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PUBLIC UTILITIES COMMISSION

**PETITION OF  
THE NARRAGANSETT ELECTRIC COMPANY  
AND  
SOUTHERN UNION COMPANY  
FOR APPROVAL OF  
PURCHASE AND SALE OF ASSETS**

**DOCKET NO. D-06-13  
BEFORE THE RHODE ISLAND DIVISION OF  
PUBLIC UTILITIES AND CARRIERS**

**TESTIMONY AND EXHIBITS  
OF JOHN HOWAT  
ON BEHALF OF THE  
GEORGE WILEY CENTER**

JUNE 26, 2006

RI DIVISION OF PUBLIC UTILITIES & CARRIERS DOCKET NO. <u>D-06-13</u> SPONSOR <u>Wiley Center</u> EXHIBIT NO. <u>1</u> IDENT. (DATE) <u>6-29-06</u> FILING (DATE) <u>6-29-06</u> RECEIVED BY <u>JS</u>
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1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. My name is John Howat. My business address is 77 Summer Street, 10th Floor,  
3 Boston Massachusetts.

4 **Q. FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?**

5 A. I am testifying on behalf of the George Wiley Center (“Wiley Center”).

6 **Q. PLEASE DESCRIBE YOUR QUALIFICATIONS.**

7 A. I am Senior Energy Policy Analyst at National Consumer Law Center in Boston,  
8 Massachusetts. I have been professionally involved with energy program and  
9 policy issues since 1981. At the National Consumer Law Center over the past six  
10 years, I have managed a range of regulatory, legislative and advocacy projects  
11 across the country in support of low-income consumers’ access to affordable  
12 utility and energy related services. I have been involved with the design and  
13 implementation of low-income energy affordability and efficiency programs and  
14 outreach efforts, rate design, issues related to metering and billing, development  
15 of load profiles, energy burden analysis and related demographic analysis, and  
16 low-income regulatory consumer protection. In addition to current work with the  
17 George Wiley Center, I work or have worked on behalf of community-based  
18 organizations or their associations in Massachusetts, Arkansas, Arizona, Illinois,  
19 Louisiana, Mississippi, New Jersey, Pennsylvania, Texas and Washington State. I  
20 also work or have worked on low-income energy matters on behalf of the  
21 National AARP and state AARP chapters in Vermont, Louisiana and Kansas. I  
22 work or have worked under contract with the U.S. Department of Health and  
23 Human Services, Oak Ridge National Laboratories, and the Attorney General in

1 Nevada. I also work under contract with the National Energy Assistance  
2 Directors' Association. I have presented testimony before utility regulatory  
3 agencies in Massachusetts, New Jersey, Rhode Island, Vermont, and Louisiana.  
4 For the past seven years, I have sat on the Board of Directors of the National Low  
5 Income Energy Consortium, and am a regular presenter at conferences of National  
6 Community Action Foundation, National Low Income Energy Consortium,  
7 National Energy Assistance Directors Association, National Association of  
8 Regulatory Utility Commissions and National Association of State Utility  
9 Consumer Advocates.

10 I served as Research Director of The Massachusetts Joint Legislative Committee  
11 on Energy, responsible for the development of new energy efficiency programs  
12 and low-income energy assistance budgetary matters. I served as Economist with  
13 the Electric Power Division of the Massachusetts Department of  
14 Telecommunications and Energy, responsible for analysis of electric industry  
15 restructuring proposals; and as Director of the Association of Massachusetts Local  
16 Energy Officials. I have a Master's Degree from Tufts University's Graduate  
17 Department of Urban and Environmental Policy and Bachelor of Arts Degree  
18 from The Evergreen State College.

19 **Q. WHAT ARE THE PURPOSES OF YOUR TESTIMONY?**

20 A. The purposes of my testimony are to (1) comment on the potential impacts on  
21 low-income ratepayers from the proposed acquisition by the Narragansett Electric  
22 Company ("Narragansett") of the assets associated with the regulated gas  
23 distribution business owned and operated by Southern Union Company in Rhode

1 Island as the New England Gas Company (“NEG”) (together, the “Petitioners”),  
2 and (2) recommend means of mitigating those impacts.

3 **Q. DESCRIBE THE PETITIONERS’ PROPOSAL AS IT RELATES TO**  
4 **RATE AND CUSTOMER IMPACTS.**

5 A. The Petitioners entered an agreement in February 2006 for the sale of NEG assets  
6 to National Grid USA for \$575 million including the assumption of \$77 million of  
7 existing debt. (Gerwatowski Testimony at 7.) The Petitioners suggest that there  
8 will be no “immediate” rate impacts associated with the acquisition, but that a  
9 new gas rate plan will be filed with the Rhode Island Public Utilities Commission  
10 within 6 months after closing. (Id. at 9.) The Petitioners indicate that an  
11 integration team has been formed to identify future structural and customer  
12 service changes to occur at a later date. (Id. at 7.) Further, the Petitioners suggest  
13 that the transaction will be beneficial to customers because they are “familiar with  
14 National Grid,” National Grid provides natural gas distribution service to  
15 customers in locations outside of Rhode Island, and National Grid will “be likely  
16 to produce cost savings by virtue of the ability to coordinate and consolidate  
17 certain corporate functions.” (Marshall Testimony at 6.)

18 **Q. BASED ON THE PETITIONERS’ FILING, CAN YOU DESCRIBE THE**  
19 **IMPACT OF THE PETITIONERS’ PROPOSAL ON LOW INCOME**  
20 **CUSTOMERS?**

21 A. It is impossible to determine the impact on low-income consumers that will result  
22 from the proposed acquisition. Rate impacts will not be determined until a later  
23 date. In addition structure and function of the new entity has yet to be

1 determined. Petitioners allude to customer benefits based on intangible factors  
2 such as customer familiarity with National Grid.

3 **Q. IS THERE POTENTIAL IN THE PETITIONERS' PROPOSAL FOR**  
4 **HARM TO LOW INCOME CUSTOMERS?**

5 A. Yes. Low-income ratepayers typically experience a higher degree of bill payment  
6 trouble and a higher rate of utility service disconnection than their higher-income  
7 counterparts. (See attachment JH-1.) Thus, merger and acquisition outcomes  
8 involving consolidation, dilution, or relocation of customer service functions such  
9 as call centers can directly and disproportionately impact low-income consumers.

10  
11 In addition, the Petitioners have indicated that a National Grid affiliate delivering  
12 electricity and natural gas in New York State use a consolidated billing system  
13 and that arrearages are not determined separately for electric and natural gas  
14 service. The Petitioners further indicate that customers in New York that fail to  
15 pay the consolidated bill may lose electric service, gas service or both.

16 (Narragansett response to Wiley Center D.R. 1.) This arrangement in Rhode  
17 Island could have a particularly adverse impact on payment troubled electric  
18 customers. As demonstrated in attachments JH-2 and JH-3, the gap between  
19 Rhode Island residential natural gas customer service disconnections and service  
20 reconnections is much greater than that which exists for electric customers. A  
21 substantial disconnection-reconnection gap causes concern with respect to the  
22 duration of service disconnections and the extent to which some accounts that are  
23 disconnected for non-payment are simply never restored. Under a consolidated

1 billing and disconnection arrangement Rhode Island electric customers may face  
2 disconnection-reconnection pattern that looks similar to the one reflected in  
3 attachment JH-2.

4  
5 Finally, there currently is no guarantee that customers will receive any rate or bill  
6 benefit as a result of the proposed acquisition. In fact, as indicated in the  
7 testimony of Mr. Effron on behalf of the Advocacy Section of the Division of  
8 Public Utilities and Carriers, if goodwill associated with Narragansett's payment  
9 of an acquisition premium is recognized for ratemaking purposes, a "substantial  
10 increase to revenue requirements" would result. (Effron testimony, pp. 7, 8.)

11 Thus, there is no guarantee of rate benefit, but potential for harm in the  
12 Petitioners' proposal. Low-income ratepayers, who must devote a relatively high  
13 proportion of household income for a basic level home energy service, would be  
14 disproportionately harmed by an adverse rate impact.

15  
16 **Q. WHAT ARE YOUR RECOMMENDATIONS REGARDING MITIGATION**  
17 **OF LOW INCOME IMPACTS OF THE PROPOSED ACQUISITION?**

18 A. First, there is a need for low income electric and natural gas bill payment  
19 assistance that goes beyond that which is currently offered through Narragansett's  
20 low-income discount and NEG's partial LIHEAP match. Approval of the  
21 Petitioners' proposal should be conditioned on a mandate for the company to  
22 develop as part of its rate plan filing a targeted discount program that is designed  
23 to provide LIHEAP participants with the benefits to lower household natural gas

1 and electricity burdens to same level paid by median income households. The  
2 low-income program should also include an effective arrearage management  
3 proposal, similar to that which National Grid operates in Massachusetts. Program  
4 design details should be worked out in conjunction with low-income ratepayer  
5 advocates prior to the filing of the new rate plan.

6 Second, approval of the petition should be conditioned on a requirement that a  
7 deficit in payment for electric service not be used to terminate gas service and  
8 vice versa. Absent such a condition, service disconnection impacts on electric  
9 customers could serve to undermine the health, safety and wellbeing of low-  
10 income customers.

11 Third, approval of the petition should be conditioned on assurance of the  
12 availability in the merged entity of dedicated supervisory call center staff to  
13 respond to emergency needs of low-income customers and service providers who  
14 need immediate assistance in resolving customer problems.

15  
16 **Q. HAVE PROGRAMMATIC REMEDIES BEEN PROPOSED AND**  
17 **APPROVED IN OTHER MERGER PROCEEDINGS?**

18 A. Yes. Following are examples of merger proceeding precedents for low-income  
19 program benefits. In a telecommunications case, FCC Merger stipulations for  
20 SBC/Ameritech were spelled out in FCC 99-279, CC Docket No. 98-141. Those  
21 stipulations required "the merged firm to offer each of its 13 in-region states a  
22 plan to provide discounts on basic local service for eligible customers..."

1 Low-income customer merger stipulations are not unique to telecommunications  
2 companies. In the 1999 combination of Central and Southwest Corporation and  
3 American Electric Power in Texas, the merged company adopted the low-income  
4 program, customer service, and reliability standards established in a Service  
5 Agreement between customer groups and petitioners. (Final Order in PUC  
6 DOCKET NO. 19265)

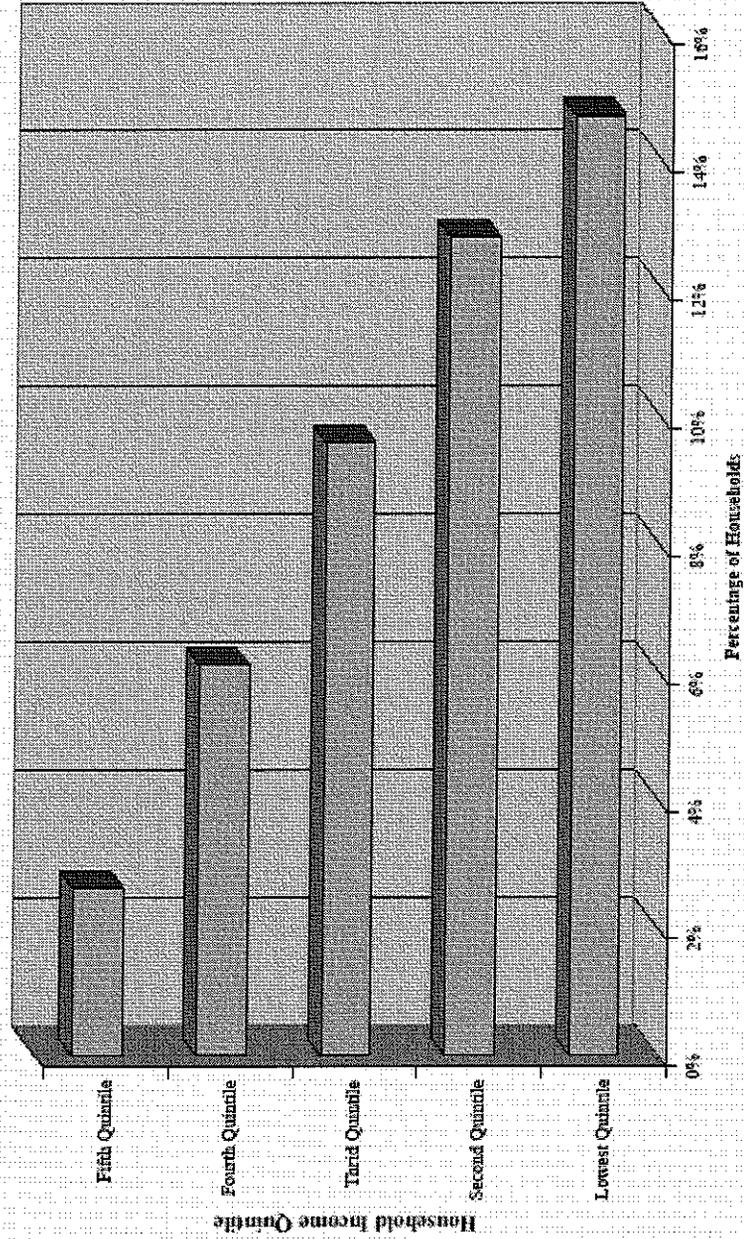
7 Further, the 2002 Centrica merger stipulation agreement in Texas stated that the  
8 new company would provide funding for low-income energy efficiency and  
9 payment assistance, matching contributions to a voluntary fuel fund, customer  
10 education and outreach, dedicated supervisory customer service personnel,  
11 quarterly meetings with consumer groups and other interested service providers to  
12 provide updates on its low-income programs, and to provide a forum for  
13 discussion of other activities to improve service delivery to affected low-income  
14 customers. Finally, the stipulation agreement provided for Centrica's  
15 reimbursement of consumer groups' PUC intervention costs. ("Low-Income  
16 Service Agreement" provided by Texas Legal Service Corporation)

17 The 1999 Excel merger in Colorado provided dedicated customer service staff to  
18 deal with low-income customers and advocates, \$1.5 million to Colorado Energy  
19 Assistance Foundation primarily for low-income energy assistance, and funding  
20 for low-income energy efficiency improvements. (Approval of Low Income  
21 Agreement in Decision No. C00-393)

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

23 A. Yes

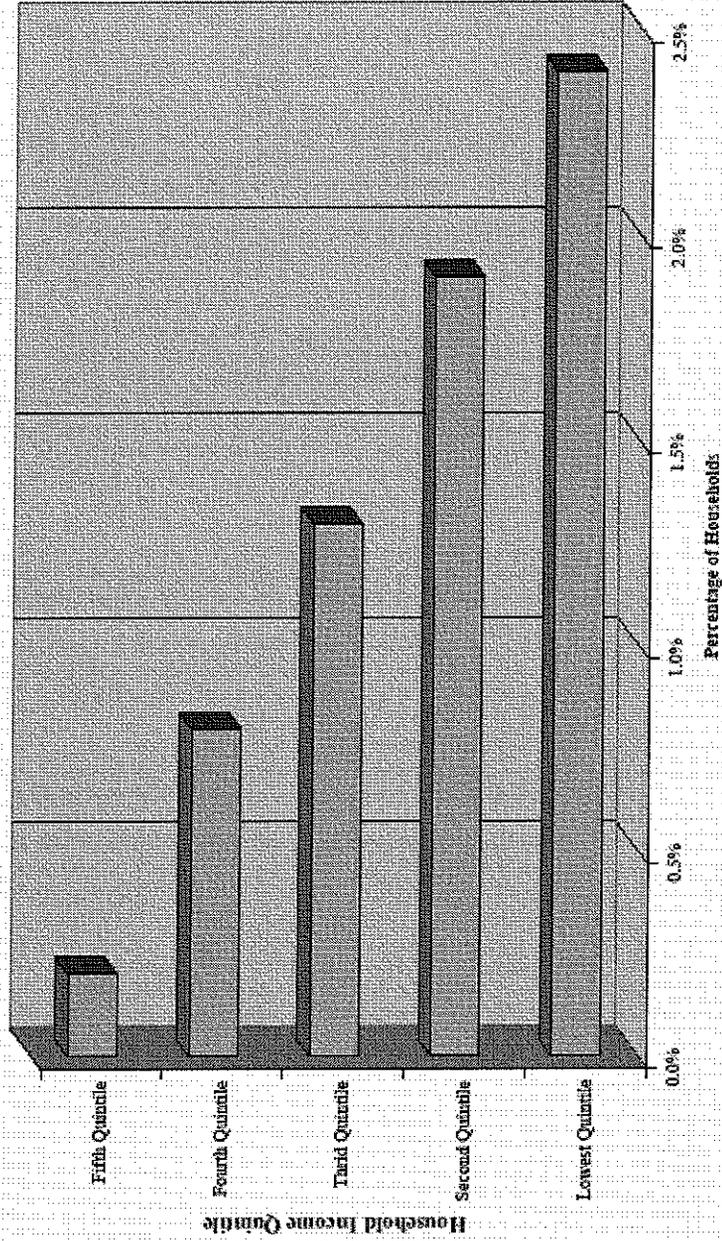
Percentage of U.S. Households that Did Not Pay Full Oil, Gas or Electric Bill in 1998



Source: U.S. Census Bureau, Survey of Income and Program Participation, 1996 Panel, Wave 5, Table 15 B.  
Release Date: May 2003

National Consumer Law Center  
March 2006

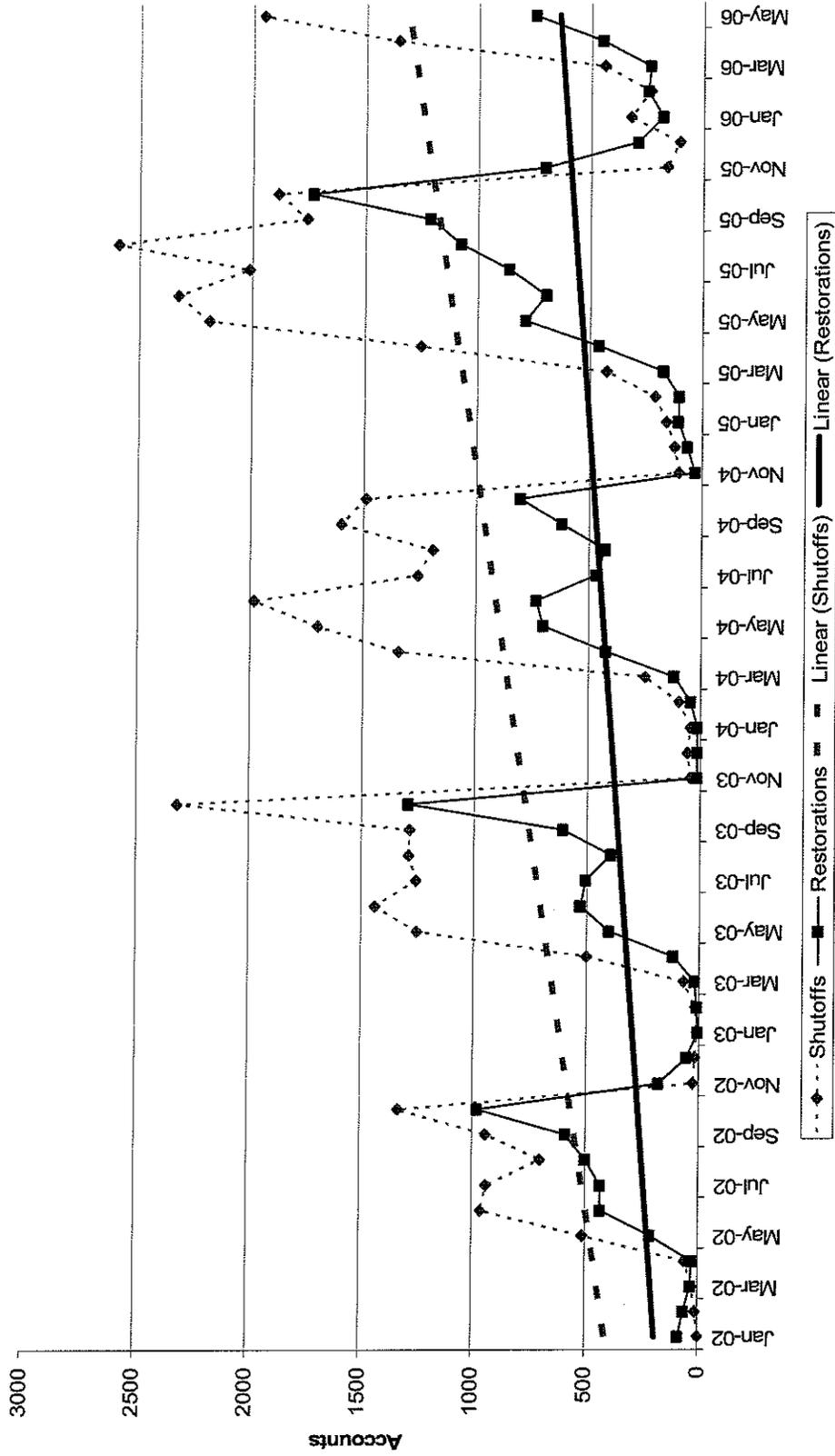
Percentage of U.S. Households with Electric or Natural Gas Utility Service Disconnection in 1998



Source: U.S. Census Bureau, Survey of Income and Program Participation, 1996 Panel, Wave 3, Table IS E.  
Release Date: May 2003

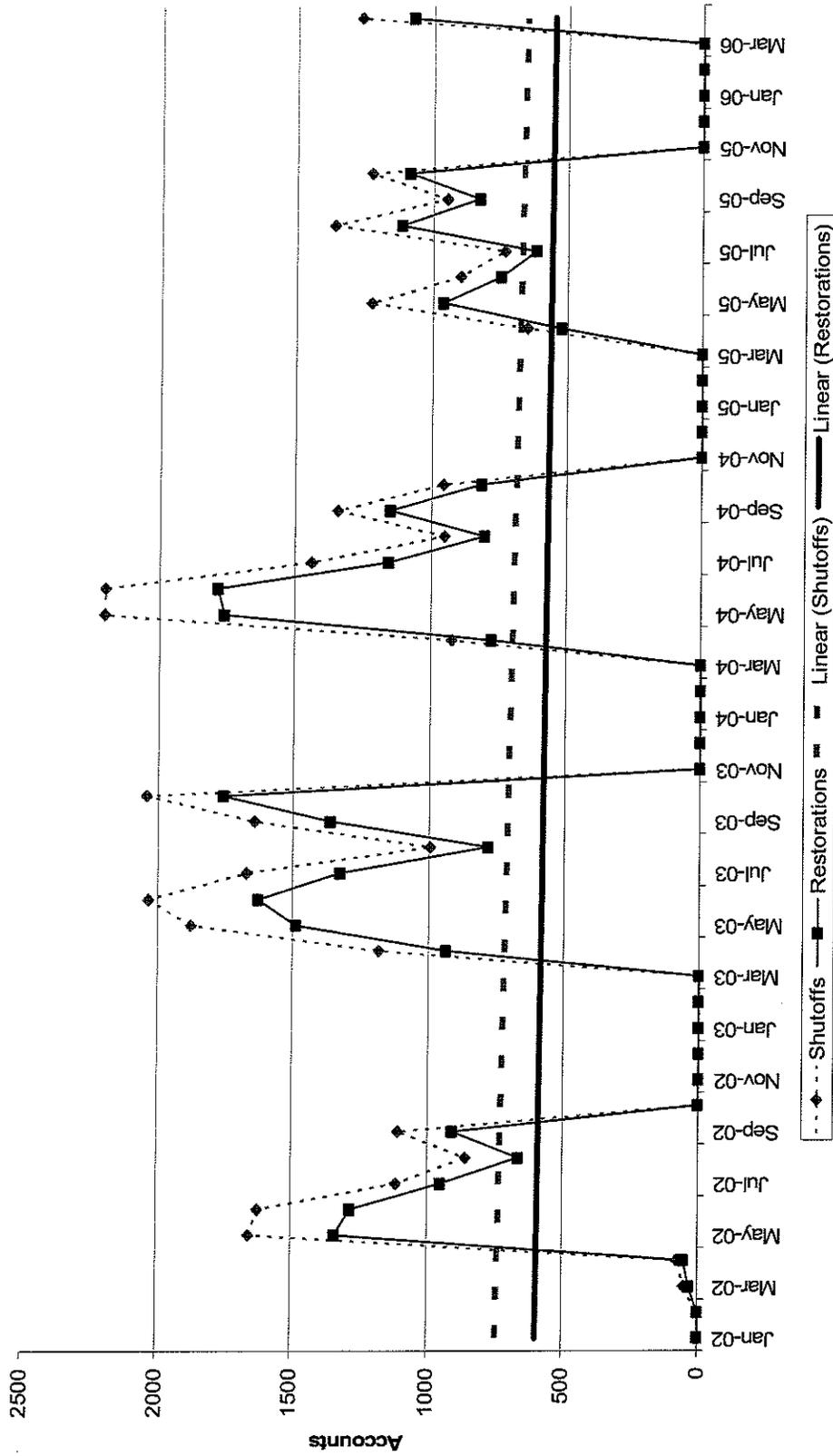
National Consumer Law Center  
March 2006

# Rhode Island Residential Natural Gas Service Shutoffs and Restorations



Source: RIPUC

# NECo/NGRID Residential Shutoffs and Restorations



Source: RIPUC