

**Joint Petition of Iberdrola, S.A., Energy East Corporation, RGS Energy Group, Inc.,  
Green Acquisition Capital, Inc., New York State Electric & Gas Corporation and  
Rochester Gas and Electric Corporation for Approval of the Acquisition of Energy East  
Corporation by Iberdrola, S.A.**

**CASE 07-M-0906**

**DIRECT TESTIMONY OF**

**FRANK W. RADIGAN**

**ON BEHALF OF**

**NUCOR STEEL, AUBURN, INC.**

**January 11, 2008**

1

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

3 A. My name is Frank W. Radigan. I am a principal in the Hudson River Energy  
4 Group, a consulting firm providing services regarding the electric utility industry  
5 and specializing in the fields of rates, planning and utility economics. My office  
6 address is 120 Washington Avenue, Albany, New York 12210.

7 **Q. WOULD YOU PLEASE SUMMARIZE YOUR EDUCATION AND**  
8 **BUSINESS EXPERIENCE?**

9 A. I received a Bachelor of Science degree in Chemical Engineering from Clarkson  
10 College of Technology in Potsdam, New York (now Clarkson University) in 1981.  
11 I received a Certificate in Regulatory Economics from the State University of New  
12 York at Albany in 1990. From 1981 through February 1997, I served on the Staff  
13 of the New York State Department of Public Service (“DPS”) in the Rates and  
14 System Planning sections of the Power Division. My responsibilities included  
15 resource planning and the analysis of rates, depreciation rates and tariffs of electric,  
16 gas, water and steam utilities in the State and encompassed rate design and  
17 performing embedded and marginal cost of service studies as well as depreciation  
18 studies.

19 Before leaving the DPS, I was responsible for directing all engineering staff during  
20 major rate proceedings including those relating to integrated resource planning and  
21 environmental impact studies. In February 1997, I left the DPS and joined a firm  
22 called Louis Berger & Associates as a Senior Energy Consultant. In December  
23 1998, I formed my own Company. In my 27 years of experience, I have testified as

1 an expert witness in utility rate proceedings on more than 60 occasions before  
2 various utility regulatory bodies, including this Commission, the Nevada Public  
3 Utility Commission, the New York State Department of Taxation and Finance, the  
4 Connecticut Department of Utility Control, the Rhode Island Public Utilities  
5 Commission, the Michigan Public Service Commission and the Federal Energy  
6 Regulatory Commission. A partial summary of my qualifications and experience is  
7 included in Exhibit 1.

8 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

9 A. I am submitting this testimony on behalf of Nucor Steel Auburn, Inc. ("Nucor"),  
10 which operates an electric arc furnace-based steel manufacturing facility  
11 located in Auburn, New York. Nucor employs approximately 300 people at  
12 this steel "mini-mill" facility, where scrap steel is recycled and molten steel is  
13 recast into a variety of steel products, such as rebar, that are then sold in the highly  
14 competitive steel commodity markets. Nucor recycles approximately  
15 500,000 tons of steel scrap annually and is the largest single point  
16 electric load on the New York State Electric & Gas Corporation  
17 ("NYSEG") system. Since acquiring this operation from Auburn Steel in 2001,  
18 Nucor has invested over \$30 million in modernizing the facility. As an energy  
19 intensive manufacturing facility, reliable and cost-competitive electric service is  
20 critical to Nucor's operation.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 **A.** I will address the need for the Commission to establish specific commitments from  
3 the petitioners regarding economic development initiatives and support for local  
4 communities.

5 **Q. WHAT IS THE PETITIONERS' PROPOSAL WITH RESPECT TO**  
6 **ECONOMIC DEVELOPMENT AND LOCAL COMMUNITY SUPPORT?**

7 **A.** The petitioners claim that the synergy benefits typically associated with utility  
8 mergers will not be achieved with the Iberdrola acquisition of the Energy East  
9 companies, but that New York consumers nonetheless will benefit from NYSEG  
10 and RG&E becoming a part of Iberdrola. (Petition at p. 2). The petition asserts that  
11 these benefits will be found in the following areas:

- 12 • Iberdrola's global energy experience;
- 13 • Iberdrola's focus on energy efficiency, clean technologies and the  
14 environment;
- 15 • Financial stability;
- 16 • Commitment to customer service and reliability; and
- 17 • Commitment to local communities

18 (Petition at p. 3). With regard to the last of these items, the petition maintains that  
19 "Iberdrola will not seek any reduction in the level of any existing economic  
20 development initiatives in New York in connection with the Proposed Transaction  
21 [merger]." *Id.* The petitioners subsequently restate that commitment without  
22 elaboration. *Petition at p. 15; Benefits and Public Interest Panel at p. 27.*  
23 Essentially, Iberdrola maintains that its acquisition of Energy East will produce no  
24 adverse impacts for New York ratepayers, but it does not offer any tangible  
25 consumer benefits.

1 **Q. IS THE PETITIONERS' ASSURANCE OF NO ADVERSE RATEPAYER**  
2 **IMPACTS SUFFICIENT TO APPROVE THE ACQUISITION?**

3 A. No. The Commission should require specific commitments that provide tangible  
4 benefits to New York consumers.

5 **Q. PLEASE EXPLAIN.**

6 A. I share the concerns expressed by the Maine PUC advisory staff in its review of the  
7 proposed merger that the acquisition of Energy East by a large, multi-national  
8 entity, such as Iberdrola, creates new risks and concerns for consumers that must be  
9 considered and addressed. In a November 6, 2007 bench memo, the Maine PUC  
10 Advisory Staff wrote:

11 CMP's executive management resides in Maine. Energy East's headquarters  
12 are in Maine. In contrast, Iberdrola's executive management and  
13 headquarters are in Spain. Although the Petitioners and Iberdrola have  
14 indicated that the Energy East and CMP executive and management  
15 structures will not be changed if the acquisition is approved, this is not  
16 guaranteed in perpetuity, or, for that matter, at all.

17 More importantly, even if Energy East's and CMP's executive and  
18 management structures never change, it is likely that ultimate decision-  
19 making authority will reside with officials at Iberdrola's headquarters in  
20 Spain.

21 Iberdrola's physical and language separation from Maine creates the  
22 potential that decisions affecting CMP may be removed from the local  
23 concerns of Maine's citizenry and government. Iberdrola's management is  
24 unlikely to be as familiar with Maine-specific issues and concerns, yet they  
25 may be the ultimate decision-makers about CMP's investments and  
26 operations, as well as its positions and actions with respect to regional and  
27 policy issues of importance to Maine.

28 This is not a theoretical concern. Maine has experience with other utility  
29 acquisitions, and has observed the tendencies of large companies to treat as  
30 unimportant problems of an affiliate located in a relatively small and remote  
31 state. In particular, we note Maine's less than positive experiences in  
32 telephone and natural gas, where Maine utilities have been acquired by  
33 large, distant holding companies, followed by degradation of service quality

1                   and diminished sensitivity and responsiveness to Maine regulatory concerns  
2                   and issues.

3                   We do not mean to suggest that this acquisition would lead to a similar  
4                   result. However, it is clearly a risk.<sup>1</sup>

5                   I believe that the Maine PUC advisory staff accurately noted that ultimate decision-  
6                   making in many, or most, aspects of Iberdrola's U.S. utility operations and  
7                   investments will be made in Spain.

8                   With respect to New York utility operations, there is a risk that Iberdrola will not  
9                   share New York State and Commission concerns with regard to economic  
10                  development initiatives and infrastructure investment, among other matters, when it  
11                  comes to the conglomerate's actually investing in the NYSEG and RG&E service  
12                  territories. These are, however, vital concerns for reining in New York's high cost of  
13                  living and doing business in New York, as the Governor emphasized in his January  
14                  9, 2008 State of the State address. The appropriate remedy to address this risk is  
15                  for the Commission to establish specific commitment requirements as part of any  
16                  merger approval order. I expect that the DPS Trial Staff and other parties will  
17                  address the need for positive consumer benefits in a number of areas. I confine this  
18                  testimony to the need for specific commitments regarding economic development  
19                  initiatives.

---

<sup>1</sup> [Footnote omitted].

1 **Q. PLEASE DISCUSS THE IMPORTANCE OF MANUFACTURING JOB**  
2 **RETENTION AND ATTRACTION.**

3 A. Support for manufacturing is essential for Upstate economic development efforts to  
4 be successful. Manufacturing industries contribute more to any local, regional or  
5 national economy than any other sector. The Manufactures Association of Central  
6 New York (“MACNY”) reports that manufacturing employs over 550,000 New  
7 Yorkers and contributes \$61 billion annually to New York State’s GDP. Compared  
8 to other sectors of the economy, manufacturers pay higher wages, generate better  
9 benefits, and stimulate more high technology growth through research and  
10 development and productivity improvements.

11 MACNY reports that manufacturing jobs pay on average 20 percent more than  
12 other sectors of the economy. In fact, MACNY also reports that manufacturing  
13 jobs pay salaries on average of over \$48,000 a year. Service sector employees earn  
14 about 60 percent of that, and retail workers earn about 40 percent of the wages  
15 paid to manufacturers. Manufacturing accounts for over 70 percent of private  
16 sector research and development in the United States. Every manufacturing job  
17 creates more than 2.5 related jobs in other sectors, and every dollar spent generates  
18 an additional \$1.37 in economic activity. Simply put, manufacturing is the wealth  
19 generating sector of the New York economy.

20 It is no secret that Upstate New York, and particularly the areas served by NYSEG  
21 and RG&E, has been losing the battle to retain and attract quality jobs. The US  
22 Bureau of Labor Statistics reports that between March 1990 and March 2007  
23 manufacturing jobs in New York have dropped 55%. On January 5, 2008, the  
24 Albany Times Union reported that manufacturing jobs in New York dropped

1 almost 29% between 1996 and 2006, a bigger decline than all states except North  
2 Carolina and Rhode Island. In the same article, the Times Union also reported that  
3 the cost of doing business in New York is second only to the cost of doing business  
4 in Hawaii, and is 30.7% above the national average.

5 **Q. PLEASE CONTINUE.**

6 **A.** The cost of electricity is a very large part of this cost disparity. The Albany Times  
7 Union reports that the average price of electricity for 2007 in New York State was  
8 14.54 cents per kWh, the fourth highest in the nation and 66 percent above the  
9 national average of 8.77 cents. An October 2007 report prepared by Power in the  
10 Public Interest (“PPI”) suggested that New York’s retail deregulation policies are  
11 responsible for some of this disparity. (*See* Exh. FWR-1). PPI reported that retail  
12 electricity prices in deregulated states averaged 2.0 cents per kWh higher than rates  
13 in traditionally regulated states in 2000, and that, by 2007, this rate disparity had  
14 grown to more than 4.0 cents per kwh.

15 PPI also reported that in 2000, the average electric rate for all customers in New  
16 York was 10.6 cents/kwh, while the comparable figure for the collective regulated  
17 states was 6.0 cents/kwh—or a difference of 4.6 cents. According to PPI, as of June  
18 2007, the difference had widened to 6.8 cents (14.5 cents/kwh for New York and  
19 7.7 cents/kwh for the regulated states). For the 12 months ending June 2007, New  
20 Yorkers paid \$22 billion for their electricity. The same amount of electricity at the  
21 regulated states’ average rate would have cost \$11.6 billion—a difference (or  
22 comparative purchasing-power disadvantage to New Yorkers) of \$10.4 billion for a  
23 12-month period.



1 I recognize that there is considerable controversy regarding the claimed success or  
2 failure of competitive retail power markets. There is little doubt, however, that on  
3 the ultimate question of cost competitiveness New York has continued to lose  
4 ground on the electric rates charged to homes and businesses.

5 **Q. WHAT PROGRAMS EXIST IN NEW YORK TO REDUCE ELECTRICITY**  
6 **COSTS FOR NEW YORK MANUFACTURING LOADS?**

7 A. Historically, the State has administered a series of economic development programs  
8 that streamed low cost hydro power and excess nuclear capacity through the New  
9 York Power Authority (“NYPA”), and the Commission also approved and provided  
10 oversight to a variety of utility administered economic development initiatives.  
11 NYSEG and RG&E historically offered bundled, and more recently, unbundled,  
12 job retention and attraction (“flex rate”) service agreements. NYSEG also has a  
13 specific budget for various consolidated economic development programs that was  
14 established in its last delivery rate case.<sup>2</sup>

15 **Q. ARE THESE EFFORTS WORKING?**

16 A. The historic NYPA, bundled flex rate and Economic Development Zone Incentive  
17 (“EDZI”) discounted rate programs have been highly successful, as indicated by the  
18 number of manufacturing loads that continue to take service under one or more of  
19 these programs. The same cannot be said of the current programs, which offer

---

<sup>2</sup> Case No. 05-E-1222, Order Adopting Recommended Decision with Modifications, dated August 23, 2006; Order on Rehearing, dated December 15, 2006.

1 limited benefits or availability, as is evidenced by the continued erosion of  
2 manufacturing jobs noted above.

3 **Q. PLEASE DISCUSS THE PETITIONERS' PROPOSAL REGARDING**  
4 **ECONOMIC DEVELOPMENT INITIATIVES.**

5 A. The petitioners correctly listed a commitment to local communities and economic  
6 development initiatives as an important component of the acquisition assurances to  
7 the State. The vague representation in the petition that Iberdrola will not further  
8 degrade current programs that are ineffectual, however, is not a satisfactory  
9 response to one of New York's most compelling challenges.

10 In the recently completed merger of KeySpan and National Grid, the Commission  
11 determined that utility merger terms must be shown to be in the public interest  
12 within the borders of New York, both in the short- and long-term. The  
13 Commission further noted that the burden of proof with respect to all the merger  
14 and revenue requirement issues rests with the petitioners. In Nucor's view, to  
15 satisfy the Public Service law requirement the petitioners must demonstrate that  
16 there will be positive and tangible benefits to New York consumers.

17 **Q. PLEASE DISCUSS THE NEED FOR COMMITMENTS REGARDING**  
18 **ENHANCED ECONOMIC DEVELOPMENT INITIATIVES.**

19 A. It is well established that uncompetitively high energy costs are a leading barrier to  
20 the retention of quality manufacturing jobs in the Upstate areas served by NYSEG  
21 and RG&E. On January 9, 2008, Governor Spitzer's State of the State address  
22 discussed the urgent need to take the initiative to stem the tide of Upstate job  
23 losses. The Governor quoted Franklin Delano Roosevelt's comment that "It is

1 common sense to take a method and try it; if it fails, admit it frankly and try  
2 another. But above all, try something.” This observation clearly applies to the need  
3 for more innovative approaches to stemming the impact of high energy costs on  
4 Upstate manufacturing. Effective utility rate economic development initiatives are  
5 a key feature of successful job retention and attraction efforts, and revitalizing  
6 those initiatives should be a Commission focus in this docket. The “no adverse  
7 impact” approach proposed by the Petitioners in this docket is altogether  
8 inadequate.

9 **Q. WHAT DOES NUCOR RECOMMEND?**

10 **A.** Much more needs to be done to establish competitive power rates for  
11 manufacturing businesses that are investing in facilities and will retain or create  
12 quality jobs in New York. The delivery portion of a utility bill is a relatively small  
13 component of the total bill, and economic development discounts to the delivery  
14 component alone cannot be expected to be effective. Nucor recommends that the  
15 Commission require Iberdrola to expand the range of economic development  
16 program options and that it encourage the utility to develop innovative approaches.  
17 This could include exempting flex rate and other qualified manufacturing loads  
18 from various surcharges (SBC, RPS, EPS, etc.) or streaming lower cost sources of  
19 supply or hedged positions to those qualifying loads. For example, NYSEG has  
20 hydroelectric units and the cost of power from certain remaining contracts with  
21 Independent Power Producers that are forecast to be well under market prices.  
22 Streaming low cost power sources to retain and attract manufacturing jobs is not a  
23 new concept in New York. It has been done in Jamestown, NY (Case 02-E-1335)

1           and Massena, NY (Alcoa) to stream low cost hydro power to customers in order to  
2           retain or attract jobs. In any event, in view of current uncompetitively high energy  
3           costs and the State imperative to revitalize the Upstate economy, the Commission  
4           should require Iberdrola to develop and file an aggressive and innovative job  
5           retention and attraction program.

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

7   **A.    Yes it does.**