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April 17, 2015

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

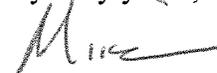
In Re: 2014 Standard Offer Service Procurement Plan and 2014 Renewable Energy
Standard Procurement Plan – Docket No. 4556

Dear Luly:

Enclosed for filing are an original and 10 copies of the testimony of John Farley in this matter, submitted on behalf of Lieutenant Governor Daniel McKee.

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

Very truly yours,



Michael R. McElroy

MRMc:tmg
cc: Service List

McKee/Docket 4556/Massaro

**Docket No. 4556 - National Grid – 2016 Standard Offer Service (SOS) and Renewable Energy Standard (RES) Procurement Plans
Service List updated 4/7/15**

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BEFORE THE
STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS

PUBLIC UTILITIES COMMISSION

_____)	Docket No. 4556
In Re: NARRAGANSETT ELECTRIC COMPANY)	2016 Standard Offer
d/b/a NATIONAL GRID)	Service Procurement
RHODE ISLAND ELECTRICITY)	Plan and 2016
_____)	Renewable Energy
	Standard Procurement
	Plan

DIRECT TESTIMONY

of

JOHN FARLEY

Submitted on Behalf of Daniel J. McKee, the Lieutenant Governor of the State of Rhode Island

April 17, 2015

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Docket No. 4556

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INTRODUCTION

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Q. Please identify yourself.

A. My name is John Farley. I am the president of John Farley Consulting LLC, an energy consulting firm. My mailing address is 4613 N. University Dr #484, Coral Springs, FL 33067. I previously served as the Executive Director of The Energy Council of Rhode Island (TEC-RI) from July 2004 to May 2010. I am testifying in this docket on behalf of Daniel J. McKee, the Lieutenant Governor of the State of Rhode Island.

Q. For whose interests are you advocating in this case on behalf of Lieutenant Governor McKee?

A. We are advocating on behalf of the small businesses of Rhode Island. As the Lieutenant Governor, Mr. McKee serves as the chairperson of the Small Business Advocacy Council. R.I.G.L. § 42-91-3(a) sets forth that the purpose of the council shall be to develop those specific and comprehensive recommendations for executive and legislative action as may be necessary and proper to maintain and encourage the continued viability of small businesses in the state. The procurement plans at issue in this proceeding will determine the standard offer service price for small businesses in Rhode Island, and will also impact the ability of small businesses to contract with an alternative supplier should that be their choice.

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1 This testimony will present specific recommendations on how to remove a barrier to
2 small commercial customers in their pursuit of the lowest cost electricity supply.

3
4 **Q.** Why should small businesses receive attention in this matter?

5 **A.** Small businesses are vital to the economic health of Rhode Island. According to the
6 Small Business Profile for Rhode Island published in February of 2013 by the
7 United States Small Business Administration, Office of Advocacy:

8
9 “Small businesses significantly impact Rhode Island’s economy. They represent
10 95.9 percent of all employers, and employ 55.4 percent of the private sector labor
11 force. Small businesses are crucial to the fiscal condition of the state.”

12
13 Small businesses face a difficult operating environment right now in Rhode Island,
14 and in fact energy prices are a major contributor to this difficult environment.

15
16 **Q.** **Have you previously testified before this Commission?**

17 **A.** Yes I have, on several occasions in the past when I served as the Executive Director
18 of the Energy Council of Rhode Island (TEC-RI), and most recently in December
19 2014 in docket 4393.

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a. Qualifications

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Q. What is your work background?

A. I am currently the President of John Farley Consulting, an independent energy consulting firm specializing in the retail energy business. My practice focuses on utility rates, utility resource planning, energy efficiency, cost-effectiveness, and measurement & verification. I have thirty (30) years of professional experience in the energy field.

From 2004 to 2010, I served as the Executive Director of The Energy Council of Rhode Island. In that capacity, I represented business ratepayer interests at the Commission, the state house, environmental regulators, and collaborative activities, as well with energy suppliers and other energy service providers.

A major part of TEC-RI's work was to keep the members informed about emerging issues, opportunities, and threats in the energy marketplace. During my tenure, the leading issues were (1) supply adequacy in New England, (2) energy efficiency and demand response, and (3) electricity and natural gas procurement.

We had a well-regarded speakers' forum at our monthly meetings, where members were made aware of the trends in the market, and the procurement strategies of various energy marketers and consulting firms.

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1 When the state's retail natural gas and electricity markets were opened to
2 competition, TEC-RI members were pioneers in shopping for competitive suppliers.
3 Starting in the summer of 2003, I managed an electricity procurement pool for
4 TEC-RI members in a similar price environment to the one we are in right now.

5
6 During my career, I have held senior technical, executive, and sales positions with
7 several leading firms and organizations spanning government, utility, consulting,
8 energy services, and end user customer perspectives. Before forming my own
9 company, I served as Vice President of Sales and Marketing for EPS Solutions, an
10 information technology company serving the utility industry. Prior to that, I was the
11 Manager of Information Services for TASC/LODESTAR, where my duties included
12 managing an information service to provide critical customer load profile data to
13 utilities for pricing and planning. Prior to that, I served as Senior Analyst for seven
14 years at COM/Energy, a combination gas and electric utility that has since merged
15 into NSTAR. My career began as a technical advisor to the RI Governor's Energy
16 Office, managing projects with small commercial energy auditing, renewable energy,
17 and other energy efficiency applications.

18
19 **Q. What is your educational background?**

20 **A.** I have a Bachelor of Science degree in Physics with highest honors from Providence
21 College.

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1 **b. Purpose**

2
3 **Q. What is the purpose of this testimony?**

4 A. The purpose of my testimony is to advocate for the elimination of the billing
5 adjustment that National Grid applies to ratepayers who switch from standard offer
6 service (“SOS”) to an alternative competitive electricity supplier.

7
8 We request that the Commission eliminate the billing adjustment at the earliest
9 possible date, and in any event by July 1, 2015, for both residential and
10 commercial ratepayers. In line with this, we also request that the Commission
11 order National Grid to credit back – refund - the accounts of customers who
12 received billing adjustment charges in 2015.

13
14 In support of this request, this testimony will identify the benefits of eliminating the
15 adjustment, the rationale for so doing, and the very modest rate impact that will
16 result for a short period of time. In this case, the benefits of removing the
17 adjustment far outweigh the potential costs of doing so.

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c. Executive Summary of Testimony

Q. Please provide a summary of your testimony.

A. In my testimony, I make the following four points:

(1) Rhode Island has struggled to develop a competitive retail electricity supply market for its residential and small business customers.

(2) The billing adjustment is a barrier to establishing a robust competitive market for electricity supply in Rhode Island. We respectfully petition to eliminate this billing adjustment at the earliest possible date, and in any event by July 1, 2015.

(3) The bill impact resulting from the removal of the billing adjustment is modest and outweighed by the benefits.

(4) Regulators in Massachusetts and New Hampshire are taking action to fix the billing adjustment problem in their states.

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Q. Please describe the remedies you are requesting from the Commission.

A. We are requesting two remedies with regard to the billing adjustment:

(1) We are asking the Commission to eliminate the standard offer billing adjustment for customers who switch to a competitive supplier, at the earliest possible date, and in any event by July 1, 2015. Any under or over collection that results from this change will be accounted for in the Company's next Standard Offer Service reconciliation filing. In conjunction with this, we are in favor of the Commission implementing a tracking mechanism to evaluate the impact of eliminating the billing adjustment.

(2) We are asking the Commission to order National Grid to credit back – refund - the accounts of customers who received billing adjustment charges in 2015. The costs of these credits can be recovered in the Company's next Standard Offer Service reconciliation filing.

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I. THE SITUATION

Q. Please describe the situation that forms the backdrop for your recommendations in this case.

A. In August 1996, the Rhode Island legislature passed, and the governor signed into law, a bill that allowed retail choice for electricity to be phased in, beginning in July 1997 for industrial customers, and July 1998 for all residential and commercial customers.

The policy of the state of Rhode Island as expressed in that legislation is that it is in the public interest to promote competition in the electricity industry.

In fact, Rhode Island was the first state in the nation to allow retail choice. The rest of the New England states soon followed (all but Vermont) in opening their markets to retail choice for electricity.

Today, fifteen states and the District of Columbia have competitive retail energy markets, according to the 2014 Annual Baseline Assessment of Choice in Canada and the United States (ABACCUS 2014). And the Northeastern states are the best represented region in the country.

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Five of the six New England states (all except Vermont), as well as New York, New Jersey, Pennsylvania, Delaware, Maryland, and Ohio have opened their retail electricity markets to competition. Michigan, Illinois, Texas, and California round out the list.

However, despite being in the middle of a large multi-state competitive marketplace, Rhode Island has lagged behind the other states on its performance with electricity choice. Here are the numbers.

Less than 6% of the residential customers in Rhode Island receive their electricity from a competitive supplier. About 20% of small businesses do.

Our 6% in residential compares with 16.9% of residential customers in Massachusetts, 37.7% in Pennsylvania, 43.5% in Connecticut, and 100% in Texas.¹ (Small business was not reported separately in the national study.)

Why has Rhode Island lagged so far behind?

¹ Distributed Energy Financial Group LLC, Annual Baseline Assessment of Choice in Canada and the United States (ABACCUS), January 2014. Page 14.

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1 There are several reasons for this. They include the lack of significant price
2 difference between standard offer and competitive offers; the high cost to suppliers
3 to acquire individual mass market customers; low levels of knowledge and
4 awareness about the opportunity to shop for power; an undeveloped supplier
5 market characterized by few entrants and limited product choices; and the obstacle
6 of the billing adjustment that is perceived as a penalty for participating in the
7 competitive retail market.

8
9 The ABACCUS report, in addition to providing statistics on customer participation
10 in competitive markets, also provides a state scorecard. The scorecard highlights
11 the best market structures, policies and business practices that support a high level
12 of market performance. It also gives an overall score and ranks each state.

13
14 In the 2014 scorecard, the highest ranking state – Texas – received a score of 92
15 for its residential market. Rhode Island received a score of 31.

16 We ranked 16th out of 18 jurisdictions (including 2 in Canada). For the
17 commercial and industrial market, Rhode Island ranked 17th out of 18th.²

18
19 The policy of the State of Rhode Island is to have a competitive retail electricity
20 market for residential as well as business customers.

² ABACCUS 2014, pages 3 and 4.

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But after eighteen years, Rhode Island not been able to establish a healthy competitive retail electricity market for its residential and small business customers.

There are several obstacles to achieving a healthy competitive market. Many of these obstacles are not easily addressed at this time by the PUC. In that regard, we encourage the Commission to continue to look at proposals to improve the competitive market for ratepayers in order to improve their outcomes.

However, one obstacle has come to light recently and is easily addressable by the PUC right now.

That obstacle is the billing adjustment that National Grid makes to the bills of customers who decide to switch from standard offer service to a competitive supplier.

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II. THE ARGUMENT

Q. Please describe this billing adjustment.

A. The billing adjustment applies to customers who purchase standard offer service on a 6 month Fixed Pricing plan. National Grid offers a January through June fixed price and a July through December fixed price to its residential and commercial customers.

When a customer who is on 6-month Fixed Pricing for standard offer service decides to switch to a competitive supplier, National Grid calculates this billing adjustment. The billing adjustment represents the difference between what the customer paid on the standard offer rate for the electricity they consumed during the current fixed price period and what National Grid paid its wholesale supplier(s) for that same power. National Grid currently contracts for power with its wholesale suppliers using prices that vary each month.

In theory, the adjustment can either be a credit or a charge. However, in practice, given the fact that January, February, July, and August usually have the highest wholesale power costs for the year in New England, the billing adjustment more often than not results in a charge to the customer.

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Sometimes that charge can be considerable, as it was for customers who switched this year in March, after two of the highest price months that National Grid has ever experienced for its wholesale supply.

The billing adjustment is a barrier to residential and small business participation in the competitive electricity market.

Q. Why is the billing adjustment a barrier to fostering a competitive retail electricity market?

A. First, this billing adjustment cannot be calculated in advance of the customer leaving standard offer service, because the amount depends on what the customer actually consumed in the billing periods leading up to the day the customer makes the switch.

It is not possible for the customer to know what the charge will be before the switch. It is also not possible for the competitive suppliers to know what this charge will be when they show the customer what their savings will be by switching.

Second, in many cases, the billing adjustment wipes out a large share of the savings that the customer was expecting to realize by switching suppliers.

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Sandberg Machine, a specialty machine shop in Mapleville, signed a contract in March expecting to save \$300 a month, but instead got an extra bill from National Grid saying they owed a billing adjustment charge of \$1,845³!

This is not a good way to encourage residential and small business customers to participate in the competitive market!

Third, the billing adjustment results in customer confusion and dissatisfaction because many customers perceive the billing adjustment charge to be a penalty for leaving standard offer service and switching to a competitive supplier.

In fact, the surest way to shut down a behavior is to penalize it.

This is what we are doing right now with the billing adjustment when it comes to increasing residential and small business participation in the competitive retail market for electricity.

³ Alex Kuffner, "Electric Bills: Switching suppliers may look easy, but the move can backfire", Providence Journal, March 22, 2015.

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1 In New Hampshire, the Consumer Affairs Division at the Public Utilities
2 Commission concluded that “the ability to adjust upward or downward the bills of
3 customers who choose to purchase their energy service from a competitive supplier
4 could operate as a barrier to participation in the competitive retail energy market
5 and is confusing to customers”⁴.

6
7 Residential and small business customers are not able to know what the billing
8 adjustment charge will be until after they decide to switch to a competitive supplier.
9 Ratepayers cannot make an informed choice about competitive supply in the
10 absence of this information.

11
12 Customers correctly perceive that this is an unfair business practice. It is also
13 deceptive. It amounts to coming back and adding charges after the fact to a bill the
14 customer thought was paid.

15
16 The customers had already received and paid their monthly bills to National Grid
17 before they made the switch. But then National Grid comes back and tells them
18 they are recalculating their bill based on a more expensive variable rate. They get
19 billed an additional amount for the same service they had already paid for in full.

⁴ March 9, 2015 letter from Amanda Noonan, director of the Consumer Affairs Division at the New Hampshire Public Utilities Commission, to commissioners and senior staff.

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The customers' distress was well expressed by one Virginia White, a Springfield Massachusetts retiree who got a notice from her electric utility, Eversource, in March that her \$250 bill had been cancelled and that she instead now owed \$800!

"You just can't do that in most businesses", White said. "That was a service I already got, used, and paid for, and they're charging me double."⁵

By the way, an Eversource spokeswoman said that the company supports eliminating the rule because it causes customer dissatisfaction and customers see it as a penalty for switching suppliers.

What is most upsetting to customers is the fact that they were not informed ahead of time that this back-dated charge would occur, months after they had already paid their bill.

The billing adjustment was not described on any prior bill the customer received from National Grid. The customer did not sign a contract that stipulated this charge would occur.

⁵ Shira Schoenberg, "Obscure regulation causes retroactive rate hike when some electricity customers switch suppliers", The Republican, March 25, 2015.

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The adjustment is punitive and unpredictable, produces dissatisfied ratepayers, and harms customer choice in Rhode Island.

Q. What will the impact of eliminating the billing adjustment be on the typical standard offer service customers?

A. The bill impact resulting from the removal of the billing adjustment is modest and outweighed by the benefits.

Those benefits include:

(1) ending an unfair and deceptive business practice that causes problems for the customers, the Company, competitive suppliers, and state officials, and

(2) fostering a competitive market for electricity supply in Rhode Island.

Using a reasonable range of assumptions about average bill adjustment and number of customers switching to competitive supply, the annual impact of ending the bill adjustment would be in the range of \$ 0.9 million to 1.5 million. This includes for 2015 the combined impact of (a) ending the adjustment, and (b) refunding adjustments already made earlier in the year.

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The resulting impact on the typical residential monthly bill is on the order of 13-22 cents a month; for the small commercial customer, the impact is on the order of 17-26 cents a month. The total dollars are on the order of 15% - 25% of the Company's standard offer service reconciliation charge for 2014⁶.

This impact will diminish as National Grid's procurement transitions to fixed 6 month pricing for wholesale supply, and will be zero after December 2016.

Furthermore, the above calculations we did were driven to a large extent by the unusually high prices paid for wholesale supply in January and February 2015.

So given the current levels of participation in the competitive retail market by residential and small commercial customers, eliminating the bill adjustment is not likely to have a significant impact on standard offer customers as a whole. The amount of money is far less than what we spend on energy efficiency each year, where the many pay a little more to subsidize the few for an action that comports with state energy policy and ultimately brings benefits to the state.

⁶ RIPUC docket 4554. The testimony of Jeanne A. Lloyd of National Grid, page 6, reports that the Company's SOS reconciliation for the period January 2014 through December 2014 reflected an under-recovery of approximately \$5.7 million.

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1 Other factors related to the behavior of market participants can and do produce far
2 more significant impacts on the standard offer customers.

3
4 One such factor would be elevated futures prices at the time wholesale suppliers bid
5 on standard offer service. And we have some recent experience with this factor.

6
7 According to National Grid⁷, 1,127 customers switched from standard offer to a
8 competitive supplier in the three month period from December 2014 through
9 February 2015. Assuming that all of them were small commercial customers
10 (most certainly not the case), that the customers who switched consumed twice as
11 much as the average, and all switched on March 1, 2015 (the worst date to switch
12 this year), that would result in a total bill adjustment of about \$300,000.

13
14 The January 2015 variable price for small commercial customers was 18.366 cents
15 per kWh or \$ 183.66 per MWh. The January 2015 price for large commercial
16 and industrial customers was over \$200 per MWh.

17
18 Yet, ISO New England reported that the actual wholesale market price for the
19 month of January 2015 was actually only \$65.59 per MWh!

⁷ Warwick Beacon, "Adjustment for making electric service switch draws ire of some", March 26, 2015. Quote from David Graves of National Grid.

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So the difference between what National Grid paid for power in January and where the market closed for January was about \$100 a MWh (10 cents a kWh) even after factoring in the difference between wholesale and retail!

Given standard offer consumption on the order of 450 million kWh for the month of January, that price difference translates into a whopping \$45 million.

You want to talk about gaming the system? \$45 million in above-market payments in ONE MONTH! Now THAT's gaming the system!

So the impact of supplier pricing that turned out to be much higher than the market price was over 100 times the impact of the retail billing adjustment in this instance.

Too bad we can't go back and recalculate THAT bill!

We strongly urge the Division and the Commission to look into why this happened and how to prevent it from happening again in the future. For one thing, it is apparent that the futures market is not doing a very good job lately in predicting what the actual winter price for power will be in New England.

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1 In that regard, while we commend the Commission for ordering the Company to
2 respond to our recommendations in docket 4393 , and recognize the Company's
3 efforts to do so in its filing in this docket , clearly more work remains to be done in
4 order to have an effective procurement approach that better responds to market
5 conditions and produces better outcomes for the Rhode Island ratepayers.

6
7 **Q. Are the other New England states who have this adjustment taking steps**
8 **to end the practice?**

9 A. Yes, they are.

10
11 In Massachusetts, on April 13, 2015, the Department of Public Utilities issued an
12 order eliminating the bill recalculation provision immediately for residential and
13 small Commercial & Industrial customers. The Department will implement a
14 tracking mechanism to ensure that the Department and stakeholders can evaluate
15 the impact of this decision.

16
17 The DPU thought that the bill recalculation practice is likely a barrier to residential
18 and small C&I participation in the competitive supply market. They were
19 concerned that the practice could result in customer confusion and dissatisfaction
20 because customers perceive the charge to be a penalty for leaving basic service and
21 switching to a competitive supplier.

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1 The Department expects the benefits associated with eliminating the provision
2 outweigh any benefits associated with maintaining the bill recalculation provision.⁸

3
4 In New Hampshire, Unitil, a regulated electric utility serving the Seacoast and
5 Capital areas of that state, agreed on April 9, 2015 to credit the accounts of
6 customers who were hit with back charges after they switched to a competitive
7 supplier. Unitil reached a settlement agreement with the PUC regarding bill
8 recalculations for customers switching to third party suppliers.

9
10 The utility admitted that the practice caused tremendous customer confusion.
11 Eliminating it will increase clarity, customer satisfaction, and will streamline the
12 process when customers make the decision to switch to third-party suppliers.

13 The PUC staff had pressed for the settlement, concerned that recalculation of the
14 bills was impeding customer choice in the energy market.⁹

⁸ MA DPU, docket 14-140-A, “ Order on Eliminating the Basic Service Bill Recalculation Provision”, April 13, 2015.

⁹ Article by Dave Solomon in the New Hampshire Union Leader titled “Unitil to credit accounts over back charges”, April 9, 2015.

Direct Testimony of John Farley
Submitted on Behalf of Daniel J. McKee, the Lieutenant Governor
of the State of Rhode Island
Docket No. 4556

III. REMEDIES

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4 **Q. What remedies is Lieutenant Governor Daniel J. McKee requesting that the**
5 **Commission grant in this docket at this time for the benefit of small**
6 **business customers?**

7 **A.** We are requesting two remedies with regard to the billing adjustment:

8
9 (1) We are asking the Commission to eliminate the standard offer billing
10 adjustment for customers who switch to a competitive supplier, at the earliest
11 possible date, and in any event by July 1, 2015.

12 Any under or over collection that results from this change will be accounted for in
13 the Company's next Standard Offer Service reconciliation filing.

14
15 In conjunction with this, we are in favor of the Commission implementing a tracking
16 mechanism to evaluate the impact of eliminating the billing adjustment. The
17 tracking mechanism can provide data on the amount of money that National Grid
18 must collect or credit through its standard offer service reconciliation factor due to
19 the elimination of the billing adjustment, and the extent to which individual
20 competitive suppliers may be gaming the system by switching customers on a
21 seasonal basis.

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(2) In line with (1), we are asking the Commission to order National Grid to credit the accounts of customers who received billing adjustment charges in 2015. The costs of these credits can be recovered in the Company's next Standard Offer Service reconciliation filing.

CONCLUSION

Rhode Island has struggled to develop a competitive retail electricity supply market for its residential and small business customers. The standard offer billing adjustment functions as a barrier to residential and small business participation in that competitive market. The possible costs of eliminating the billing adjustment are outweighed by the benefits of doing so. Regulators in Massachusetts and New Hampshire are taking action this year to end this practice. Thus, it is eminently reasonable for this Commission to do the same.

Thank you for considering this request.

Q. Does this conclude your testimony?

A. Yes it does.