business from much of the economic pain being felt by their ratepayers, and they can reasonably expect that their own return on equity will be protected (because state regulators are required by law to ensure that the utility's rates are high enough to protect that return).

In an economy where many individuals and businesses are in danger of going losing everything because they cannot pay their bills, utility companies enjoy a great deal of protection. Compared to most other businesses they are relatively recession-proof. Their relative safety and security should make them more attractive as an investment opportunity as the risk of other types of investment increases. Might that not mean that this is a good time to revisit their allowable return on equity with a view to offering at least some rate relief to utility customers?

As the Commission has noted in the past, the General Assembly found that if National Grid's earnings on common equity fell within a range of from 6% to 11%, National Grid was earning enough. *See* Commission report and order number 16275 dated May 31, 2000, in Commission docket 3031, at p. 9. From 1996 through 1999, a period with perhaps a much stronger national and local economy than we have now, National Grid (actually, Narragansett Electric at that time) enjoyed returns on common equity of 7.25%, 8.79%, 10.55% and 11.03%. Id. at p. 11. Surely it would be appropriate to consider whether we might be able to adjust National Grid's rates now to ensure their return on common equity remains closer to 6% as a way of mitigating the impact of spiraling fuel costs on ratepayers. Ratepayers should not have to bear the full economic impact of spiraling fuel costs by themselves.

This office believes the time has come for the Commission to abandon the current piecemeal approach to ratemaking and take a hard look at utilities with a view toward reassessing what they need to remain strong and viable. Given the worsening overall economy, and the relative economic strength of utilities, utilities should be able to continue to attract investors even with a slightly lower – but still virtually guaranteed – return on equity. The best way to ensure that all segments of the economy share the pain of current fuel costs fairly is to look not only at the energy components of the monthly bills, but at all components with a view toward determining where cuts may be made to offset some of the increases.

PATRICK C. LYNCH
ATTORNEY GENERAL
By his attorney,

William K. Lueker

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June 12, 2008

CERTIFICATE OF SERVICE

I certify that a copy of the within position memorandum was served by regular mail, postage prepaid, as well as by electronic mail, to all persons listed this date on the service list for PUC Docket No. 3960 on the 12th day of June, 2008.

Meghan E. Tobin