

# Rate Watcher

## New Hampshire

*2007 Year-End Review*

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### ***2007 was a busy year!***

2007 was an especially busy year for the Office of Consumer Advocate. During last year, the OCA added 27 PUC dockets to its active caseload: 2 telecommunications cases, 15 electric cases, 8 natural gas cases and 2 water cases. The biggest by far among these cases involved the sale of Verizon New Hampshire's franchise and assets to FairPoint Communications, which we discuss in detail below. In addition to our work in adjudicative proceedings, the OCA also continued its participation at the New Hampshire Legislature, and on study committees related to energy. The OCA also continued its consumer outreach and education initiatives, including fielding daily calls from consumers, issuing press releases and publishing our seasonal newsletter.

This newsletter summarizes some of our most significant activities in 2007 and early 2008, and highlights some of the residential ratepayer benefits realized as a result of these activities.

### ***Consumer Advocate Is Reappointed***

The Office of Consumer Advocate (OCA) is an independent state agency charged under RSA 362:28 with representing residential customers of New Hampshire's regulated utilities: electric, natural gas, telephone and water. The OCA is authorized to participate on behalf of residential consumers in proceedings before the New Hampshire Public Utilities Commission (PUC), the legislature, at the regional and federal levels, and in the courts. Additionally, the OCA is charged with promoting and furthering consumer knowledge and education.

On October 31, 2007, the Executive Council confirmed Meredith Hatfield to a four-year term as New Hampshire's Consumer Advocate. Since joining the OCA in November of 2006, Ms. Hatfield has worked tirelessly to advocate for residential utility customers before the New Hampshire Public Utilities Commission (NH PUC), the New Hampshire Legislature, and at the regional level. The staff of the OCA is excited to continue working under her leadership.

The OCA's Advisory Board meets bimonthly in Concord. You can review the agendas and minutes of these public meetings on our website at [www.oca.nh.gov](http://www.oca.nh.gov). Our website also has useful information about efficiency and assistance programs, and contact information for public utilities in state.



## ***New Hampshire's Biggest Telephone Company Says Goodbye***

2007 began with the announcement of the sale of Verizon's landline business in New Hampshire, Maine and Vermont to FairPoint Communications.

Overnight, FairPoint became a household name (at least within the households of the staff of the OCA) and the key question became "who is

best suited to serve nearly 500,000 New Hampshire telephone customers?"

The months that followed this announcement were a dizzying blur of efforts by the OCA and other parties to discover as much as possible about the proposed transaction, FairPoint, and the impact that it would have in New Hampshire. Thanks to special authorization granted by the NH Legislature that provided up to \$150,000 of additional funding to the OCA, we were able to engage two highly qualified experts on the wide range of issues in the case. These experts, David Brevitz and Susan Baldwin, ably assisted us with the intense discovery process, and by providing expert testimony at the hearings that followed.

Essentially, the questions before the NH PUC included, "Is the proposed transaction in the public good," and "Is granting Verizon permission to cease operating in New Hampshire in the public good." Following nine days of hearings in October and November 2007, the PUC initially determined that the answers to these questions, consistent with the case presented by the OCA, were "no."

In the month that followed, FairPoint and Verizon agreed to various modifications to the proposed transaction and, together with the Staff of the NH PUC, sought approval for a revised transaction presented to the Commission in a settlement agreement. On February 25, 2008, the NH PUC approved the transaction as revised, subject to a few additional conditions. The NH PUC's approval followed the approval of both the Maine Public Utilities Commission and the Vermont Public Service Board of similar proposals, though the NH settlement included new provisions that benefit our state, some which the OCA proposed in our filings in the case..

On the NH PUC's website, you may view all of the conditions of approval contained within the NH PUC's order (<http://www.puc.nh.gov/Regulatory/Orders/2008orders/24823t.pdf>) and the Settlement between Verizon NH, FairPoint and the Staff of the NH PUC. To help consumers understand some of the essential terms of the NH PUC's approval, the OCA compiled the following list from the Commission's order.

### Financial

- ✓ Verizon will contribute an additional \$297.5 million to FairPoint. \$235.5 million will be used by FairPoint to repay or avoid debt for the transaction; \$12 million is debt forgiven by Verizon; and \$50 million will be used for NH capital expenditures.
- ✓ FairPoint will spend at least \$52 million in NH during each of the first three years following the transaction, not including the additional \$50 million above. During the fourth and fifth years, FairPoint will spend at least \$49 million in the state. FairPoint will pay financial penalties if it fails to meet capital expenditure requirements.
- ✓ FairPoint will reduce its annual dividends by 35%, or \$49.7 million, until it reaches a certain leverage ratio.
- ✓ FairPoint agreed that, beginning in the first quarter of 2009, it will pay either \$45 million, or 90% of its Free Cash Flow, whichever is higher, toward the repayment of merger-related debt.

### Retail Rates & Services

- ✓ FairPoint will not increase the price of basic telephone service during the first five years after closing.
- ✓ FairPoint will offer sales and service options that are the same as or comparable to those of Verizon, with the exception of products and services not assigned by Verizon to FairPoint as part of the transaction.
- ✓ FairPoint will negotiate for contracts with the same third-party payment agents currently used by Verizon, to facilitate continued in-person bill payment.
- ✓ FairPoint will work to increase participation of eligible consumers in the Lifeline and Link-up programs, and to institute within nine months of cutover a “soft disconnect” process whereby consumers disconnected for non-payment will still have access to dial tone to call 911 and to contact the FairPoint business office for 90 days.
- ✓ FairPoint agreed to provide at least 30 days’ advance notice of an intent to remove any pay phone that could be eligible for the public interest payphone program described in N.H. Code Admin. Rules Puc 406, and to install, fund and maintain five public interest payphones for at least three years.

### Service Quality

- ✓ FairPoint has agreed to specific retail service quality standards.
- ✓ FairPoint agreed to self-enforcing penalties if standards are not achieved. Penalties will be refunded to retail customers through bill credits.
- ✓ FairPoint will pay for an independent audit of its quality of service reporting metrics.

### Broadband

- ✓ FairPoint will spend at least \$56.4 million within five years on broadband infrastructure in NH.
- ✓ FairPoint will achieve 95% broadband availability to its customers within 5 years.
- ✓ FairPoint will pay penalties if broadband commitments are not met.
- ✓ FairPoint will maintain all prices and speeds offered by Verizon for broadband internet service, including a fiber-to-the-premises product comparable to Verizon FIOS as well as stand-alone DSL service, which must be available for a period of two years without a change in price. After two years stand-alone DSL will be subject to annual price increases of no more than 15%, unless approved by the Commission.

The transaction between Verizon and FairPoint closed as planned on March 31, 2008, after the Commissions in the three states held last minute hearings to consider whether an increase in interest rate expenses warranted action by the Commissions. Specifically, when FairPoint issued bonds the interest rate was 13.5%, not the 8.5% forecasted by the company. Despite the increase in interest expense, all three Commissions ruled that the company could close as scheduled. Following the closing, Verizon is continuing to provide back-office support to FairPoint until FairPoint is prepared to take over these functions, which is currently estimated to be late September. Billing is among the back-office functions that Verizon continues to provide during this post-closing transition period. The switch from Verizon to FairPoint at the end of this transaction period is known as “cutover.” The OCA expects that Verizon and/or FairPoint will contact current Verizon customers in the months to come with more information about the transaction and cutover.

To assist consumers with the transition from Verizon to FairPoint, we offer the following responses to a few frequent questions or concerns.

**Q: Will the switch from Verizon to FairPoint affect my local calling area?**

**A:** No. The local calling areas will remain the same.

**Q: Will the change affect my billing and bill payment options?**

**A:** Your bill should remain consistent, with only the change to FairPoint's name. Customers who used Verizon's "one bill" service are no longer able to use that service as the wireless services on that bill are still provided by Verizon. It is the OCA's understanding that customers will also not be able to make online payments on Verizon's or FairPoint's website until after the cut-over is complete, which is currently scheduled for late September. Customers may still be able to make online payments using services provided by your bank. We recommend checking with FairPoint if you have any questions. **You can reach FairPoint customer service at 1-866-984-2001.**

**Q: If I do not want to use FairPoint as my local exchange service provider, what other telephone companies can I choose from?**

**A:** The NH PUC lists all regulated competitive local exchange carriers on its website at <http://www.puc.nh.gov/Telecom/ClecCustomerContacts.pdf>. The OCA, however, is not aware to what extent these competitive carriers presently serve residential customers. For any assistance identifying an alternative carrier in your area or to voice any concerns you have, you may **contact the NH PUC directly at 1-800-852-3793 or [puc@puc.nh.gov](mailto:puc@puc.nh.gov).**

**Q: Will I be subject to any fees as a result of the transfer from Verizon to FairPoint?**

**A:** FairPoint has promised as seamless a transition as possible and to not impose the costs associated with this transaction upon customers. Customers, however, may be subject to fees if they choose to change their toll service provider (i.e., long-distance carrier) following the transfer of their account to FairPoint. This charge, also known as a preferred carrier (PIC) change charge, is not related to the transfer by Verizon to FairPoint, and it is often waived or reimbursed by the new toll provider.

**Q: I have a PIC freeze on my account. What happens to the PIC freeze when my account is transferred from Verizon to FairPoint?**

**A:** A PIC or preferred carrier freeze occurs when a customer makes arrangements with their local telephone company (e.g., Verizon) to prevent "slamming." Slamming occurs when a telephone company makes unauthorized changes to a customer's long distance telephone carrier. When accounts are transferred from Verizon to FairPoint, all PIC freezes will be lifted in order to change the customers' toll (long-distance) provider to FairPoint. Under federal law, CFR Part 64.1120, FairPoint may not re-impose a customer's PIC freeze. This can only be done upon the request of the customer. If you want your toll account protected from slamming after the transfer to FairPoint, you need to contact FairPoint to request it.

As always, the OCA is here to respond to your questions about this or any other public utility matter impacting residential customers. Even if we do not know the answers, we will assist you in finding the right person to speak with. You can also contact the NHPUC's consumer affairs division at 1-800-852-3793 or [puc@puc.nh.gov](mailto:puc@puc.nh.gov). We welcome FairPoint to the state and we will work with them to ensure that they have a successful transition into the state.



## ***Watts Up In The Electric Industry?***

New Hampshire's residential electric customers are served by Public Service Company of New Hampshire (PSNH), Unil Energy Systems, Inc. (UES), National Grid (Grid), the New Hampshire Electric Cooperative, Inc. (NHEC) which is exempt from most PUC regulation, and several municipal electric departments that are not regulated by the PUC.

The OCA participated in a number of electric dockets with a range of issues. A summary of some of the electric dockets resolved in 2007 follows. Although the issues differed in these and other electric dockets, the OCA's goal and efforts to achieve the best possible outcome for residential ratepayers remained consistent.

In 2007 the OCA participated in reaching a settlement with NH PUC Staff and PSNH concerning PSNH's retail transmission and distribution (T&D) rates. PSNH had sought to increase its T&D revenues by \$49.8 million, but the settlement provided a \$37.7 million increase. The benefits of the settlement also included a reliability enhancement program designed to address necessary investments in PSNH's system, a new customer connection policy and the recognition for ratepayers of a \$514,000 gain by PSNH on the sale of real property. In May 2007, the NH PUC approved the settlement. The lower increase in T&D revenues alone resulted in a savings to residential customers of approximately \$4 million annually.

The OCA also participated in negotiating a settlement agreement concluding the NH PUC docket opened to evaluate the proposed acquisition by National Grid of KeySpan Energy Delivery, a regulated natural gas distribution utility operating in New Hampshire. There were numerous benefits in this settlement, including a \$2.2 million annual reduction in distribution rates, benefits the electric customers of National Grid. Additionally, the settlement, which the Commission approved in July 2007, results in new commitments for customer reliability, service quality and safety.

The OCA also continues to actively participate in all of the energy service or default service rate cases of PSNH, National Grid and Unil that impact residential customers. The main message to take away from these cases is that power costs purchased through a competitive bidding process continue to go up. These increased costs are then passed on to the retail customers. Customers are well advised to take steps to reduce their energy consumption, including choosing energy efficient products and appliances for your household. For more information about New Hampshire energy efficiency and financial assistance programs, please see the Fall 2007 edition of the RateWatcher New Hampshire, and check out the OCA's website, [www.oca.nh.gov](http://www.oca.nh.gov), for more information.

Every year, the OCA devotes time and resources to the electric dockets involving low-income electric assistance (EAP) and energy efficiency programs (CORE). Both of these programs are statewide, needs-based, and funded by all electric ratepayers through the System Benefits Charge (SBC). The EAP provides financial assistance to qualified residential electric customers. The CORE statewide energy efficiency programs provide customers with rebates and access to a wide range of products and services to help lower electric consumption. Check out [www.nhsaves.com](http://www.nhsaves.com) for more information on the efficiency programs. Annually, the budgets for these two important programs run in the millions of ratepayer dollars. The focus of the OCA's efforts in dockets concerning the EAP and CORE programs

is to promote the most efficient and effective use of these funds. In 2007 the Core programs for 2008 were approved by the Commission, including greater transparency and opportunity for interested parties to participate in the planning of future programs, more funding for low income energy efficiency, more cooperation with the natural gas efficiency programs, and the undertaking of a study of remaining energy efficiency opportunities in NH in 2008. Consumers should take advantage of these programs since we pay for them!

In 2007 the Commission opened a docket to investigate the administrative costs of operating the statewide EAP. The Commission specified that the proceeding would include consideration of ways to streamline EAP administrative processes and reduce administrative costs, and a review of all administrative costs since 2003. The process also resulted in a set schedule for EAP reviews and evaluations in the future. The OCA will continue to work with the parties on the EAP Advisory Board in the ongoing management and review.

Under the 2005 Federal Energy Policy Act (EPAAct), the Commission is charged with reviewing whether certain new policies should be put in place. The Commission has recently ordered the electric utilities in NH to study the costs of "Time-Based Metering" or "Smart Metering." Smart metering generally refers to technologies that allow us to better understand how much our electricity costs to produce when we use it, and also allow us to change how and when we use it to respond to prices. For example, did you know that the cost to generate electricity on the hottest days of the summer can be ten times as high during the afternoon than later the same night? Simply shifting when we use energy can make a big difference in costs, and can also reduce the environmental impact of our energy use.

In 2008 the Commission will continue other investigations under EPAAct, including making findings on Net Metering, which allows small customers who self-generate electricity from renewable resources to send power back to the grid; Interconnection Standards; Fuel Diversity; and Fossil Fuel Generation Efficiency.

## ***Natural Gas Updates***



For NH residential customers who use natural gas for heat and appliances, two natural gas distribution utilities, KeySpan Energy Delivery New England (KeySpan or EnergyNorth) and Northern Utilities (Northern), provide our service. KeySpan serves approximately 83,000 customers in southern and central New Hampshire. Northern serves approximately 27,000 customers in the southeast and seacoast areas of New Hampshire. NH Gas Corporation also serves 1,000 customers in Keene and distributes propane as opposed to natural gas.

In 2007 the OCA participated in all major dockets affecting KeySpan and Northern, working closely with the NH PUC staff. The issues in these dockets included the acquisition of KeySpan by Grid (discussed above), seasonal adjustments to the cost of gas, and energy efficiency and assistance programs for low income customers. The OCA's goal in participating in these dockets is to mitigate the financial impact of these issues on residential customers.

For example, the OCA worked with NH PUC Staff and KeySpan to resolve a docket involving KeySpan's billing practices. The case involved an error in the way that KeySpan calculated its customers' usage, which caused significant overcharges. A member of the NH PUC Staff discovered this error and brought it to the NH PUC's attention. The settlement agreement

negotiated by the Staff, the OCA and KeySpan, which the NH PUC approved in May 2007, provided for a credit back to ratepayers of over \$3 million, plus a \$200,000 contribution by KeySpan to low income energy efficiency measures.

As in the energy service cases for the electric utilities, the cost of gas adjustment cases reveal a continuing trend of increasing prices for gas purchased in the competitive market. As distribution utilities, KeySpan and Northern have no control over these increases and, so long as their purchases are the result of a competitive bidding process, may pass these increases directly on to customers. As with electricity, customers are urged to reasonably reduce consumption and to seek ways to most efficiently use natural gas such as with energy-efficient appliances whenever possible.

## ***Water Updates***



Over 20 regulated water utilities of varying sizes serve residential customers in the state. The largest, Pennichuck Water Works (PWW), serves more than 25,000 customers in Nashua and other communities in southern New Hampshire. The smallest, Lakeview Water, serves approximately 22 customers in Alton. The water dockets at the NH PUC typically involve issues of rate setting and service quality.

In 2007, the OCA took less of an active role in water dockets. Primarily this was necessitated by the relative weight of our workload in other industry dockets, particularly the larger cases of Verizon/FairPoint merger, PSNH T&D rates and Grid/KeySpan acquisition (discussed above). Even so, the OCA maintained a presence in the larger cases including the Eminent Domain proceedings involving Nashua and PWW, and the Pennichuck East rate case. Late in 2007, the OCA joined the Staff of the NH PUC and others in the docket involving Lakes Region Water Company, which concerns significant safety issues as well as issues concerning the utility's financial and managerial fitness. The Lakes Region docket is one which the OCA intends to follow closely in the months to come.

## **A Sustainable Energy Future for New Hampshire**

NH is changing the way we think about energy. More emphasis is being placed on the environment and the health impacts that are associated with energy production and our use of energy. Efforts in 2007 included new legislation that affect NH's energy landscape. The Governor signed into law the Renewable Portfolio Standard (RPS) and the Commission must now adopt rules to implement the RPS law. In addition, the Regional Greenhouse Gas Initiative (RGGI) is currently under consideration by legislators.

New Hampshire's participation in RGGI will allow the state to join a 10-state regional effort to reduce carbon dioxide (CO<sub>2</sub>) emissions. RGGI includes a regional market where CO<sub>2</sub> credits are traded so that affected sources of carbon dioxide can purchase credits. A 2007 UNH study showed that because it is a regional initiative and we are part of a regional electricity pool, a failure to participate would mean that the state will not see many of the benefits, while we would still pay for any costs of RGGI through electric rates. In addition to the benefits of reducing CO<sub>2</sub> emissions, the carbon credit market will result in funds that the state can invest in energy efficiency to reduce energy usage and lower energy bills. The OCA supports the use

of RGGI funds to develop coordinated, multi-fuel energy efficiency programs, including those to benefit low-income customers and that are available to all residents and businesses. Most importantly, the OCA supports a RGGI policy that is carefully crafted to minimize cost impacts on consumers. The OCA has worked with others on the RGGI legislation to include a safety mechanism which would refund RGGI proceeds to customers if the price of allowances exceeds a certain price. The OCA continues to participate in the legislative process to ensure that the goals of CO<sub>2</sub> reduction, lower energy bills through energy efficiency, can be achieved with the lowest possible rate impacts.

The NHPUC recently announced that it is creating an “Office for Sustainable Energy” that will focus on energy efficiency and renewable energy. The PUC oversees the RPS Renewable Energy Fund, administers the state’s code for energy conservation in building construction, and will have new duties if the RGGI bill passes, including oversight of a new fund for energy efficiency. The Commission also approves and helps to manage the state’s ratepayer-funded electric and natural efficiency programs. In a press release, the Commission stated that roll-out of the new division will occur over the next few months. The OCA thinks that this new office will be a welcome addition to help chart New Hampshire’s clean energy future.

***Reaching out across New Hampshire...***

Informing New Hampshire's residential ratepayers about utility-related issues is one of the many important functions of the OCA. We serve as a resource to citizens, legislators and members of the press on issues important to the OCA and its constituents. In addition to responding to individual inquiries, we also provide information to local newspaper reporters and make appearances on local radio and television programs to keep these important issues at the forefront.

Throughout 2007, the OCA’s legal assistant, Christina Martin, kept the public informed with press releases, updates to the OCA’s website ([www.oca.nh.gov](http://www.oca.nh.gov)) and the publication of this newsletter. Ms. Martin also assisted the many consumers who called or emailed the OCA with questions or concerns about utilities and other matters. As the OCA’s front line, Ms. Martin helps NH residential ratepayers make informed decisions related to their utility service and rates. As always, we all welcome your input on how we can improve the education and outreach aspect of our work.

**Office of Consumer Advocate**

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