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June 23, 2003

VIA HAND DELIVERY

Luly Massaro, Commission Clerk
Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: Docket No. 3476; Brief and Plan Synopsis

Dear Luly:

Enclosed is an original and nine copies of New England Gas Company's Brief and Plan Synopsis in the above-referenced Docket. The Service Quality Plan synopsis is submitted to provide the Commission with an overview of the Company's proposed Service Quality Plan, including certain changes that the Company has incorporated to address issues raised at the hearings. The enclosed Brief provides the theoretical and legal basis for the Company's Plan. Thank you for your attention to this filing.

Sincerely,

CRAIG L. EATON, #5515
Attorney for New England Gas Company
CLE/kmb
Enclosure
cc: Service List

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PART I

NEW ENGLAND GAS COMPANY
SERVICE QUALITY PLAN
Docket No. 3476

SQ PLAN SYNOPSIS

I. INTRODUCTION

In this proceeding, the New England Gas Company (the "Company") is seeking approval by the Rhode Island Public Utilities Commission (the "Commission") of its Service Quality Plan (the "SQ Plan") for effect July 1, 2003 through June 30, 2005. As described in the Company's Brief (Part II), the Company has proposed a reasonable and workable SQ Plan that will facilitate the straightforward and objective measurement of the Company's service performance. Specifically, the Company is proposing a methodology to set performance benchmarks and to calculate penalties and offsets that will ensure that the SQ Plan will be workable over the long term in that it will (1) provide valid and clear-cut signals to the Company to guide its service-quality initiatives and (2) produce meaningful information for use by the Commission and the Division in evaluating the levels of service afforded to customers.

This SQ Plan Synopsis is designed to provide the Commission with an overview of the Company's proposed SQ Plan, including certain changes (as indicated herein) that the Company has incorporated to address issues raised at the hearings conducted by the Commission. The accompanying brief provides the theoretical and legal basis for the Company's SQ Plan provisions.

A. Performance Measures

The Company's proposed SQ Plan involves eight performance measures (the "Performance Measures") that allow for the evaluation of the major aspects of the Company's operations that directly affect customers. These Performance Measures are defined as follows:

1. Percentage of Abandoned Calls: The number of customer calls abandoned as a percentage of the total number of customer calls received by the Company (including automated calls).[1]

2. Average Speed of Answer: The number of customer calls handled within 60 seconds as a percentage of the total number of customer calls received by the Company, including abandoned calls (including automated calls).

3. On-Cycle Meter Reads: The number of meters actually read each year as a percentage of the number of meters that are scheduled to be read.

4. Testing of Meters: Testing of 15,000 meters per calendar year commencing January 1, 2003.

5. Customer Requested Meter Tests: The number of meter tests requested by a customer and completed within 15 days as a percentage of the total number of such requests.

6. Service Appointments Met as Scheduled: The number of general service appointments met as scheduled as a percentage of the total number of service appointments requested. A "service appointment" is defined as a mutually agreed upon arrangement for service between the customer and the Company where the arrangement specifies the date for the Company's personnel to perform a service activity and that requires the presence of the customer at the time of the service excluding same day calls. Service Appointments include: meter installations and removals; change-outs; start and final reads; reconnects; and instances where the Company kept an appointment and/or contacted the customer but did not have access to the premises.

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1 As a result of information gained by the Company in this proceeding, the Company has included automated calls in order to make its reported performance metrics consistent with the more common practice of the gas industry. This approach has no effect on the overall SQ Plan or the validity of the performance benchmarks because, to maintain comparability with the historical data, the Company has included <u>all</u> calls incoming to the call center (including automated calls) in the performance benchmark calculated below.

7. **Response to Emergency Calls During Normal Business Hours:** The number of leak calls received during the Company's normal business hours and responded to within 30 minutes as a percentage of the total number of leak calls received during normal business hours.

8. **Response to Emergency Calls After Normal Business Hours:** The number of leak calls received after the Company's normal business hours and responded to within 45 minutes as a percentage of the total number of leak calls received after normal business hours.

B. Benchmarks and Deadbands

Based on issues raised during the Commission's hearings, the Company is proposing to set performance benchmarks using historical monthly data for the period July 1, 2002 through June 30, 2003.[2] The benchmarks would be updated each year to incorporate the Company's most recent 12 months of performance data and would be applied prospectively during the coming performance (fiscal) year.[3] Once three annual data points are available (i.e., as of July 1, 2005), benchmarks and deadbands could be calculated using annual data points. Below is a table summarizing the Company's benchmarks as proposed during the proceeding and recalculating (for illustrative purposes) the benchmarks using data for the period June 1, 2002 through May

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2 The Company is proposing to commence the SQ Plan using this data period for three reasons: (1) performance data preceding and immediately following the merger is not representative of the level of service that the Company's customers should be able to rely on in the future; (2) data during the first two quarters of 2002 is generally non-representative because of the work stoppage that occurred during that time period; and (3) the 12-month period July 1 through June 30 will coincide with the Company's fiscal year as well as the filing schedule for the Distribution Adjustment Charge (the "DAC"), which occurs on August 1 of each year for effect on November 1. Any credits due to customers as a result of the SQ Plan operation will be provided to customers through the DAC.

3 New performance would be rolled in whether the data represents performance that exceeds or falls below the performance benchmark in keeping with the underlying methodology of the SQ Plan. This methodology recognizes that performance will inevitably vary from period to period and that basing the calculation of the benchmark and standard deviation on all available performance data will, over time, ensure that actual changes in service quality attributable to the Company's actions and not to random variations in the data caused by external factors are identifiable and subject to penalty (or offset). The recalculation of performance benchmarks will be included in the Company's annual filing and will be applicable to service quality performance observed in the coming fiscal year.

31, 2003.[4] Attachment 1 provides the Company's monthly performance statistics used to calculate the benchmarks below.

Measure	Original Benchmark	New Benchmark	Deadband (+/-)	Penalty Threshold
Abandoned Call Rate	15.1%	5.38%	2.40%	7.8%
Percentage of Calls Answered in 60 Seconds	55.9%	79.44%	8.54%	71%
On-Cycle Meter Reads	94.4%	94.52%	1.18%	93.3%
Meter Testing	15,000	15,000	N/A	15,000
Meter Tests Completed	77.4%	97.9%	5.50%	92.4%
Service Appointments Met	97.2%	97.6%	1.30%	96.3%
Leak Response – Bus Hours	83.2%	89.66%	2.69%	87.0%
Leak Response – Non-Bus Hours	86.3%	89.67%	2.80%	86.9%

C. Penalties and Offsets

Under the SQ Plan, the Company would incur a penalty if its performance over the 12-month period July 1 through June 30 of each year on one of the six non-safety related performance measures were to fall outside of the respective penalty threshold. Leak-call response time would be evaluated on a quarterly basis and the Company would incur a penalty if its performance were to fall below the applicable penalty threshold in any quarter. The total

4 For illustration purposes, the Company has recalculated the benchmarks using the 12 months of data gathered in the period June 2002 through May 2003 because data for June 2003 is not yet available. By the time the SQ Plan is approved and put in place by the Commission, June 2003 data will be available and the benchmarks would be set using the 12-month period of July 1, 2002 through June 30, 2003. The Company anticipates that the updated benchmarks would differ only slightly from the illustrative example provided above (because the update would simply involve excluding June 2002 data and including June 2003 data).

maximum penalty that could be assessed to the Company for an annual period would be $500,000, unless otherwise determined by the Commission and agreed to by the Company.[5] For any individual measure, penalties (or offsets) are assessed when performance exceeds one standard deviation with the maximum penalty assessed at two standard deviations of the benchmark.[6] The aggregate penalty would be assigned to the Performance Measures based on the weighting listed in the table below. Conversely, if the Company's performance were to exceed the penalty threshold, the Company would be eligible for an offset. However, no offset would be permitted to defray a penalty associated with leak-call responsiveness, nor could offsets be carried into subsequent performance periods. Maximum penalties would be incurred at two standard deviations from the benchmark and no offset credits may be earned for performance above two standard deviations.[7]

The following table lists the penalty thresholds and maximum penalties associated with each Performance Measure.

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5 The Company respectfully requests that any penalty level proposed by the Commission for incorporation into the SQ Plan take into account the fact that the Company is subject to a maximum potential penalty of $500,000 under the Gas Purchasing Plan, as recently approved by the Commission.

6 As discussed in Part II of the Company's filing, the inclusion of deadbands in the SQ Plan is intended to account for random variation in the observed performance data resulting from external factors beyond the Company's control. However, the Company would retain the right to seek relief from a calculated penalty if an unusual event beyond the control of the Company were to occur that had a discernible effect on the Company's ability to meet applicable performance standards.

7 If the Company's service-quality performance falls between one and two standard deviations the penalty will be assessed on a linear basis, from $0 at one standard deviation to the maximum dollar penalty at two standard deviations.

Measure	Benchmark	Deadband (+/-)	Penalty Threshold	Penalty Weighting	Max Penalty @$500,000
Abandoned Call Rate	5.38	2.40%	7.8%	12%	$60,000
Calls Answered w/in 60 Seconds	79.44	8.54%	71.0%	12%	$60,000
On-Cycle Meter Reads	94.52	1.18%	93.3 %	6%	$30,000
Meter Testing	15,000		15,000	6%	$30,000
Customer Requested Meter Testing	97.9	5.50%	92.4%	4%	$20,000
Service Appointments Met	97.6	1.30%	96.3%	12%	$60,000
Leak Response in 30 Min	89.66	2.69%	87.0%	24%	$120,000/yr $30,000/qtr
Leak Response in 45 Min	89.67	2.80%	86.9%	24%	$120,000/yr $30,000/qtr

D. SQ Plan Reporting

Within 30 days following the close of each quarter, the Company will provide the Rhode Island Division of the Public Utilities and Carriers (the "Division") with the service quality statistics that have been collected for that quarter (commencing July 1, 2003). On or before August 1, 2004, and annually thereafter, the Company will submit to the Commission its Service Quality Report wherein the Company will detail its service quality performance from July 1 through June 30, calculate the penalties incurred and offsets accrued, and establish the benchmarks to be used in the following performance (fiscal) year.

PART II

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NEW ENGLAND GAS COMPANY SERVICE QUALITY PLAN	)	DOCKET NO. 3476

BRIEF OF
NEW ENGLAND GAS COMPANY

I. Introduction

A. Overview

In this proceeding, the New England Gas Company (the "Company" or "NEGas") has proposed a reasonable and workable service-quality plan (the "SQ Plan") that is designed to measure the Company's service performance in an objective and straightforward manner based on mathematical principles and generally accepted industry practices. As demonstrated by the record evidence in this proceeding, the Company's proposed SQ Plan will ensure that any true degradation in service experienced by customers will be identifiable and subject to penalty. At the same time, the proposed SQ Plan also provides the Company with the incentive to explore and implement service-quality improvements for the benefit of customers. Moreover, the use of a logic-based methodology to set performance benchmarks and to calculate penalties and offsets will ensure that the SQ Plan will be workable over the long term in that it will (1) provide valid and clear-cut signals to the Company to guide its service-quality initiatives and (2) produce meaningful information to the Commission and the Division regarding the levels of service afforded to customers. Accordingly, for the reasons set forth herein, the Commission should approve the Company's proposed SQ Plan, as set forth with modifications in Part I of the Company's filing.

B. Procedural Background

On July 24, 2000, the Rhode Island Division of the Public Utilities and Carriers (the "Division") approved a settlement agreement in Docket Nos. D-00-2 and D-00-3 (the "Merger Settlement") between the Advocacy Section of the Division, the Attorney General, the Energy Council of Rhode Island, Southern Union Company ("Southern Union"), Providence Gas Company ("ProvGas"), Valley Gas Company and Bristol and Warren Gas Company (together "Valley Gas") addressing regulatory and ratemaking issues relating to Southern Union's acquisition of Providence Energy Corporation and Valley Resources, Inc., the respective parent companies of ProvGas and Valley Gas. Under the terms of the Merger Settlement, ProvGas and Valley Gas agreed that the quality of service experienced by customers should not be diminished as a result of the mergers. See, Merger Settlement at Section II.B.1. Therefore, to enable the merger, the Company agreed to implement a comprehensive service-quality measurement and monitoring program that would ensure that service did not diminish as a result of the merger.

On May 23, 2002, the Rhode Island Public Utilities Commission (the "Commission") approved a settlement agreement in Docket 3401 (the "Rate Settlement Agreement"), resolving issues relating to the request of the Company for approval of a general rate increase and rate consolidation plan. Specifically, the Commission approved a settlement amendment that required the Company to file a Service Quality Plan ("SQ Plan"), no later than September 30, 2002. See, Docket 3401, Order No. 17381, at page 67. Under the terms of the Rate Settlement Agreement approved by the Commission, "any Service Quality Plan filed with the Commission will include a system of penalties and penalty offsets." See, Rate Settlement Agreement, Section II.M, at page 20. In addition, the Rate Settlement Agreement states that "the Company's ability to participate in the ESM will be linked to the establishment of the Service Quality Plan."[1] Id.; Order No. 17381, at 64, 67.

On September 30, 2002, the Company submitted to the Commission, a proposed SQ Plan with a three-year term that included the following components: (1) eight performance measures falling into five general categories of call-center responsiveness, meter reads, meter testing, service appointments and safety; (2) benchmarks for each performance measure based on historical data; (3) a penalty/offset mechanism; and (4) a process to allow for the monitoring and evaluation of the Company's service performance. At that time, the Company submitted the testimony of Karen Czaplewski, Vice President of Customer Service and Information Technology and Charles Meunier, Senior Vice President of Operations in support of the Company's proposed SQ Plan.

On November 22, 2002, the Division filed with the Commission the testimony of Richard W. Lelash, wherein the Division proposed its own SQ Plan that differed in several aspects from the Company's proposal. Pursuant to a procedural schedule set by the Commission, the Company filed the rebuttal testimony of Karen Czaplewski and the rebuttal testimony of Dr. Lawrence Kaufmann, a principal with Pacific Economics Group LLC, on January 15, 2003. On February 7, 2003, the Division submitted the surrebuttal testimony of Mr. LeLash. On February 21, 2003, the Company filed the supplemental rebuttal testimony of Ms. Czaplewski.

The Commission conducted three days of evidentiary hearings at its offices on May 5, 6, and 15, 2003. On May 27, 28 and June 9, 2003, the Company submitted its responses to Record Requests that were issued by the Commission at the May 5, 2003, May 6, 2003, and May 15,

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1 Under the Rate Settlement Agreement, earnings achieved by the Company through June 30, 2010 will be subject to an Earnings Sharing Mechanism (the "ESM"). Earnings subject to the ESM would be calculated as part of the Distribution Adjustment Clause ("DAC") filing to be submitted to the Commission each August 1 for effect as of November 1, with the first annual calculation occurring August 1, 2003. See, Rate Settlement Agreement, Section II.I.

2003 hearings, respectively. In addition, the Company filed three responses to a record requests from the Commission issued on June 2, 2003.

II. Discussion of the Company's Proposed SQ Plan

A. The Company's Proposed Performance Measures Are Reasonable Indicators of the Company's Service to Customers

The first component of the Company's plan involves the identification of the performance indicators to be measured and reported. In that regard, the Company is proposing to institute eight performance measures: (1) percentage of abandoned calls; (2) percentage of calls answered within 60 seconds; (3) percentage of meters read on-cycle; (4) number of meters tested annually; (5) percentage of customer-requested meter tests completed within 15 days; (6) percentage of service appointments met as scheduled; (7) percentage of leak calls responded to within 30 minutes during normal business hours; and (8) percentage of leak calls responded to within 45 minutes after business hours. Exh. NEG-2, at 6. By evaluating the Company's call center responsiveness, its record of meter reads and testing, its ability to successfully meet service appointments that have been scheduled and its response to gas odor calls, the Company's SQ Plan appropriately encompasses a broad range of the services that the Company provides to its Rhode Island customers and is therefore, a reasonable way to monitor and measure service-quality performance. Exh. NEG-2, at 6-7. The indicators are directly linked to aspects of utility service that customers value (i.e., responsiveness and safety). Id.; Exh. NEG-1, at 9.

Second, the proposed performance measures are focused on distribution services, which are available to customers only from the Company (id. at 9). The fact that consumers cannot procure these services from the competitive marketplace is an important consideration in ascertaining whether the SQ Plan is based on reasonable measures by which to evaluate the Company's service quality (id.). Lastly, the performance measures relate to aspects of the Company's service that are under the control of the Company (id.). As explained in the testimony of Dr. Kaufmann, service-quality programs should link rewards or penalties to outcomes that are directly controlled by the Company, rather than measuring service quality based on indicators that are largely influenced by a number of external factors that go beyond managerial control (id.). As a result, the Company has proposed an SQ Plan that includes performance indicators that most directly relate to the Company's provision of safe and reliable service and may be tracked and quantified in an objective manner.

The Company's position does not materially differ from the Division's in terms of the performance measures to be put in place subject to the penalty/incentive mechanism.[2] Therefore, the Commission should adopt the performance measures included in the Company's proposed SQ Plan.

B. The Company's Proposed Methodology for Establishing Benchmarks Results in Valid and Appropriate Performance Thresholds

The second component of the Company's SQ Plan involves setting performance benchmarks against which actual performance in a given year will be evaluated. The record shows that there are two primary considerations in setting performance benchmarks against which future performance will be measured. First, it is important that the benchmarks be calculated on the same basis that performance will be measured. Exh. NEG-1, at 10-11. If the data used to measure performance is not collected in the same manner as the data underlying the benchmark, the SQ Plan will not be workable because it creates an "apples to oranges" situation where comparisons cannot be made between the performance data and the benchmark. Id. The second consideration in setting performance benchmarks is to ensure that the data used to set the

[2] At the hearing, the Commission touched on the possibility of including additional performance measures to account for customer "rebills" and leak-surveying related issues. However, in both instances, the record shows that these items would be inappropriate for inclusion in the SQ Plan. As discussed in the Company's response to Record Request 1-03, the number of "rebills" required within a billing cycle is largely outside of the Company's control. With respect to leak surveying, the record shows that the Division has jurisdiction over these activities, which are also subject to comprehensive regulation by the U.S. Department of Transportation. See Company response to Record Request 1-02.

benchmark reflects the Company's performance under a range of operating conditions. Id. at 11. If the historical data is not sufficient to reflect the Company's performance under a range of operating conditions, then the performance benchmarks may be set at levels that are not reasonably achievable by the Company. As a result, the Company could be penalized for performance affected by external factors that are beyond the Company's control. Id. Therefore, the Company is proposing to set performance benchmarks using a mathematical approach that both accounts for the effect of external factors on the Company's operations and facilitates the incorporation of new performance data over time.[3]

The record shows that, in general, as much historical data as possible should be used to set benchmarks in order to meet the objective of setting benchmarks that reflect the typical external factors that are faced by the Company. Exh. NEG-1, at 13; Exh. NEG-4, at 4. These external factors can vary from year to year, which means that sufficient historical data is needed to capture the full range of external factors that may affect the Company's operations. Id. Benchmarks set on a relatively little amount of data are not likely to reflect a company's typical external business conditions. As a rule, Commissions have concluded that at least three annual data points are needed. Exh. NEG-1, at 13.

In addition, although the use of historical averages of company performance will reflect typical external factors, the historical data will not control for shorter-term fluctuations in external factors around the average. Id. at 14. Some of these factors are volatile, and may affect more than one performance measure at the same time, such as weather or price changes. Id.

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3 Based on discussions by the Company's witnesses at the hearings, the Company has modified its plan to allow for the "rolling in" of more recent data in calculating performance benchmarks for each annual period. The Company's witnesses agreed that this type of approach would make sense given the limited data available upon which to set the benchmarks. This type of approach is consistent with the underlying theory of the SQ Plan in that performance data will fluctuate over time as a result of random variation in the data caused by external business factors, and the calculation of the benchmarks and deadbands is designed to account for those factors. Accordingly, performance data would be incorporated each year regardless of whether the level of performance fell below or exceeded performance in prior years. By relying on all available data commencing June 1, 2002, the integrity of the mathematical approach will be upheld.

Therefore, the Company proposes to establish performance deadbands to allow for a level of variation in performance around the designated benchmarks. The inclusion of performance deadbands in the design of the penalty structure will reduce the likelihood that random variations in the performance measurements are mistaken for an actual deterioration in the service-quality efforts of a company.[4]

The consideration of external factors is important because the underlying premise of the penalty mechanism is that it should serve to influence management decisions on service-related issues. To the extent that unusual weather, price volatility, or other factors beyond management's control cause a company's performance measurement data to fluctuate, there is the potential for a company to be unreasonably and inappropriately penalized for random variations in the data rather than for a deterioration in service quality resulting from cost-containment initiatives implemented by company management. Exh. NEG-1, at 15-16. Moreover, without the inclusion penalty offsets, random variations in the data attributable to external factors have the potential to put a utility into a penalty situation, but have no potential to put the utility into a reward situation. This asymmetry denies the utility the opportunity to balance out over time the effects of random variations in the data. Therefore, it is critical that the penalty structure be designed to account for and accommodate the influence of external factors.[5]

The Company proposes to establish performance deadbands equal to one "standard deviation" from the Company's historical average performance. Exh. NEG-1, at 31; Exh. NEG-2, at 14. For performance falling within the deadband, no penalty would be imposed. Id. The

4 Although the Division recognizes that there are "exogenous" factors that may have a negative affect on the Company's service-quality performance, the Division has offered no workable approach to account for these factors. Under the Division's proposal, these factors would be reviewed on an "ad hoc" basis, only when there is an apparent and substantial change in the underlying requirements of customers (e.g., the number of calls to the call center increases by a yet to be identified amount). This type of approach is unworkable because it relies on subjective judgments and is only triggered when variations are significant enough to draw attention. Exh. NEG-3, at 11-13.

5 The Company's proposed penalty structure is described in more detail below.

"standard deviation" calculation is a mathematical calculation of the variability of data around a mean. Statistical tools, such as the standard deviation, rely on sample data to draw conclusions about a given population. In particular, standard deviation measures the variability in a data set, or more specifically, the amount by which values of a data set deviate from their mean (or average). Exh. NEG-2, at 31. However, a fundamental assumption of the standard-deviation approach is that the sample data is an accurate representation of the underlying population, and therefore, the true variability of the underlying population of values is captured in the calculation of the standard deviation. Therefore, to be valid, the mean of the sample data must accurately estimate the true mean of the underlying population.[6] In its SQ Plan, the Company uses the standard deviation to estimate the level of random variation that would naturally occur in relation to the underlying "population" (e.g., the range of all possible telephone response times that could occur over a range of reasonable operating conditions that are not within the company's control) Exh. NEG-1, at 31. The benefit of using the standard-deviation approach to determine the deadband is that it is a methodology that objectively computes the level of random variability in the observed data around the historical average. Id. The disadvantage is that the standard-deviation approach assumes that the historical benchmark, which represents the mean (or average) of the observed data points, accurately reflects the true mean of the underlying population. Where a sample size is less than thirty (30), there is less statistical confidence that the sample data gives a true representation of the population parameters, and therefore, the actual variability of the data may not be captured by the standard-deviation calculation. Id. at 15. In this case, the Company is agreeing to set benchmarks based on a very limited data set. Consequently, there is a substantial possibility that the Company may be unreasonably and

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6 For example, with respect to the Average Speed of Answer, the "underlying population" would be the range of all possible "durations" that could occur over time as a result of random variation in the data, rather than factors that are within the Company's control.

inappropriately penalized for normal variations in the data rather than for an actual deterioration in the service quality of the company, even with the establishment of performance deadbands.[7] Id.

The benchmarks set forth in the Company's SQ Plan as filed on September 30, 2002, and modified on January 15, 2003, are based on the combined Rhode Island operations reflecting up to three years' worth of historical data.[8] Exh. NEG-2, at 10-11. Based on Dr. Kaufmann's calculations, the record reflects that the resulting performance benchmarks and deadbands would be as follows:

Measure	**Benchmark**	**Deadband (+/-)**	**Penalty Threshold**
Abandoned Call Rate	15.1%	1.7%	16.8%
Percentage of Calls Answered in 60 Seconds	55.9%	1.7%	54.2%
On-Cycle Meter Reads	94.4%	0.1%	94.3%
Meter Testing	15,000	N/A	15,000
Meter Tests Completed	77.4%	3.9%	73.5%
Service Appointments Met	97.2%	0.6%	96.6%
Leak Response – Bus Hours	83.2%	3.4%	79.8%
Leak Response – Non-Bus Hours	86.3%	4.2%	82.1%

As shown on the record and detailed herein, the Company's proposal to set performance benchmarks and deadbands using an objective, mathematical approach will ensure that actual changes in the level of service provided by the Company will be ascertainable. Tr. at 23 (Hearing May 5, 2003). In contrast, the performance benchmarks advocated by the Division are

7 It is for this reason that the Company is proposing to include penalty offsets in the SQ Plan.

8 As noted in Part I of the Company's filing, the Company is proposing to base the initial benchmarks and deadbands on only the most recent 12 months of data.

based on subjective and non-verifiable judgments and would not lead to an objective evaluation of the Company's service-quality performance. See Exh. NEG-1, at 27-28. Specifically, the Division advocates a series of benchmarks that represent an arbitrary amalgamation of the Company's historical performance and various performance benchmarks established for other natural gas utilities. Exh. DIV-1, at 6; Exh. NEG-1, at 28. The record shows that, in fact, there are no established "industry standards" for the performance measures included in the SQ Plan because of the inherent differences in the way that data is collected and reported. Exh. NEG-1, at 12; Tr. at 23 (Hearing May 5, 2003). Setting the Company's performance benchmarks based on the benchmarks in place for other utilities would be inappropriate because there is no way to evaluate the differences in such factors as measurement systems, protocols and service territories. Id. at 12-13; Tr. at 56-58 (Hearing May 5, 2003).

For example, a service territory that is highly concentrated and largely urban may result in a different response time to odor calls than a rural service territory that is spread out over a relatively large geographical area (id.). Therefore, over time, the performance benchmark that is set for a given company will reflect the territory-specific response times, rendering the benchmark inappropriate for application to another utility. In addition, individual companies often measure the same metric differently. Exh. NEG-1, at 12; Tr. at 60-62 (Hearing May 5, 2003). For example, telephone answering systems may log calls differently, or meter-reading systems and schedules may vary between companies. Tr. at 24 (May 5, 2003). Moreover, the quality of service offered by a company is, in part, a function of the age of the distribution system, the level of capital and technological improvements made over time and other factors that are reflected in utility practice and the rates charged to customers. Tr. at 23 (Hearing May 15, 2003). Establishing arbitrary and non-company specific benchmarks could have serious ramifications on the costs incurred by the Company and its ratepayers to purchase new equipment or hire additional staff in order to attain unrealistic service quality benchmarks. Exh. NEG-4, at 4-6. Alternatively, the Company's performance levels may exceed those of another utility such that application of the "industry standard" is not appropriate for Rhode Island customers.

Accordingly, the Commission should adopt the Company's methodology for setting benchmarks based on the Company's own historical data and allow the Company to update those benchmarks over time as additional data becomes available. In addition, the Commission should adopt the Company's proposal to establish deadbands based on a standard-deviation calculation. This will ensure that the Company is not unreasonably or inappropriately penalized for the effect of external factors that cause random variation in the observed performance data.

C. The Company's Proposed Penalty and Offset Structure is Reasonable and Appropriate

As proposed by the Company, the SQ Plan includes a performance mechanism whereby financial adjustments are based on actual annual performance relative to the service-quality benchmarks. If performance deteriorates from the established benchmarks by an amount that exceeds the deadband (representing the level of normal variation in the data), customers will receive a credit through the Company's annual Distribution Adjustment Charge filing. Exh. NEG-2, at 15. Alternatively, if the Company's service quality exceeds a standard deviation (meaning that service quality has improved beyond the level of random variation in the data), then the Company could offset an accrued penalty amount. Id. at 15-16. The maximum penalty amount for any individual measure would be assessed at two standard deviations.[9] The performance deadband ensures that only performance outside of the normal variation in data would trigger a penalty or penalty offset. Exh. NEG-1, at 15-16. In addition, the Company

[9] The actual penalty/offset will be calculated based on linear interpolation going from $0 at one standard deviation to the maximum dollar penalty at two standard deviations. Exh. NEG-2, Attachment SQP-2, at 1.

proposes that the evaluation of service quality and the assessment of penalties occur on an annual basis for all measures except safety, with quarterly or monthly reporting of the performance statistics. Exh. NEG-4, at 10-11. Lastly, the Company has proposed penalty weightings that reflect the relative importance and value of safety and reliability measures to customers. Exh. NEG-2, at 16-17; Exh. NEG-3, at 27.

The Division's approach differs in three major respects: (1) penalties would be assessed on a quarterly basis (Exh. DIV-2, at 21); (2) penalties would be assessed without accounting for the random variation in the performance data, unless a discrete event has occurred that would qualify as an "exogenous event" (Exh. DIV-2, at 20; Exh. NEG-4, at 11); and (3) the Company would not have the incentive to improve service quality for the benefit of customers (Exh. DIV-2, at 5, 23. With respect to the quarterly assessment of penalties, the record shows that constructing a penalty system that imposes automatic penalties where service-quality deviates from an annual benchmark on a quarterly basis is not consistent with SQ plans previously approved by the Commission, or service-quality programs approved in almost any other jurisdiction. Exh. NEG-1, at 19-20. Moreover, the record shows that there are factors that affect the Company's service quality across multi-month periods within an annual cycle that would not be excluded or controlled for under the Division's proposal. Exh. NEG-4, at 10. The record shows that overly frequent performance reviews would likely give a distorted view of a gas distributor's quality performance because performance evaluations over short intervals are distorted by the seasonal nature of the gas distribution business, as well as short-term trends in external business factors. Exh. NEG-1, at 18; Tr. at 120-121 (May 5, 2003).

In fact, it is reasonable to expect service quality performance to fluctuate over a 12-month cycle, and therefore, the assessment of the Company's service quality performance should be based on a one-year period of time (id.). Contrary to the testimony offered by the Division, the record indicates that it is not reasonable or appropriate to evaluate and apply penalties on a quarterly basis because the Company will inevitably and unavoidably experience variations in performance levels between one or more months during the year, and these variations do not necessarily indicate any change or deterioration in the level of service provided by the Company. Exh. NEG-1, at 18; Exh. NEG-4, at 10; Tr. at 142-144 (May 5, 2003). Simply stated, a three-month period is not long enough to account for temporary trends in the business environment, which are often weather or price-related (id.). The annual evaluation period is appropriate because it represents a complete business cycle in terms of weather, financial and economic conditions and resulting customer demands. Exh. NEG-4, at 9-10. Accordingly, the Commission should approve the Company's SQ Plan and direct that the penalties and offsets be assessed based on an annual evaluation.

With respect to the inclusion of offsets, the Company has proposed calculating offsets in a similar fashion to revenue penalties. If the Company's annual performance for a measure falls within the established deadband, then no incentive offset would be achieved. Exh. NEG-2, at 15. However, if the Company's annual performance positively exceeds the established deadband, then the Company would be eligible for an incentive offset (id.). If the Company falls outside two standard deviations in performance (positively or negatively), the penalty/offset is capped at a maximum of two standard deviations. Exh. NEG-2 at 16. The Company is not proposing to offset poor performance on leak-call responsiveness with superior performance on other measures, i.e., leak call responsiveness would be excluded from the offset provisions of the SQ Plan.

The inclusion of offsets should be approved by the Commission for three primary reasons: (1) the inclusion of offsets is necessary to ensure that the Company is not penalized for random variation in the data not captured in the standard-deviation calculation, especially in light of the very limited data set used to calculate benchmarks and deadbands; (2) the inclusion of offsets will provide an incentive to the Company to explore and implement service quality enhancements; and (3) the standard-deviation approach and the inclusion of offsets is entirely consistent with the provisions of service-quality plans approved by the Commission for other Rhode Island utilities.

As discussed above, the inclusion of deadbands in the SQ Plan is intended to account for random variation in the observed performance data resulting from external factors beyond the Company's control. However, there may be events that occur that are unusual and have a significant effect on the Company's operations such as a breakdown in the telecommunications system supporting the call center, which would prohibit the Company from answering customer calls. Therefore, under the Company's proposal, the Company would retain the right to seek relief from a calculated penalty if an unusual event beyond the control of the Company were to occur that had a discernible effect on the Company's ability to meet applicable performance standards. The Company would have the burden of proof to demonstrate to the Commission that the event qualified for this treatment.

III. CONCLUSION

In this proceeding, the Company has proposed a reasonable and workable SQ Plan that is designed to measure the Company's service performance in an objective and straightforward manner consistent with generally accepted industry practices. As demonstrated by the record evidence in this proceeding, the Company's proposed SQ Plan will ensure that any true degradation in service experienced by customers will be identifiable and subject to penalty. At the same time, the proposed SQ Plan also provides the Company with the incentive to explore and implement service-quality improvements for the benefit of customers. Moreover, SQ Plan will be workable over the long term in that it will (1) provide valid and clear-cut signals to the

Company to guide its service-quality initiatives and (2) produce meaningful information to the Commission and the Division regarding the levels of service afforded to customers. Accordingly, for the reasons set forth herein, the Commission should approve the Company's proposed SQ Plan, as set forth with modifications in Part I of the Company's filing.

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Dated: June 23, 2003

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NEW ENGLAND GAS COMPANY SERVICE QUALITY	)	DOCKET NO. 3476

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing on the parties of record in the proceedings in accordance with the procedural schedule.

Dated: June 23, 2003

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