

Granite State Electric Company
d/b/a National Grid

Default Service

For the Period Beginning
August 1, 2008

Testimony and Schedules
of
John D. Warshaw

June 13, 2008

Submitted to:
New Hampshire Public Utilities Commission
Docket No.

Submitted by:

nationalgrid

Granite State Electric Company d/b/a National Grid
Docket No. DE 08-011
Witness: J. D. Warshaw

DIRECT TESTIMONY

OF

JOHN D. WARSHAW

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1 **I. Introduction**

2 Q. Please state your name and business address.

3 A. My name is John D. Warshaw, and my business address is 55 Bearfoot Road,
4 Northborough, Massachusetts 01532.

6 Q. Please state your position.

7 A. I am a Principal Analyst in Regulated Electric Load and Distributed Generation for
8 National Grid USA Service Company, Inc. I conduct power procurement and energy
9 supply related activities for National Grid’ s New England operating companies,
10 including Granite State Electric Company d/b/a National Grid (“Granite State”). These
11 activities include the procurement of power for Default Service for Granite State.

13 Q. Will you describe your educational background and training?

14 A. I graduated from the State University of New York Maritime College in 1977 with a
15 Bachelor of Science in Nuclear Science. I received a Masters in Business Administration
16 from Northeastern University in 1986. In 1992, I earned a Masters of Arts in Energy and
17 Environmental Management from Boston University.

19 Q. What is your professional background?

20 A. In May 2000, I joined the National Grid USA Service Company as a Principal Analyst in
21 Energy Supply – New England. In my position I have conducted a number of
22 solicitations for wholesale power to meet the needs of National Grid USA’s New
23 England distribution companies. I also administer both short-term and long-term power

1 purchase agreements for National Grid USA's New England distribution companies.

2 Prior to my employment at National Grid USA, I was employed at COM/Energy (now
3 NSTAR) from 1992 to 2000. From 1992 to 1997, I was a Rate Analyst in Regulatory
4 Affairs at COM/Energy responsible for supporting state and federal rate filings. In 1997,
5 I transferred to COM/Electric to work in Power Supply Administration
6

7 **II. Purpose of Testimony**

8 Q. What is the purpose of your testimony?

9 A. The purpose of my testimony is to request approval of the Default Service rates for the
10 Large and Medium Commercial and Industrial Customer Group ("Large Customer
11 Group"¹) resulting from Granite State's recent procurement of Default Service power
12 supply. To support this request, I will describe the process used by Granite State to
13 procure Default Service for the Large Customer Group for the three-month period August
14 1, 2008 through October 31, 2008. My testimony presents Granite State's proposed
15 Default Service rates, including rate adjustments, for usage on and after August 1, 2008,
16 in accordance with the Default Service Adjustment Provision and Default Service Cost
17 Reclassification Adjustment Provision of the Company's tariff, and the Settlement
18 Agreement in Docket No. DE 05-126, approved by the Commission in Order No. 24,577
19 (January 13, 2006) ("Settlement Agreement"). I will also review the cost impact of
20 choosing to pass-through capacity costs to the Large Customer Group in the October 26,
21 2007 RFP. Finally, my testimony will describe how the Company proposes to meet the
22 Renewable Portfolio Standard obligation.

¹ Customers taking service under General Long-Hour Service Rate G-2 or General Service Time-Of-Use Rate G-1 of

1
2 **III. Bidding Process**

3 Q. Why does Granite State need to procure Default Service for the Large Customer Group
4 for the period beginning August 1, 2008?

5 A. Granite State's currently effective Default Service supply contract for the Large
6 Customer Group expires on July 31, 2008. Therefore, to assure that Default Service will
7 continue to be available to these customers, Granite State requires a new Default Service
8 supply arrangement beginning August 1, 2008.

9
10 Q. Please describe the process Granite State used to procure its Default Service supply.

11 A. Granite State conducted the procurement of Default Service supply in accordance with
12 applicable New Hampshire rules and regulations including Granite State Electric
13 Company's Second Amended Restructuring Settlement Agreement ("Restructuring
14 Settlement"), RSA 374-F ("New Hampshire Act"), and the terms of the Settlement
15 Agreement approved by the Commission pursuant to Order No. 24,577² issued on
16 January 13, 2006 in Docket No. DE 05-126 (the "Order"). Granite State and its retail
17 distribution affiliates in Massachusetts, Massachusetts Electric Company and Nantucket
18 Electric Company (together "Mass. Electric"), (all three companies together "National
19 Grid"), issued a joint request for proposals ("RFP") for certain power supply services
20 (including Granite State's Default Service) from suppliers. The RFP sought a supply for

the Company's Retail Delivery Tariff.

² The Order granted Granite State's August 1, 2005 Petition for Post-Transition Service Default Service Proposal as amended by the Post-Transition Service Default Service Proposal Settlement Agreement filed with the Commission on November 18, 2005 ("Settlement Agreement"). Granite State's original proposal filed August 1, 2005 and the subsequent Settlement Agreement will together be referred to as the "Settlement Agreement" throughout my testimony.

Granite State's Default Service, and a portion of Mass. Electric's Basic Service supply
This is consistent with the process approved by the Commission in the Order. This
process is also consistent with past procurements.³

Q. Could you describe the nature of the RFP that National Grid issued?

A. On May 9, 2008, National Grid issued an RFP to over twenty-five potential suppliers
soliciting power supplies for the period August 1, 2008 through October 31, 2008.
National Grid also distributed the RFP to all members of the NEPOOL Markets
Committee and posted the RFP on its energy supply website. As a result, the RFP had
wide distribution throughout the New England energy supply marketplace. The RFP
requested fixed pricing for each month of service on an as-delivered energy basis. Prices
could vary by month and by service – that is, the prices did not have to be uniform across
the entire service period or between Granite State and Mass. Electric. A copy of the RFP
is provided as Schedule JDW-1.

IV. Results of Bidding

Q. Did Granite State receive responses to the RFP?

A. **Yes. Indicative proposals were received on June 4, 2008** and a confidential summary of
the proposals was shared with Commission staff soon after. Final proposals were
received on June 11, 2008. None of the bidders made their provision of Granite State's

³ See Order No. 24,163, at 7 (April 25, 2003), Order No. 24,412 at 9 (December 22, 2004), Order No. 24,539 at 9 (October 31, 2005), Order No. 24,609 at 10 (March 28, 2006), Order No. 24,637 at 10 (June 22, 2006), Order No. 24,675 at 10 (September 29, 2006), Order No. 24,715 at 8 (December 15, 2006), Order No. 24,736 at 10 (March 26, 2007), Order No. 24,764 at 9 (June 22, 2007), Order No. 24,787 at 11 (September 21, 2007) and Order No. 24,810 at 10 (December 17, 2007).

1 Default Service contingent upon the provision of any other service. A summary of the
2 RFP process and bid evaluation is included in Schedule JDW-2.

3
4 Q. How do the current futures prices for electricity and natural gas compare to the futures
5 prices at the time of the October 26, 2007 and February 13, 2008 RFPs?

6 A. The futures market prices for electricity and natural gas at the time of the October 26,
7 2007 and February 13, 2008 procurements as well as current future market prices are
8 shown in Schedule JDW-3.

9
10 Q. Did Granite State select any of those proposals?

11 A. Yes. Granite State evaluated the bids received and selected the supplier that (i) provided
12 a bid that was conforming to the RFP, (ii) had the lowest price, (iii) met the credit
13 requirements described in the RFP, and (iv) passed our qualitative evaluation. On June
14 11, 2008, Granite State entered into a wholesale Transaction Confirmation with
15 Constellation Energy Commodities Group, Inc. ("Constellation"), the winning bidder for
16 the Large Customer Group block, to provide Default Service to the Large Customer
17 Group for the three-month period August 1, 2008 through October 31, 2008. Together, a
18 Transaction Agreement and a Master Power Agreement provide the terms for the
19 purchase of Default Service from a supplier. A copy of the Constellation Master Power
20 Agreement was filed with the Commission on March 20, 2006 in Docket No. DE 06-115.
21 The Transaction Confirmation between Granite State and Constellation, with certain
22 confidential sections redacted, is attached hereto as Schedule JDW-4.

1 **V. Renewable Portfolio Standard**

2 Q. What is the Renewable Portfolio Standard (“RPS”) obligation for 2008?

3 A. As specified in the RPS law, the RPS obligation for calendar year 2008 is a minimum of
4 four percent (4%) of Granite State’s Default Service load, of which at least three and one-
 half percent (3.5%) can come from Class III Existing Renewable Energy Resources and
 at least one-half percent (0.5%) can come from Class IV Existing Renewable Energy
7 Resources.

8
9 Q. How does Granite State expect to satisfy its RPS obligations for this procurement period?

10 A. Granite State is including in Default Service rates an RPS Adder of 0.108 ¢/kWh for both
11 its Large Customer Group and Small Customer Group customers. This RPS Adder was
12 approved by the Commission for usage on and after January 1, 2008, pursuant to Order
13 No. 24,787 in Docket No. DE 07-012 (September 21, 2007).

14
15 Q. What costs did Granite State use to develop its RPS Adder?

16 A. As a proxy for actual RPS costs, the RPS Adder is based on the Alternative Compliance
17 Payment (“ACP”) for the Class III obligation and market prices for a similar product in
18 another jurisdiction for the Class IV obligation.

19
20 Q. Is Granite State proposing any changes to the RPS Adder at this time?

21 A. No. Granite State is not proposing to change the Commission approved RPS Adder
 included as part of previous Default Service filings in Docket No. DE 07-012. Granite
 State had proposed to use the approved RPS Adder until such time as the Company is

1 able to contract for Renewable Energy Credits ("RECs"). The Company has not yet
2 contracted for RECs. In addition, the Commission issued revised ACP values for
3 Calendar Year 2008 on January 31, 2008. The actual Class III ACP is consistent with the
4 value forecast by Granite State in its previous Default Service filings and does not result
5 in any change to the RPS Adder
6

7 Q. How did Granite State calculate the RPS Adder for 2008?

8 A. As shown in Schedule JDW-5, Granite State calculated the wholesale RPS costs on a per
9 MWh basis for both Class III and Class IV RPS components. The Company then
10 converted the wholesale RPS costs to a retail cost by multiplying the calculated costs by
11 the average Granite State loss factor and then dividing by ten in order to convert from a
12 \$/MWh wholesale cost to a ¢/kWh rate for retail use.
13

14 Q. What happens if Granite State's actual RPS compliance costs are different from that used
15 in calculating the RPS Adder?

16 A. As previously described in the Company's September 17, 2007 Default Service filing in
17 Docket No. DE 07-012, Granite State will reconcile its costs to comply with the RPS
18 with the revenue received from customers from the RPS Adder. RPS compliance costs
19 will be included in the Default Service reconciliation which is filed as part of the Default
20 Service filing to be made in March 2009. Since the RPS Adder will be added to rates for
21 Default Service, the revenue associated with the charge will inherently be included in
revenue associated with Default Service. The Company will add a column to its
reconciliations for Default Service to identify the costs incurred that are associated with

1 purchasing RECs and any ACPs ultimately made. This will ensure that revenue billed
2 relating to the RPS Adder is matched against costs incurred to comply with the RPS law
3 If the actual costs to procure RECs are less than or greater than those used to develop the
4 RPS Adder, any over or under collection will be included as part of the annual
5 reconciliation.
6

7 Q. How does Granite State expect to satisfy its RPS obligations consistent with the RPS
8 rules as promulgated by the Commission?

9 A. While the details are yet to be worked out, the Company's plan will be consistent with
10 the RPS law and the final regulations issued by the Commission. At a minimum, Granite
11 State proposes to purchase the attributes of RPS generation, consistent with the RPS law.
12 These attributes are available as RECs in the wholesale marketplace. Granite State's
13 affiliates in Massachusetts and Rhode Island have satisfied similar renewable portfolio
14 standards requirements by purchasing RECs. Granite State will first attempt to buy NH
15 RECs in the marketplace, provided the offers we receive are consistent with our view of
16 the market. Our view of the market will be based upon broker information and purchases
17 National Grid has made in other jurisdictions for similar RECs. If Granite State is unable
18 to purchase sufficient RECs to meet its NH RPS obligations, it will then, consistent with
19 the RPS rules, make ACPs to the Renewable Energy Fund.
20

VI. Pass-Through Capacity Costs

Q. In the October 26, 2007 RFP Granite State chose to pass-through the capacity costs instead of choosing the all-inclusive bid from the winning supplier. How did this decision impact the costs of providing service to the Large Customer Group?

A. Granite State's decision to pass-through capacity costs resulted in lower costs to the Large Customer Group. As shown in the following table, the actual capacity costs incurred by Granite State were less than the costs bid by the winning supplier but higher than the costs forecast by Granite State.

					(e)		
					Total Capacity Cost		
Large Customer Group							
Transition Payments (\$/MWh)							
					Feb-08	Mar-08	Apr-08
(a)	NGRID Forecast Value	\$ 12.05	\$ 10.00	\$ 10.63	\$ 716,241		
(b)	Supplier Bid Value	\$ 11.63	\$ 11.70	\$ 12.08	\$ 777,540		
(c)	Actual Cost	\$ 11.43	\$ 11.35	\$ 11.79	\$ 758,902		
(d)	Actual Monthly Load (MWhs)	21,232	22,778	21,863			

Notes

- (a) NGRID forecasted value at time of December 10, 2007 RFP
- (b) Value of ICAP in winning supplier's all-inclusive bid
- (c) Actual ICAP costs
- (d) Actual monthly wholesale loads
- (e) Sum of Transition Payments (rows a,b or c) times Actual Monthly Loads (row d)

Q. Why were the actual costs higher than the costs forecast by Granite State?

A. The actual costs were higher because more capacity was supplied by generators and load response providers in New England than was forecast by Granite State. Looking at the total cost to provide service to the Large Customer Group, this increase in costs is less than a 1% increase. Granite State's preference is for all-inclusive pricing to provide customers with prices that are not subject to change due to market conditions beyond

Granite State's control.

VII. Proposed Default Service Rates

Q. Please summarize the commodity cost at the retail meter based on Granite State's expected procurement cost and used to develop the proposed retail rates.

A.. Granite State estimates the procurement costs for Default Service at the retail customer meter for each month to be as set forth in Schedule JDW-6. The simple average of the commodity costs for the Large Customer Group is 13.827¢ per kWh compared to the simple average Default Service costs of 11.344¢ per kWh for the period May 2008 through July 2008. The commodity costs at the retail customer meter (¢ per kWh) were calculated by multiplying the commodity costs at the wholesale level (\$ per MWh) by the applicable loss factor and then dividing the results by ten. The applicable loss factors can be found in the RFP summary in Schedule JDW-2.

Q. What are the Default Service rates that the Company is proposing for the Large Customer Group?

A. As presented in Schedule JDW-6, the Company is proposing monthly Default Service rates for the Large Customer Group based on the three monthly contract prices contained in the supply agreement with the winning Default Service supplier for the Large Customer Group. These base rates are adjusted by the currently effective Default Service Cost Reclassification Adjustment Factor to recover administrative costs associated with Default Service in accordance with Second Revised Page 93 of its tariff. On line (3) these rates are further adjusted by the currently effective Default Service Adjustment

1 Factor in accordance with Second Revised Page 87 of the Company's tariff. Finally, on
2 line (4) these rates are adjusted by the currently effective RPS Adder. As displayed on
3 line (5), the proposed base Default Service rates for the Large Customer Group are
4 14.815¢ per kilowatt-hour, 13.503¢ per kilowatt-hour, and 13.610¢ per kilowatt-hour for
5 the months of August 2008 through October 2008.
6

7 Q. How will Granite State reconcile any difference in costs associated with Default Service?

8 A. To the extent that the actual cost of procuring Default Service varies from the amounts
9 billed to customers for the service, Granite State will continue to reconcile the difference
10 through a reconciliation mechanism pursuant to Granite State's Default Service
11 Adjustment Provision contained in its currently effective tariff on Second Revised Page
12 87.
13

14 Q. How and when is the Company proposing that these rate changes be implemented?

15 A. Consistent with the Commission's rules on the implementation of rate changes, the
16 Company is proposing that these Default Service rates become effective for usage on and
17 after August 1, 2008.
18

19 Q. Has the Company determined the impact of these rate changes on customer bills?

20 A. Yes. The Company has provided typical bill impacts in Schedule JDW-7. For customers
21 in the Large Customer Group, the bill impacts when going from the currently approved
22 July 2008 rate to the proposed August 2008 rate are increases ranging from 15.2% to
23 17.2%.

2 Q. Has the Company prepared a revised Summary of Rates tariff page reflecting the
3 proposed rates?

4 A. No. The Company has already submitted a revised Summary of Rates tariff page
5 reflecting proposed rates for July 1, 2008 in Docket No. DE 08-072. Upon receiving
6 Orders from the Commission approving the proposed rates in Docket No. DE 08-072 and
7 in this proceeding, the Company will file a revised Summary of Rates tariff page,
8 reflecting the appropriate approved rates.

10 Q. Has the Company included the most recent quarterly report of migration information
11 based on monthly migration by customer class and load, as required by the Commission's
12 Order No. 24,715 in Docket No. DE 06-115?

13 A. The quarterly report of customer migration information for the first quarter of calendar
14 year 2008 is included as Schedule JDW-8.

15

16 **VIII. Conclusion**

17 Q. When will Granite State issue the next RFP for Default Service?

18 A. Both the Large Customer Group rates proposed in this filing and the current Small
19 Customer Group rates expire on October 31, 2008. Per the terms of the Settlement
20 Agreement, Granite State will issue an RFP for both customer groups in August 2008.
21 For purposes of notice to the Commission, the following table illustrates National Grid's
22 proposed timeline for the next two RFPs:

RFP	August 2008 RFP	October 2008 RFP
RFP Issued	August 8, 2008	October 31, 2008
Indicative Bids Due	September 10, 2008	December 3, 2008
Final Bids Due	September 17, 2008	December 10, 2008
Contract Execution	September 17, 2008	December 10, 2008
Default Service Filing to Commission	September 22, 2008	December 15, 2008
Commission Order Needed	September 29, 2008	December 19, 2008
Service Begins	November 1, 2008	February 1, 2009

1

2 Q. Does this conclude your testimony?

3 A. Yes. It does.