

**STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS**

DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN THE MATTER OF

**The Joint Petition of the Narragansett)
Electric Company and Southern)
Union Company for Approval of Sale)
and Purchase of Assets)**

Docket No. D-06-13

**DIRECT TESTIMONY OF WITNESS
BRUCE R. OLIVER**

On Behalf of

The Advocacy Section of the Division of Public Utilities and Carriers

June 19, 2006

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1 Rhode Island utility assets (hereinafter “Joint Petition”).¹ This testimony addresses
2 the regulatory standards upon which such mergers should be evaluated and the
3 considerations necessary to assess whether the proposed transaction between
4 Narragansett (a subsidiary of National Grid USA) and Southern Union is consistent
5 with the public interest. In that context, specific elements of the Joint Petition and
6 supporting testimony are reviewed and critiqued as foundation for findings and
7 conclusions regarding the merits of the Petitioners request for approval of the
8 proposed transaction.

9
10 **Q. PLEASE SUMMARIZE YOUR EXPERIENCE AND QUALIFICATIONS?**

11 A. I am an economist specializing in the areas of utility rates, energy, and regulatory
12 policy matters. I have over 33 years experience in the analysis of energy and utility
13 regulatory policy issues. That experience includes employment in management
14 positions in the rate departments of two major utilities (the Pacific Gas and Electric
15 Company and the Potomac Electric Power Company), as well as service in man-
16 agement and senior staff positions for three consulting firms, Revilo Hill Associates,
17 Inc., the Resource Dynamics Corporation, and ICF Incorporated. I hold both

¹ Throughout remainder of this testimony Narragansett Electric Company and Southern Union Company will be referred to collectively as the “Petitioners.”

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1 Bachelors and Masters degrees in Economics from Virginia Polytechnic Institute and
2 State University.

3 As a consultant, I have served a diverse group of clients on issues encom-
4 passing a wide range of energy and utility related activities. My clients have in-
5 cluded state regulatory commissions, utilities, state Attorneys General, state- funded
6 consumer advocacy groups, municipal governments, federal agencies, commercial
7 and industrial energy users, hospitals and universities, suppliers of equipment and
8 services to utility markets, residential consumer intervenors, the Electric Power
9 Research Institute (EPRI), and the World Bank. Projects for those clients have
10 included investigations relating to gas, electric, water, and wastewater utility regul-
11 atory proceedings, as well as analyses and forecasts of supply, demand, and prices
12 for utility and non-utility energy markets.

13 To date, I have filed more than 300 separate pieces of testimony in
14 proceedings before regulatory commissions in 23 jurisdictions including: the states
15 of Pennsylvania, New York, New Jersey, Maryland, Delaware, Virginia, North Caro-
16 lina, Rhode Island, Vermont, Connecticut, Ohio, Illinois, Wisconsin, Arizona, New
17 Mexico, South Dakota, and California, Guam, the Virgin Islands, the District of Col-
18 umbia, the City of Philadelphia, the Province of Alberta, Canada, and the U.S.
19 Federal Energy Regulatory Commission (FERC).

20

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1 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN OTHER UTILITY MERGER AND ASSET**
2 **ACQUISITION PROCEEDINGS?**

3 A. Yes. In Rhode Island, I testified on behalf of the Division in proceedings relating to
4 Southern Union's acquisitions of Valley Gas Company and Bristol and Warren Gas
5 Company. I also testified on behalf of the Attorney General in proceedings relating
6 to National Grid's acquisitions of Narragansett Electric Company and Eastern
7 Utilities (Blackstone Valley Electric Company and Newport Electric Company). In
8 other jurisdictions, I have testified before the District of Columbia and Maryland
9 Public Service Commissions regarding proposed merger of Potomac Electric Power
10 Company and Baltimore Gas and Electric Company, as well as the subsequent
11 merger of the Potomac Electric Power Company and Conectiv, and I testified before
12 the New Mexico Public Service Commission regarding the Gas Company of New
13 Mexico's acquisition of certain gas processing facilities.

14

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN OTHER RHODE ISLAND GAS UTILITY**
16 **PROCEEDINGS?**

17 A. Yes. I have presented testimony on utility rate issues on behalf of the Division of
18 Public Utilities and/or the Department of the Attorney General in a number of pro-
19 ceedings before the Rhode Island Public Utilities Commission. Those proceedings
20 include: Docket Nos. 1673, 1723, 1763, 1951, 1971, 1998, 2001(Phases I and II),

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1 (a) That the proposed merger will not diminish facilities for
2 furnishing service to the public, and

3
4 (b) That the terms of the merger are consistent with the public
5 interest.

6
7 2. Any assessment of the merits of the proposed merger must consider
8 whether the ability to provide safe and adequate service at the lowest
9 reasonable cost will be jeopardized. In that context, the Division's
10 determinations in this proceeding should address:

11
12 (a) The degree to which the proposed transaction can be expected
13 to impact ratepayer costs,

14
15 (b) The effects of the transaction on the safety and reliability of the
16 services provided,

17
18 (c) The impact of the transaction on competition, and

19

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1 Rate Plan will not adversely impact rates for Rhode Island gas or
2 electric utility customers.

3
4 5. The time period allowed for Narragansett's preparation and filing of a
5 new Rate Plan should be extended from six months from the date of a
6 decision by the Division to approve this transaction to period of not-to-
7 exceed one-year (12-months) from the date of the Division's approval
8 of this transaction.

9
10 6. Narragansett should be required to include in its Rate Plan an
11 assessment of the service quality standards, if any, that are necessary
12 to ensure a continued maintenance high quality service for Rhode
13 Island gas and electric consumers throughout the effective period of
14 its proposed Rate Plan.

15
16 7. Coupled with appropriate requirements for timely filing of a Rate Plan
17 and regulatory policies that ensure the (1) maintenance of service
18 quality and (2) appropriate matching of the costs and benefits
19 associated with the integration and consolidation of Narragansett and
20 New England Gas operations, the proposed transaction appears to

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1 expose ratepayers to little risk while possibly providing an opportunity
2 to receive benefits from achieved efficiencies in operations.

**III. STANDARDS FOR REVIEW OF THE
PROPOSED TRANSACTION**

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6
7 **Q. WHAT CONSIDERATIONS SHOULD GUIDE THE DIVISION IN ITS DETER-**
8 **MINATIONS REGARDING WHETHER THE PROPOSED TRANSACTION**
9 **SHOULD BE APPROVED?**

10 **A.** As previously noted, Section 39-3-25 of the Rhode Island General Laws provides
11 that the Petitioners must demonstrate:

12
13 (a) That the proposed merger will not diminish facilities for
14 furnishing service to the public, and

15
16 (b) That the terms of the merger are consistent with the public
17 interest.

18
19 Thus, for the Petitioners' to receive the Division's consent and approval of the
20 proposed transaction, they must demonstrate that the transaction meets the criteria
21 stated above.

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Q. WHAT CRITERIA SHOULD BE USED TO ASSESS WHETHER THE TRANSACTION IS CONSISTENT WITH THE PUBLIC INTEREST?

A. The criteria used to evaluate the impact of such transactions on the public interest vary somewhat by jurisdiction. They may also vary based on the specific circumstances of the companies involved in the transaction. However, common threads are found in the considerations of most regulatory bodies that have had the need to address such transactions.

Common considerations relate to whether the proposed transaction would adversely affect the utility's ability to provide safe, adequate, reliable, efficient, and least cost public utility service. These considerations are typically construed to include such concerns as:

- (1) The degree to which costs are reduced for ratepayers,
- (2) The effects of the transaction on service reliability and risk for customers,
- (3) The potential for creation of excessive market power,

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1 ratepayer benefits resulting from the transaction and the related consolidation of gas
2 and electric operations to just gas customers or just electric customers does not
3 appear to represent a fair or equitable result.

4

5

6

IV. EVALUATION OF THE PROPOSED TRANSACTION

7

8 **Q. PLEASE DESCRIBE THE NATURE OF THE ASSET PURCHASE AND SALE FOR**
9 **WHICH THE JOINT PETITIONERS IN THIS PROCEEDING SEEK APPROVAL?**

10 A. National Grid USA (“NG”) through its subsidiary, the Narragansett Electric Company
11 (“Narragansett”), proposes to purchase the business and operations presently
12 conducted in Rhode Island by Southern Union Company (“Southern Union”) through
13 New England Gas Company. This transaction includes regulated, as well as
14 unregulated, business activities.

15

16 **Q. DO NON-REGULATED PORTIONS OF THE BUSINESS ACTIVITIES THAT**
17 **NARRAGANSETT HAS AGREED TO ACQUIRE REPRESENT A SIGNIFICANT**
18 **CONCERN IN THIS PROCEEDING?**

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1 A. No. The referenced non-regulated business activities include only a small appliance
2 business that should have no significant impact on the overall costs or benefits of
3 the transaction to either shareholders or ratepayers.

4

5 **Q. THROUGH ITS PURCHASE OF NEW ENGLAND GAS COMPANY'S ASSETS IN**
6 **RHODE ISLAND, NARRAGANSETT WILL OWN AND OPERATE BOTH GAS**
7 **AND ELECTRIC DISTRIBUTION UTILITY OPERATIONS WITHIN THE STATE.**
8 **WOULD NARRAGANSETT'S OWNERSHIP OF BOTH GAS AND ELECTRIC**
9 **UTILITY OPERATIONS WITHIN A GIVEN JURISDICTION BE UNIQUE AMONG**
10 **UTILITIES IN THE U.S.?**

11 A. No. It would not. There are number of utilities in the U.S. that combine gas and
12 electric utility distribution operations under a single ownership structure. Examples
13 of such include:

14

- 15 ➤ Baltimore Gas and Electric Company (Maryland)
- 16 ➤ Cincinnati Gas and Electric Company (Ohio)
- 17 ➤ Delmarva Power & Light Company (Delaware)
- 18 ➤ Louisville Gas and Electric Company (Kentucky)
- 19 ➤ New York State Electric and Gas Company (New York)
- 20 ➤ Oklahoma Gas and Electric Company (Oklahoma)

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- 1 ➤ Pacific Gas and Electric Company (California)
- 2 ➤ Public Service Company of New Mexico (New Mexico)
- 3 ➤ Public Service Electric and Gas Company (New Jersey)
- 4 ➤ PECO Energy Company (Pennsylvania)
- 5 ➤ Rochester Gas and Electric Company (New York)
- 6 ➤ San Diego Gas and Electric Company (California)
- 7 ➤ South Carolina Electric and Gas Company (South Carolina)

8

9 **Q. DOES NATIONAL GRID HAVE EXPERIENCE WITH THE OPERATION OF A**
10 **COMBINED GAS AND ELECTRIC UTILITY?**

11 A. Yes, it does. In 2001 National Grid acquired Niagara Mohawk Power Company
12 which operates a combined gas and electric system in the state of New York.
13 Niagara Mohawk provides electric service to approximately 1.5 million customers
14 and gas service to 540,000 customers. National Grid also operates combined gas
15 and electric utility operations in the United Kingdom.

16

17 **Q. WHAT BENEFITS DO THE PETITIONERS CLAIM WILL ACCRUE TO RHODE**
18 **ISLAND AS A RESULT OF NARRAGANSETT'S ACQUISITION OF NEW**
19 **ENGLAND GAS COMPANY ASSETS IN THE STATE?**

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1 A. As state at page 5 of their Petition in this proceeding, approval of the proposed
2 transaction will:

3

4 ➤ Yield cost savings and improved efficiencies as a result of:

5

6 a. Increasing the customer base and consolidating oper-
7 ating and administrative functions;

8

9 b. Combining electric and gas distribution operations in
10 Rhode Island; and

11

12 c. Joining the expertise in the Rhode Island gas dis-
13 tribution business with that developed in National Grid's
14 other natural gas operations in the U.S. and the United
15 Kingdom.

16

17 ➤ Reducing administrative costs of regulation incurred by the Division
18 and the Public Utilities Commission;

19

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1 ➤ Facilitating the implementation of common Division and Commission
2 policies;

3

4 ➤ Improving the ability of the gas and electric distribution utilities to
5 provide reliable service.

6

7 **Q. WILL THE PROPOSED TRANSACTION PROVIDE THE BENEFITS THAT THE**
8 **PETITIONERS ASSERT?**

9 A. Some cost savings and efficiencies appear to be achievable through Narragansett's
10 ownership and operation of both gas and electric distribution utility operations in
11 Rhode Island. At this point in time, however, the value to the State of Rhode Island
12 and its consumers of the benefits asserted by the joint petitioners is vague, or at
13 least difficult to quantify with much certainty. Although there appears to be some
14 long-term potential for savings from combined operation of gas and electric
15 distribution utility operations in Rhode Island neither the timing nor the magnitude of
16 such savings can be readily identified on the basis of the information the petitioners
17 have submitted in this proceeding. Furthermore, in the absence of a full
18 consolidation plan and a rate plan for Narragansett's gas and electric operations in
19 Rhode Island, it is premature to attempt to quantify the net benefits, if any, that
20 Rhode Island consumers will experience as a result of the proposed transaction.

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Q. WILL INCREASING THE CUSTOMER BASE AND CONSOLIDATING OPERATING AND ADMINISTRATIVE FUNCTIONS PRODUCE COST SAVINGS AND IMPROVED EFFICIENCIES?

A. Benefits associated with increasing the customer base are not clear cut in this instance. Both Narragansett and New England Gas are presently parts of larger organizations. Thus, while some overall increase in numbers of customers may be achieved for Narragansett, the value of any net gain not easily measured. It is expected that there will be substantial overlap between current Narragansett customers and current New England Gas customers. As a result, the net gain in total number of customers for Narragansett is likely to be less than a simple summation of the number of electric customer and the number of gas customers presently serve by Narragansett and New England Gas.

Likewise, any assessment of net benefits from consolidating operating and administrative functions must weigh the benefits each utility presently receives as part of a larger organization. Consideration must also be given to the practicality and costs of consolidating operating functions. Not all operating functions for gas and electric distribution utilities can be easily or efficiently consolidated. It should be anticipated that National Grid’s experience with the operation of other combined gas and electric systems will provide some guidance regarding which gas and electric

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1 operating function can be readily combined and how to most effectively pursue the
2 consolidation of gas and electric operating function. However, efforts to combine
3 separately operating existing gas and electric utilities may prove more difficult than
4 maintaining the operations of existing combined gas and electric activities. Further,
5 it must be observed that at least some administrative functions for New England
6 Gas are already shared with organizations outside Rhode Island. Although it is
7 tempting to speculate that those benefits will be greater for New England Gas
8 Company under the National Grid umbrella than they were as part of Southern
9 Union, I would refrain from drawing any definitive conclusions regarding the value of
10 administrative cost savings and efficiency improvements in the absence of more
11 complete consolidation and rate plans.

12
13 **Q. DO YOU HAVE ANY FURTHER OBSERVATIONS REGARDING THE PETI-**
14 **TIONERS' CLAIMS THAT THE PROPOSED TRANSACTION WILL YIELD NET**
15 **OPERATING COST SAVINGS?**

16 A. I do. Three operating areas that appear to offer particularly strong potential for
17 significant cost savings are: (1) customer information systems and billing, (2) meter
18 reading, and (3) customer service/call center functions. However, savings in each of
19 these areas will only be achieved over time and through the incurrence of a
20 noticeable level of transition expense.

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1 For example, Narragansett’s responses to Division Data Requests 2-1 and 2-
2 2² reflect considerable uncertainty regarding the costs of a consolidated customer
3 information and billing system as well as how and when, if at all, consolidated billing
4 will commence.

5 Likewise, both Narragansett and New England Gas currently make extensive
6 use of Automated Meter Reading systems, and both use compatible Itron
7 equipment. But, as noted in Narragansett’s response to Division Data Request 2-
8 5(b), the two companies “*utilize different software that is not currently compatible.*”
9 Thus, consolidation of meter reading for AMR read customers of Narragansett and
10 New England Gas will require that both convert to a single mainframe and Itron
11 Meter Reading system. The response to Division Data Request 2-5(d) explains that
12 the IT costs for such a conversion are yet to be determined.

13 Finally, consolidation of customer information and billing systems for gas and
14 electric systems will require cross-training of customer service representatives to
15 address both gas and electric customers’ service and billing questions. As stated in
16 Narragansett’s responses to Division Data Request 2-3 and 2-4, “*The Company has*
17 *not yet finalized plans for cross-training customer service employees* [to address

² It should be understood that data requests referenced in this testimony as “Division Data Requests” represent requests that were submitted to the Petitioners by the Division’s Advocacy Section.

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1 both natural gas and electric customer service and billing issues] *nor determined the*
2 *associated costs.*”

3

4 **Q. IN ITS RESPONSE TO DIVISION DATA REQUEST 2-13, NARRAGANSETT**
5 **ASSERTS BASED ON ITS OWN INTEGRATION EXPERIENCE AND THAT OF**
6 **OTHERS, ITS COSTS TO ACHIEVE WILL EQUATE TO ROUGHLY TWO (2)**
7 **TIMES ITS EXPECTED ANNUAL SYNERGY SAVINGS. HAVE YOU REVIEWED**
8 **THE COMPANY’S SUPPORT FOR THAT ESTIMATE?**

9 A. I have.

10

11 **Q. IS NARRAGANSETT’S ASSERTED RELATIONSHIP BETWEEN COSTS TO**
12 **ACHIEVE AND SYNERGY SAVINGS REASONABLE?**

13 A. In response to Division Data Request 2-13, Narragansett suggests that its cost to
14 consolidate New England Gas Company operations with its existing electric
15 operations will equate to roughly two (2) times the annual synergy savings. My
16 review of the supporting workpapers for that estimated relationship finds that the
17 source data used are very broad measures of costs and benefits, not well
18 documented, and not directly analogous to the transaction being considered by the
19 Division in this proceeding. Therefore, I find Narragansett’s estimate to be

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1 somewhat optimistic and the support for that estimate that I was able to review was
2 not particularly compelling.

3

4 **Q. WILL THE PROPOSED TRANSACTION REDUCE THE ADMINISTRATIVE**
5 **COSTS OF REGULATION INCURRED BY THE DIVISION AND THE PUBLIC**
6 **UTILITIES COMMISSION?**

7 A. The Narragansett response to Division Data Request 2-15(a) states, "*The Company*
8 *has not performed an analysis of the expected savings in regulatory costs for the*
9 *Division and the Commission resulting from the merger of National Grid and New*
10 *England Gas Company.*" Thus, if any such savings could be attributed to the
11 proposed merger of electric and gas operation, they are not readily identifiable at
12 this time.

13 If this transaction has any impact on the administrative costs of regulation
14 incurred by the Division and the Public Utilities Commission, such impact is not likely
15 to be dramatic. Much of the Division and Commission activities will continue to be
16 separable into gas and electric matters. Separate gas and electric service rates will
17 continue to be required, as will separate terms and conditions of service that reflect
18 the inherent differences in gas system and electric system operations and cost
19 structures. Likewise, engineering and safety concerns will continue to require
20 separate gas and electric expertise. Additionally, it is anticipated that annual gas

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1 cost accounting, gas cost recoveries, and distribution adjustment clause activities
2 will not be readily consolidated with electric activities or that consolidation of gas and
3 electric operations will reduce the needs of the Division or the Commission to
4 periodically address such matters.

5

6 **Q. WILL NARRAGANSETTS ACQUISITION OF NEW ENGLAND GAS COMPANY**
7 **FACILITATE THE IMPLEMENTATION OF COMMON DIVISION AND COM-**
8 **MISSION POLICIES?**

9 A. In Division Data Request 2-15(b), an effort was made to investigate the nature of the
10 statewide policies that the consolidation of Narragansett electric and gas operations
11 under Narragansett would facilitate. The response to that request offered two
12 examples: (1) customer termination and billing regulations and (2) low income
13 program administration.

14 At least initially, the development and implementation of common termination
15 and billing regulations for gas and electric operations is likely to stimulate more work
16 and more issues than maintenance of the present structure. Although over time
17 common billing and termination policies may prove beneficial, payment troubled
18 customers may be threatened by initial attempts to consolidate such policies. On
19 the other hand, common administration of low income programs could yield both

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1 administrative cost savings and more efficient distribution of benefits to low income
2 customers.

3 Thus, to the extent that the need for and appropriateness of common gas
4 system and electric system policies can be identified, some savings in this area may
5 be achievable. Still, the dollar value of savings attributable to the establishment of
6 such common policies is expected to be relatively small. I would caution that what
7 may appear to represent a good common policy for gas and electric operations may
8 work for one and not work for the other. Given characteristic differences in those
9 utilities and customer requirements that they serve, as well as historic differences in
10 the operations and policies of Rhode Island's gas and electric systems, a one-policy
11 fits all approach may at times create more problems than it resolves. Policies that
12 are designed primarily to meet the requirements of one utility (gas or electric) may
13 be more timely and efficiently implemented if not forced into a common policy
14 structure.

15

16 **Q. DOES NARRAGANSETT PROPOSES ANY CHANGES IN ITS SERVICE**
17 **TERMINATION POLICIES AT THIS TIME?**

18 A. No. Narragansett anticipates that it will address issues associated with collections
19 and service terminations in the context of considerations relating to the Rate Plan
20 that it proposes to file at a later date. However, Narragansett's response to Division

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1 Data Request 2-6 states, *“In the meantime, the Company will not terminate electric*
2 *service due to arrearages on natural gas bills.”* Given the comparatively high costs
3 of gas service over the past winter, I anticipate that this response addresses a
4 concern of many payment troubled gas customers.

5
6 **Q. WILL THE PROPOSED TRANSACTIONS IMPROVED THE ABILITY OF THE**
7 **RHODE ISLAND’S GAS AND ELECTRIC DISTRIBUTION UTILITIES TO**
8 **PROVIDE RELIABLE SERVICE?**

9 A. The Petitioner’s assertions that the proposed transaction will yield more reliable gas
10 and electric service should be given little weight. No evidence of perceptible
11 improvement in service reliability has been provided.

12 The Petitioners’ only support for their claims of improved service reliability
13 appears to be found in assertions that Narragansett would have “more personnel
14 and equipment available” to respond to outages due to storms and other
15 emergencies. Yet, the simple availability of additional gas personnel who have not
16 been trained to perform service on electric equipment or electric personnel who
17 have not be trained to service gas equipment does little to improve outage response
18 or reduce the need to hire contract crews to assist in repairs. As the response to
19 Division Data Request 2-16 demonstrates, Narragansett is still several steps
20 removed from completion of its integration plan and decisions regarding how many

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1 employees will be cross-trained to respond more quickly and efficiently to
2 emergency situations.

3 On the other hand, no evidence of improved service reliability should be
4 necessary for approval of the proposed transaction. In the absence of evidence that
5 Narragansett or New England Gas failed to provide high levels of service reliability
6 to customers in recent years, the focus of considerations in this proceeding should
7 be on maintenance of high service reliability expectations.

8

9 **Q. DOES NATIONAL GRID PROPOSE AN IMMEDIATE REDUCTION IN RATES**
10 **FOR ITS RHODE ISLAND CUSTOMERS?**

11 A. No. As explained in the testimony of witness Gerwatowski, Narragansett proposes
12 no rate changes at this time for either its electric or (newly acquired) gas customers
13 if this transaction is approved. In other words, Narragansett proposes no change in
14 its existing electric rates and intends to continue to provide gas service under the
15 terms of the existing New England Gas Company rate settlement until a new rate
16 plan is filed and fully considered by the Public Utilities Commission.

17

18 **Q. IS IT COMMON FOR APPROVAL OF A TRANSACTION OF THIS NATURE TO**
19 **BE COUPLED WITH RATE REDUCTION?**

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1 A. Although some utility mergers and acquisitions have resulted in rate reductions,
2 there is no explicit requirement for such transactions to produce immediate rate
3 reductions. Utility mergers and acquisitions, however, are commonly linked to a rate
4 plan that is intended to ensure that service quality and reliability are maintained and
5 benefits produced through the consolidation of activities are shared with ratepayers.

6

7 **Q. WHEN DOES NARRAGANSETT INTEND TO MAKE A NEW RATE FILING WITH**
8 **THE COMMISSION?**

9 A. According Mr. Gerwatowski, Narragansett commits to filing a proposed rate plan
10 with the Commission within six months after the Division's approval of its acquisition
11 of New England Gas Company's Rhode Island business.

12

13 **Q. IS NARRAGANSETT'S PLAN TO FILE A RATE PLAN WITHIN SIX MONTHS OF**
14 **THE DIVISION'S APPROVAL OF THIS TRANSACTION REASONABLE?**

15 A. While the Advocacy Section appreciates the willingness of Narragansett to file a
16 rate plan soon after approval by the Division, we are concerned that six months may
17 not be long enough for Narragansett to develop a full and meaningful consolidation
18 plan for its gas and electric operations in Rhode Island. As evidenced by
19 Narragansett's responses to numerous Division Data Requests, the Company is still
20 in the early stages of its planning for the consolidation and integration of its existing

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1 operations with those of the New England Gas Company. While it appears that
2 Narragansett has attempted to be forthcoming regarding the state of its merger
3 activities, many important decisions regarding consolidation and integration plans
4 are yet to be made.

5 Past efforts by utilities in similar proceedings to rapidly construct and file con-
6 solidation and rate plans have tended to raise as many questions as they answered.
7 As a result, the Advocacy Section believes that the quality of the record in support of
8 a new rate plan could be enhanced if greater time is taken to by Narragansett to
9 consider the elements of a proposed rate plan before it is filed. Thus, the Advocacy
10 Section would not be opposed to extending the period for Narragansett's filing of a
11 new rate plan to as long as one-year (12-months) from the date of a decision by the
12 Division to approve this transaction.

13
14 **Q. IS NARRAGANSETT'S ACQUISITION OF NEW ENGLAND GAS COMPANY**
15 **ASSETS CONTINGENT UPON ASSURANCES THAT IT WILL BE ABLE TO**
16 **RECOVER ANY GIVEN AMOUNT OF ACQUISITION PREMIUM THROUGH THE**
17 **RATES IT CHARGES RHODE ISLAND CONSUMERS?**

18 **A.** Mr. Effron's testimony, also on behalf of the Advocacy Section, addresses our
19 concerns regarding the impacts of an acquisition premium.

20

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1 **Q. IS THERE ANY EVIDENCE THAT RHODE ISLAND CONSUMERS WOULD BE**
2 **HARMED BY NARRAGANSETT’S ACQUISITION OF NEW ENGLAND GAS**
3 **COMPANY’S RHODE ISLAND BUSINESS?**

4 **A.** No. National Grid has demonstrated experience in the operation of gas distribution
5 utilities as well as in the operation of combined gas and electric utility operations. It
6 also appears to have sufficient overall size and financial strength to ensure
7 continued operation of both Rhode Island’s gas and electric distribution systems.
8 Moreover, over the past several years National Grid has shown itself to be capable
9 of acquiring, effectively integrating, and safely operating other utility operations (e.g.,
10 National Grid’s acquisitions of Narragansett Electric, Eastern Utilities, and Niagara
11 Mohawk). With this background and Narragansett’s pledge to offer continued
12 employment to all existing New England Gas Company employees for at least one
13 year, I find substantial reason to believe that the safety and reliability of service
14 provided to New England Gas Company customers will be maintained under its new
15 owner if this transaction is approved.

16 Yet, I must caution that depending on the parameters of the rate plan
17 ultimately adopted for Narragansett’s gas and electric operations, there is some
18 potential that Rhode Island could be adversely affected in the near-term if the
19 recognition of costs incurred to achieve a consolidation Narragansett’s gas and
20 electric operations is not carefully synchronized with the timing of expected benefits

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1 to be derived through that consolidation. If an appropriate synchronization of costs
2 and benefits is not achieved, it is possible that the upfront costs of consolidation
3 Narragansett's gas and electric operations could exceed the benefits realized in the
4 first few years of consolidated operations.

5
6 **Q. IS THE MAINTENANCE OF SERVICE QUALITY A CONCERN?**

7 A. Whenever a utility merger or acquisition involves the payment of a premium above
8 book value for the acquired company or assets that is not directly recovered through
9 rates, maintenance of service quality is a legitimate concern. In this instance,
10 however, Narragansett has indicated that it intends to operate under the terms of the
11 existing New England Gas Company rate settlement until a new rate plan is
12 adopted. Since that settlement included provisions under which service quality
13 standards were developed and implemented, those existing service quality standards
14 should provide New England Gas Company customers reasonable assurance the
15 service quality will be maintained until a new rate plan is implemented. This gives
16 the Division, Narragansett and other parties time to review a new proposed rate plan
17 and assess the extent of service quality protections that will be needed, if any, when
18 a new rate plan becomes effective.

19

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1 **Q. WILL THE PROPOSED TRANSACTION HAVE ANY IMPACT ON NEW ENGLAND**
2 **GAS COMPANY'S EXISTING ENVIRONMENTAL RESPONSE ACTIVITIES?**

3 A. Nothing in the Purchase and Sale Agreement, in the information filed by the
4 Petitioners, or in their responses to data requests suggests to the Advocacy Section
5 that the proposed transaction will have any impact on the New England Gas Com-
6 pany's environmental response activities. Once again, Narragansett has indicated
7 its intent to continue to operate under the terms of the New England Gas Company's
8 existing rate settlement, and that settlement includes specific provisions that
9 address the recovery of costs associated with environmental response activities.

10 I also note that the Purchase and Sale Agreement filed in this proceeding
11 explicitly provides for Southern Union to retain responsibility for certain environ-
12 mental liabilities. At this point, the Advocacy Section finds nothing in Southern
13 Union's retention of such liabilities that would necessarily be adverse to the interests
14 of ratepayers, but the Advocacy Section is open to consideration of credible
15 arguments that may be presented on this matter by other parties. Also, other parties
16 to the docket may address issues affecting the public interest that go beyond the
17 scope of ratepayers' interest. These issues will have to be considered by the
18 Division in its ultimate decision.

19

20 **Q. WILL THE PROPOSED TRANSACTION YIELD BENEFITS TO CUSTOMERS?**

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1 A. I believe that, subject to the adoption of an appropriate rate plan and regulatory
2 policies that (a) ensure the maintenance of service quality, and (b) reasonably
3 synchronize the costs of consolidation with the expected timing of benefits to be
4 derived from those expenditures, National Grid's proposed acquisition New England
5 Gas Company's Rhode Island business from Southern Union can ultimately yield net
6 benefits for Rhode Island consumers. However, the benefits, if any, that ratepayers
7 will experience will be strongly influenced by the parameters of the Rate Plan
8 ultimately approved by the Commission. Moreover, as discussed in the testimony
9 of Mr. Effron for the Advocacy Section, an important element of any filed Rate Plan
10 will be the rate treatment of accumulated deferred income tax rate base credits. If
11 those credits, or the equivalent amount of ratepayer benefit, are not included in the
12 filed Rate Plan, significant adverse ratepayer impacts could result.

13

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes, it does.

16