BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger

Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates

Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates

Case 06-G-1186

January 2007

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Prepared Testimony of:

Staff Consumer Services Panel

Martin Insogna
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New York State
Department of Public Service
Three Empire State Plaza
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Q. Mr. Insogna, will you please state your name and business address.

A. My name is Martin Insogna. My business address is Three Empire State Plaza, Albany, New York, 12223-1350.

Q. By whom are you employed and in what capacity?

A. I am employed by the New York State Department of Public Service, Office of Consumer Services, as a Utility Consumer Program Specialist.

Q. What is your education and professional background?

A. I hold a Bachelor's Degree in philosophy and economics from Colgate University. Prior to joining the Department, I was employed in a wide range of customer service fields, including as a representative of the then-New York Telephone Company. I joined the Consumer Services Division of the Department in 1990 as a Consumer Services Specialist, investigating and resolving utility consumer complaints. I was thereafter accepted into a traineeship with the Office of Energy Efficiency and Environment, with responsibility for policy and operational considerations involving utility energy efficiency programs and environmental issues. I was then promoted to the title of Utility Rate Analyst, and was transferred to the Electric Division, with responsibility for review and analysis of utility rate and rate-related filings. When the Department was reorganized in 1999, I was assigned to the Retail Competition section of the Office of Electricity and Environment, with responsibility for a wide variety of initiatives related to the introduction of retail access. In January 2000, I was promoted to the title of Associate Policy and Compliance Analyst and transferred to the Residential Advocacy Section of the Office of Consumer Education and Advocacy. The Department of Civil Service subsequently reclassified the title of Associate Policy and Compliance Analyst to my current title. In December 2003, the Department was again reorganized, and the Office of Consumer Services assumed responsibility for consumer advocacy functions within the Department.

Q. Mr. Insogna, please briefly describe your current responsibilities with the Department.

A. I oversee utility compliance with Public Service Law and Commission regulations regarding consumer protections and access to service; monitor and analyze utility customer service quality performance and responsiveness to customer needs; promote access to affordable utility services for low-income and other special needs customers; and represent residential and small business customer interests in utility rate cases and other Commission proceedings.

Q. Mr. Insogna, have you previously testified before the Commission?

A. Yes. I have testified on energy efficiency programs, system benefits charge implementation, rate design, consumer protections, service quality, low income customer needs, outreach and education, and utility commodity supply pricing.

Q. Mr. Silverstein, will you please state your name and business address.

A. My name is Leonard Silverstein. My business address is Three Empire State Plaza, Albany, New York, 12223-1350.

Q. By whom are you employed and in what capacity?

A. I am employed by the New York State Department of Public Service, Office of Consumer Services, as a Utility Consumer Assistance Specialist.

Q. What is your education and background?

A. I received both a Bachelor of Arts degree in Political Science and a Master of Public Administration degree from the State University of New York at Albany. Before joining the Department of Public Service, I held positions of increasing responsibility with the New York State Assembly for nearly seven years, and subsequently worked as a Regulations Analyst at what is now the New York State Governor's Office of Regulatory Reform for about eight years. I have worked for the Department of Public Service since 2001. My responsibilities in this position have included advocating positions on behalf of residential customers in utility rate proceedings, oversight of utility customer service operations, developing utility service quality incentive programs and evaluating utility low-income programs.

Q. Have you previously testified before the Commission?

A. Yes.

Q. What is the scope of your testimony in this proceeding?

A. We will address the continuation and expansion of service quality performance mechanisms for Brooklyn Union Company d/b/a KeySpan Energy Delivery New York (KEDNY) and KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island (KEDLI), low income customer needs, and the companies' general customer outreach and education programs.

Q. Have you prepared any exhibits in connection with your testimony?

A. Yes. We have prepared Exhibits __ (CSP-1), ___(CSP-2), ___(CSP-3) and ___ (CSP-4).

**Service Quality Performance Mechanism**

Q. Please describe KEDNY's and KEDLI's current service quality performance mechanisms (SQPM).

A. Each company has revenues representing a total of 40 basis points of pretax return on common equity at risk under its SQPM. This is equivalent to approximately $5.85 million for KEDNY, and $4.95 million for KEDLI. In both incentive plans, 20 basis points are allocated to each of two broad-based measures of customer service performance: PSC Complaint Rate; and Customer Service Index (CSI) as measured through a monthly survey of customers who have recently contacted the company. Both companies have an annual average monthly PSC Complaint Rate threshold of 8.0 complaints per 100,000 customers. The CSI targets are 84.8 percent for KEDNY and 83.4 percent for KEDLI. Under the terms of the current Rate Plan, the SQPM continues until modified or discontinued by the Commission.

Q. How have KEDNY and KEDLI performed under the current SQPM?

A. KEDNY's and KEDLI's PSC Complaint Rates have been satisfactory. The CSI scores have also been above the threshold for a revenue adjustment, except for KEDNY, which incurred a payment to ratepayers for CSI performance below threshold in the Rate Year ending September 30, 2001. Its performance in that year was 84.2, which is below the target of 84.8.

Q. What are the companies' proposals for their SQPMs?

A. Both KEDLI and KEDNY propose to continue the SQPM with one specific modification. The companies propose to lower the annual average monthly PSC Complaint Rate threshold from 8.0 per 100,000 customers to 5.0 per 100,000 customers. According to Company witness Cianflone, this change recognizes the impact of the quick resolution system (QRS), which the Commission put in place after the current target was approved, on the number of PSC complaints taken. The companies propose to continue the CSI targets at their current levels.

Q. Please explain the significance of the QRS complaint procedures.

A. In June 2002, a new customer contact handling procedure, the Quick Resolution System or QRS, was implemented by the Office of Consumer Services (OCS), which altered the way OCS administers and measures complaint calls from utility customers. Consequently, all utilities experienced a dramatic reduction in their PSC complaint rates.

Q. Does the Panel propose to continue KEDNY's and KEDLI's SQPM?

A. Yes. As long as delivery service remains a monopoly, there are virtually no consequences for companies that fail to provide good customer service. Performance mechanisms help to align shareholder and ratepayer interests by providing earnings consequences for shareholders based upon the quality of service provided to a utility's customers. Presently, service quality performance mechanisms that link earnings directly to companies' performance on specific measures of customer service are in effect at all of the major energy utilities.

Q. Do you agree with the companies' proposals for the SQPMs?

A. We agree that the amount at risk should be maintained; however, we propose a restatement of the amounts at risk in dollars, rather than in basis points. We agree with the companies' proposals to maintain the current CSI targets. We also agree that the PSC complaint targets should be modified in light of the change to QRS; however, we propose an annual PSC Complaint rate threshold of 1.7 for KEDNY and an annual PSC Complaint rate threshold of 1.1 for KEDLI. In addition, we propose the implementation of several additional measures of customer service performance to address certain areas we have identified where the companies' performances have been deficient. Finally, we propose a reallocation of the amount at risk to account for the new measures. Consistent with the current mechanism, our proposed SQPM should remain in effect until modified or discontinued by the Commission.

Q. What is your proposal regarding the amount at risk?

A. We propose that any payments to ratepayers for unacceptable performance should be expressed in dollars rather than basis points, with maximum annual adjustments of $5.85 million for KEDNY, and $4.95 million for KEDLI, as shown in Exhibit__ (CSP-1). These amounts are approximately equivalent to the current 40 basis points at risk.

Q. Why do you prefer a dollar amount over a basis point adjustment?

A. We are proposing to establish a firm dollar value for the revenue adjustment amount in order to remove any potential uncertainty regarding either the amount at risk or its independence from calculations of earnings.

Q. Why do you propose PSC Complaint Rate thresholds of 1.7 for KEDNY and 1.1 for KEDLI?

A. We reviewed KEDNY's and KEDLI's Annual PSC Complaint rates, calculated as the average of monthly PSC Complaint rates, since August 2003. We chose this starting point because certain modifications were made to the QRS process in June and July 2002, so August 2002 was the first month under the present QRS procedures, and August 2003 is the first month to have twelve full months under those procedures. Exhibit ___(CSP-2) shows these historic complaint rates. Since August 2003, KEDNY and KEDLI's maximum annual PSC Complaint Rates have been 1.6 and 1.0, respectively. The companies' respective complaint performances have been within the range of other utilities, and we see no need at this time to set complaint targets that the companies have exceeded in the past. Therefore, we propose PSC Complaint Rate targets of 1.7 and 1.1 respectively for KEDNY and KEDLI. In other words, in order to incur a payment to ratepayers, KEDNY or KEDLI would have to allow complaints to exceed the highest level either has reached since QRS was implemented.

Q. Please describe the specific areas you have identified where the companies' performances have been deficient.

A. Pursuant to Commission orders, all of the major electric and gas utilities collect and report monthly service data in accordance with standardized performance indicators. Summary 2005 annual data for selected indicators is provided in Exhibit ___(CSP-3). Review of these statistics suggests that KEDNY and/or KEDLI appear to be providing the lowest level of service among New York utilities in several areas. We therefore propose the implementation of additional measures of customer service performance, to address the companies' performances in the areas of telephone answer response, appointments kept and adjusted bills.

Q. What is your proposal regarding the telephone answer response measure?

A. The telephone answer response measure is the proportion of customer service calls answered by a KEDLI or KEDNY representative within 30 seconds, expressed as a percentage of the total calls answered. As shown in Exhibit __ (CSP-3), we propose an annual Telephone Response measure target of 52.9 percent for both KEDNY and KEDLI.

Q. Why do you propose to add the Telephone Response measure to the Service Quality Assurance Program?

A. Many customers with a service or billing question or problem rely on being able to reach their utility by phone. As detailed in Exhibit ___(CSP-3), KEDNY's performance on this measure in 2005 was 39.8 percent -- the lowest of any utility in New York. Although Con Edison's may appear lower at 36 percent, Con Edison and the other utilities reported on calls answered in 30 seconds in 2005, while KEDNY previously reported on calls answered in 45 seconds. In addition, KEDLI did not report this measure at all in 2005. Since the comparison is with peer utilities doing business in New York State, no excuses can account for this record, which must be improved. In order to help assure customers that the companies will answer telephone calls in a reasonable amount of time, it is important to add this measure to the SQPM. According to the Companies' response to DPS-231 which is shown in Exhibit__ (CSP-4), both companies can now report telephone answer rate on a 30 second interval.

Q. How did you arrive at 52.9 percent for the Telephone Response thresholds?

A. Exhibit ___(CSP-3) shows that the average 30-second telephone response time for the other major utilities in 2005 was 67.1 percent and the standard deviation was 14.2 percent. One standard deviation below the mean is used to establish a lower bound of 52.9 percent. Establishing this level as a standard is reasonable and ensures a minimum satisfactory level of service.

Q. What is your proposal regarding the appointments kept measure?

A. As shown in Exhibit ___(CSP-3), KEDNY's 2005 appointments kept measure was 85.8 percent, which was the lowest rate throughout the state for a major utility. For KEDLI, the 2005 appointments kept measure was 92.0 percent, which was the second lowest among New York utlities. As with telephone answer rate, this comparison is with peer utilities doing business in New York State, and this record must be improved. We propose that the appointments kept performance threshold should be set at 96.5 percent. As shown in Exhibit ___ (CSP-3), this is the average level of the other major utilities in the state, less one standard deviation. This method is the same as we used to establish a target for telephone answer rate, and similarly represents a minimum satisfactory level of service and is a reasonable standard for the companies to achieve.

Q. What is your proposal regarding adjusted bills?

A. As shown in Exhibit ___(CSP-3), KEDNY's 2005 adjusted bill measure was 2.3 percent, which was the highest rate throughout the state for a major utility. For KEDLI, the 2005 adjusted bill measure was 0.5 percent, which was better than the statewide average of 1.0 percent. We propose that the performance threshold should be set at 1.7 percent. As shown in Exhibit ___ (CSP-3), this is the average level of the other major utilities in the state, plus one standard deviation. This method is equivalent to the method we used to establish targets for telephone answer rate and appointments kept, and similarly represents a minimum level of satisfactory service and is a reasonable standard for the companies to achieve.

Q. What is your proposal regarding reallocation of amounts at risk?

A. As shown on Exhibit _____(CSP-1), we propose that one third of the amounts at risk be allocated to PSC Complaints and CSIs, respectively; and the remaining third be allocated equally among the three new targeted measures. This allocation is consistent with the importance of PSC Complaints and CSIs as broad measures of customer service. In addition, PSC Complaints are tabulated by the Commission, and CSIs are conducted by a survey contractor. They are independently verifiable measures of customer service, while the other metrics are self-reported by the utility.

Low Income Customer Needs

Q. Do KEDNY and KEDLI currently have any special programs for their low income customers?

A. Yes. KEDNY and KEDLI each implements a low income program known as On-Track which provides a variety of services to qualifying low-income customers, including budget education, energy efficiency services and arrears forgiveness. According to the response to DPS-194 shown in Exhibit___ (CSP-4), over the past four years the On-Track program has operated at an average annual cost of about $750,000 for KEDNY and about $210,000 for KEDLI. According to the same response, over the same period the program has enrolled an average of about 1,300 participants at KEDNY, and about 160 at KEDLI. KEDNY also provides a reduced residential rate to income-eligible customers. The benefit for heating customers is a discount of $6.16 on the bi-monthly minimum bill or $36.96 annually. The benefit for non-heating customers is a discount of $2.40 on the bi-monthly minimum bill, or $14.40 annually. The discount has been provided to about 52,000 customers annually. Revenue shortfalls resulting from participant discounts are subsidized through the rates paid by non-participants. The annual subsidy is about $1.4 million. KEDLI does not have a reduced residential rate program.

Q. Do the companies have any proposals pertaining to their low income programs?

A. Yes. According to witness Cianflone, the companies propose to double enrollments in the two On-Track programs, and have included the associated costs in their respective revenue requirements. We estimate that these enhancements would approximately double On-Track program costs, to $1.5 million and $420,000 for KEDNY and KEDLI, respectively. In addition, Ms. Cianflone testifies that as part of the merger filing, National Grid proposes to increase the bi-monthly benefits in the KEDNY residential reduced rate from $6.16 to $15.00 for heating customers and from $2.40 to $7.00 for non-heating customers, and increase participation from 52,000 to 60,000 customers annually. We estimate that these enhancements would increase KEDNY's annual subsidy for this program by about $2.6 million, to about $4 million. National Grid would also establish a residential reduced rate for KEDLI. Monthly discounts of $7.50 and $3.50 would be provided to heating and non-heating participants, respectively, to a maximum of 30,000 participants annually. We estimate that such a program would produce a subsidy of about $2.3 million annually at KEDLI.

Q. Do you support the companies' proposals?

A. We support the companies' proposals to augment their respective On-Track programs. We do not support the proposals to increase the discount from the bi-monthly minimum charge in KEDNY's residential reduced rate program, and to establish a residential reduced rate for KEDLI. Instead, we propose modified residential reduced rate programs for both KEDNY and KEDLI. We further propose that these modifications should be implemented regardless of the outcome of the proposed merger. The need for these programs, and the subsidies needed to fund them, bear no relationship to prospective merger savings or combined company management.

Q. Why do you reject the companies' proposals to increase the discount from the bi-monthly minimum charge in KEDNY's residential reduced rate program, and to establish a residential reduced rate for KEDLI?

A. According to Company Witness Lukas' Exhibit RGL-8, a non-heating customer in SC-1A currently experiences a typical annual bill of $298 at KEDNY, and $291 at KEDLI. Even under the companies' proposed rates, these annual bills would increase to $355 and $373, respectively. Heating customers in SC-1B are cited in Exhibit RGL-8 as currently experiencing typical annual bills between $1,678 and $3,496 at KEDNY and between $1,693 and $3,580 at KEDLI, with annual usage varying between 90 and 200 DTh. There is every reason to believe that low income customers face the same wide variation in annual bills as residential customers in general. Under the companies' proposal, all of the qualifying SC-1B customers would receive the same benefit, regardless of usage; and all of the qualifying SC-1A customers would receive a benefit only slightly less than half the amount of the SC-1B benefit. Given that low income customers face a wide range of bill costs and corresponding ability to pay, this is not an efficient use of resources. Staff therefore proposes that, except for the bi-monthly minimum charge discounts already in effect for KEDNY, which should be continued, a residential reduced rate should be implemented at both KEDNY and

KEDLI that is based on a qualifying low income customer's volumetric usage.

Q. Why should the bi-monthly minimum charge discounts at KEDNY be continued?

A. Since qualifying low income customers at KEDNY are already receiving these discounts, it would create unacceptable rate shock for these customers to lose the discount, particularly at the same time that an increase in the bi-monthly minimum charge is implemented. The existing non-volumetric rate discount should therefore be continued.

Q. Please explain your proposed volumetric discount in more detail?

A. We propose that the delivery rate for the first rate block after the minimum charge be reduced by 25 percent of the full delivery rate for usage within that block. Specifically, for KEDNY, we propose that the delivery rate for bimonthly usage between six and 100 therms be reduced by 25 percent; and for KEDLI, we propose that the delivery rate for monthly usage between three and 50 therms be reduced by 25 percent. The volumetric nature of the discount provides a proportionately greater amount of assistance to income-eligible gas heating customers and other customers with higher gas usage. At the same time, no discount applies after 50 therms monthly or 100 therms bi-monthly, which ensures that the discount does not dilute the strong price signal to conserve sent to customers with marginal usage. We support the proposal by the companies to implement programs to serve 60,000 and 30,000 customers at KEDNY and KEDLI, respectively. We calculate that these modifications will result in total program subsidies of approximately $3.3 million for KEDNY and $1.4 million for KEDLI. These subsidies are less than the respective subsidies of $4 million and $2.3 million that we calculated for the companies' proposals, but will focus more assistance on those customers who have higher usage.

Q. How do you justify these increased expenditures?

A. Energy costs represent a large burden on low income families. Evidence from a variety of sources, including the Residential Energy Consumption Survey conducted quadrennially by the Federal Energy Information Administration, demonstrates that, while energy costs for mid and upper income customers represent one to five percent of income, such costs represent 15 to 20 percent of income for lower income customers. As a result, many low income customers cannot afford essential services such as gas service. These families typically must trade off among food, shelter and energy purchase decisions. In addition, for gas heating customers, loss of a household's primary heat source presents serious risks, due to cold weather and the fire and health hazards that result from using unsafe heating sources. Furthermore, low-income families tend to live in poorly maintained housing stock. This not only wastes energy, but makes it even more likely that these households will be unable to pay their utility bills. For these reasons, programs to address the needs of low income customers are necessary. In addition, in its Order Continuing the System Benefits Charge (SBC) and the SBC-Funded Public Benefit Programs, issued December 21, 2005 in Case 05-M-0090, the Commission stated that "oil and gas prices are volatile and rising, resulting in electricity commodity price increases for New York consumers, negatively impacting low-income consumers, in particular, who spend a higher percentage of their income on energy costs." Citing the recent escalation in fuel costs and the disproportionate impact such increased costs have on low-income customers, the Commission increased annual SBC support for low income programs by over $11 million, to over $38 million annually through 2011. For the same reasons, financial support for KEDNY and KEDLI's low income rate discount should increase as well.

Q. Why should such programs be funded by KEDNY and KEDLI ratepayers?

A. KEDNY and KEDLI have a statutory obligation to ensure the provision of safe and reliable service at just and reasonable rates. As the provider of last resort, this includes addressing the concern that gas service remains affordable for low income customers. Helping low income customers to pay their gas bills helps the utility and ratepayers. Utilities carry uncollectible expenses which are paid for by all ratepayers as a cost of business. Collection costs and working capital on the unpaid bills of low income customers impose additional costs on the utility and all consumers. These costs can be reduced with the effective implementation of low income programs. Savings from low income programs that should be considered include reductions in costs associated with credit and collection, arrears and bad debt, deposit maintenance, regulatory expenses, repeated payment plan negotiations, credit agency fees, diversion of revenue from arrears to reconnection fees, and diversion of revenue resulting from forced moves. Finally, there is public support for programs to lower bills for low income customers, as evidenced by joint proposals adopted by the Commission that have resulted in the implementation of low income programs at Central Hudson, Con Edison, KEDNY, KEDLI, National Fuel, NYSEG, Niagara Mohawk, O&R and RG&E.

Q. What if the number of rate discount participants increases or decreases from the levels of 60,000 and 30,000 that you propose for KEDNY and KEDLI respectively during the rate year?

A. We propose that if the aggregate actual rate reductions provided to low income customers during the rate year exceeds or is less than $3.3 million for KEDNY or $1.4 million for KEDLI, either company may, after consultation with Staff, revise the 25 percent rate reduction applicable in the succeeding year. If KEDNY or KEDLI determines to revise such percentage, the percentage rate reduction established should not exceed 30 percent or be less than 20 percent of the full delivery rate. Any remaining under- or over-expenditure of funds due to varying enrollment levels should be deferred for future recovery.

Customer Outreach and Education

Q. Please briefly describe KEDNY and KEDLI's customer outreach and education programs.

A. The Companies' Customer Outreach and Education programs are designed to inform customers about natural gas safety; rights and responsibilities as a customer, including information on billing/meter reading and special customer needs; ways to save money on customer bills, such as energy efficiency and conservation; information relating to customer satisfaction; rates, the rate setting process, and the cost of gas supply; and general information about the companies' programs and services.

Q. What level of funding is necessary to conduct the Customer Outreach and Education program?

A. According to the response to DPS-214 shown in Exhibit __ (CSP-4) program expense for the past five years averaged $230,000 annually at KEDNY and $350,000 annually at KEDLI.

Q. Do you have any concerns regarding outreach and education?

A. We propose that an outreach and education plan, with an identified budget, be developed annually, and filed with the Director of the Office of Consumer Services for Staff review. The annual filings should include detailed budgets and describe the specific outreach campaign messages to be disseminated, the communication vehicles to be used to disseminate them, the goals of the outreach program and the criteria for measuring their achievement. This will ensure that outreach and education activities are fully developed and adequately funded.

Q. Does this conclude your testimony?

A. Yes, at this time.