

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

September 25, 2008 - 1:59 p.m.
Concord, New Hampshire

RE: DE 08-011

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GRANITE STATE ELECTRIC COMPANY d/b/a
NATIONAL GRID: Default Service Request
for Proposals for the Period November 1,
2008 through January 31, 2009 for the Large
Customer Group and November 1, 2008 through
April 30, 2009 for the Small Customer
Group.

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison

Connie Fillion, Clerk

APPEARANCES: Reptg. Granite State Electric Company
d/b/a National Grid:
Alexandra E. Blackmore, Esq.

Reptg. Residential Ratepayers:
Meredith Hatfield, Esq., Consumer Advocate
Kenneth E. Traum, Asst. Consumer Advocate
Office of Consumer Advocate

Reptg. PUC Staff:
Suzanne G. Amidon, Esq.

Court Reporter: Steven E. Patnaude, LCR No. 52

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P R O C E E D I N G S

CHAIRMAN GETZ: Okay. Good afternoon, everyone. We'll open the hearing in docket DE 08-011. On September 22nd, 2008, Granite State Electric Company filed proposed Default Service rates for its Large Customer Group for the period November 1, 2008 through January 31, 2009, and November 1, 2008 through April 30, 2009 for the Small Customer Group. The filing is made pursuant to Order Number 24,577, in docket 05-126. A secretarial letter was issued September 23 setting the hearing for this afternoon.

Can we take appearances please.

MS. BLACKMORE: Thank you, Mr. Chairman. My name is Alexandra Blackmore and I'm appearing on behalf of National Grid. Testifying today is John Warshaw, who is the Principal Analyst for Regulated Electric Load and Distributed Generation.

CHAIRMAN GETZ: Good afternoon.

CMSR. MORRISON: Good afternoon.

MS. HATFIELD: Good afternoon, Commissioners. Meredith Hatfield, for the Office of Consumer Advocate, on behalf of residential customers. And, with me is Ken Traum from the Office.

CHAIRMAN GETZ: Good afternoon.

1 CMSR. MORRISON: Good afternoon.

2 MS. AMIDON: Good afternoon. Suzanne
3 Amidon, for Commission Staff. And, with me today is
4 George McCluskey, who is an Analyst in the Electric
5 Division.

6 CHAIRMAN GETZ: Good afternoon. Is
7 there anything we need to address before we hear from
8 Mr. Warshaw?

9 MS. BLACKMORE: Yes, I do have a few
10 exhibits that I'd like to mark for introduction or for
11 identification as an exhibit. The first is our
12 September 22nd Default Service filing, which has a
13 confidential and a non-confidential volume. And, I also
14 have some revisions to Mr. Warshaw's testimony and
15 schedules that were filed with the Commission today. And,
16 there's also a confidential version and a public version.

17 CHAIRMAN GETZ: Okay. What numbers are
18 we up to, do you know?

19 MS. FILLION: Twelve -- Eleven.

20 MS. BLACKMORE: Eleven.

21 MS. FILLION: Yes, sorry. Eleven.

22 MS. BLACKMORE: So, the public version
23 of the Default Service filing would be "11". And, the
24 confidential version of the filing would be -- do we do

[WITNESS: Warshaw]

1 "11A" or --

2 CHAIRMAN GETZ: I can't remember what we
3 do from one case to the next. Let's call it --

4 MR. PATNAUDE: It's usually the next
5 one.

6 MS. BLACKMORE: Twelve?

7 CHAIRMAN GETZ: -- 12.

8 MS. BLACKMORE: Okay, 12. And, then,
9 the corrected testimony, which is public, would be "13",
10 and the confidential Schedule JDW-10 would be "14".

11 CHAIRMAN GETZ: I was hoping you would
12 get to the point where I could say "so marked". So,
13 marked.

14 (The documents, as described, were
15 herewith marked as **Exhibit 11, 12, 13**
16 and **14**, respectively, for
17 identification.)

18 (Whereupon **John D. Warshaw** was duly
19 sworn and cautioned by the Court
20 Reporter.)

21 **JOHN D. WARSHAW, SWORN**

22 **DIRECT EXAMINATION**

23 BY MS. BLACKMORE:

24 Q. Mr. Warshaw, would you please state your full name and

[WITNESS: Warshaw]

1 business address.

2 A. John D. Warshaw, 55 Bearfoot Road, in Northborough,
3 Massachusetts.

4 Q. And, what is your position with National Grid?

5 A. I'm a Principal Analyst in the Regulated Electric Load
6 and Distributed Generation.

7 Q. And, what are your duties and responsibilities in that
8 position?

9 A. Among my duties, I conduct the solicitations for
10 Default Service for New Hampshire and also for the
11 Company's other distribution companies in Rhode Island
12 and Massachusetts.

13 Q. Mr. Warshaw, I believe you have copies of Exhibits 11
14 and 12 in front of you. Can you please describe these
15 exhibits?

16 A. Yes. These are the public and confidential filing that
17 we made on September 22nd, the results of our most
18 recent Default Service solicitation.

19 Q. And, do you have any corrections to your testimony?

20 A. Yes, I do. When we did the initial filing, we used the
21 incorrect Default Service Cost Reclassification
22 Adjustment Factor. And, since we found that error, we
23 have refiled with the correct adjustment factor.

24 Q. And, what is that new adjustment factor?

[WITNESS: Warshaw]

1 A. That is \$0.00116 per kilowatt-hour.

2 Q. And, that is what's contained in Exhibits 13 and 14?

3 A. Yes.

4 Q. And, do you adopt these corrections as your own?

5 A. Yes, I do.

6 Q. Would you please summarize your testimony.

7 A. Yes. On August 8th, the Company went out for a
8 solicitation for Default Service for New Hampshire for
9 the six-month period November 1st through April 30th,
10 2009 for the Small Customer Group, and for the
11 three-month period November 1st through January 31st,
12 2009 for the Large Customer Group. At the same time,
13 we also solicited Default Service for our distribution
14 company in Rhode Island and our distribution companies
15 in Massachusetts. We received indicative bids on
16 September 10th. We received final bids on
17 September 17th. We awarded supply to the suppliers on
18 September 17th, and executed confirms within the next
19 day or two. We had a number of suppliers, we had a
20 number of confirms to have executed. And, we filed on
21 September 22nd the results of the RFP for New
22 Hampshire.

23 Q. And, did the Company solicit bids from suppliers that
24 contained both pass-through and all-inclusive bid

[WITNESS: Warshaw]

1 prices for capacity costs?

2 A. Yes, we did.

3 Q. And, can you explain why the Company selected a winning
4 bid that contained an all-inclusive price for capacity?

5 A. We selected the winning bid because we felt that that
6 was the best price for that customer group, and also
7 that it would, by going with an all-inclusive bid,
8 there would not be any potential variation going
9 forward with the pricing.

10 Q. And, how is the Company proposing to address compliance
11 with the electric Renewable Portfolio Standards
12 requirements?

13 A. As part of our filing, in Exhibit 8, we provided an RPS
14 plan for acquisition and meeting the RPS obligation in
15 New Hampshire.

16 Q. And, so, pursuant to this plan, which I believe it's
17 Schedule JDW-8, you requested bidders to provide an
18 adder for compliance with the RPS costs?

19 A. Yes, we submitted -- we requested bidders to provide at
20 what cost, on a dollar per megawatt-hour basis, they
21 would take on the obligation for RPS in New Hampshire,
22 and they would be responsible for providing to us the
23 number of Renewable Energy Certificates that would be
24 needed to meet the RPS obligation that they were

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[WITNESS: Warshaw]

1 serving the load for.

2 Q. But you did not select this bid for RPS compliance from
3 the winning bidders, is that correct?

4 A. That's correct. We, in looking at the pricing that the
5 suppliers provided, the pricing was very close to the
6 ceiling that New Hampshire has placed in the RPS, the
7 Alternative Compliance Payment. And, we felt that,
8 one, we didn't want to give the suppliers the market
9 indication that we would pay ACP. And, two, because
10 the market has not really developed, we felt that we
11 would be able to solicit RECs directly from the
12 marketplace. And, we thought that -- we believe that
13 we can get those RECs at a price less than what the
14 bidders were willing to bid in the solicitation, and it
15 would be less than what the Alternative Compliance
16 Payment would be. And, we base this on our experience
17 in both meeting RPS in Massachusetts and in meeting the
18 Renewable Energy Standard in Rhode Island.

19 Q. And, so, we had proposed in our RPS plan, in Schedule
20 JDW-8, is it correct that we had proposed to conduct a
21 separate solicitation for Renewable Energy Credits at a
22 later date, assuming that we didn't select a bid for
23 RPS compliance, is that correct?

24 A. Yes.

[WITNESS: Warshaw]

1 Q. Okay. And, how did we address, for developing the
2 rates for this procurement, how did the Company address
3 RPS costs?

4 A. We developed the RPS adder for 2008 and a different
5 adder for 2009, based on our -- based on the ACP prices
6 that we expect we would be paying in 2008, 2009.

7 Q. So, is it correct to state that we created a proxy for
8 RPS compliance using the ACP?

9 A. Yes. And, this would be fully reconcilable against any
10 actual RECs that we do buy through a separate
11 solicitation.

12 Q. Are the proposed Default Service rates for the Large
13 and Small Customer Groups reflective of current market
14 prices in your opinion?

15 A. Yes, they are.

16 MS. BLACKMORE: Thank you. I have no
17 further questions.

18 CHAIRMAN GETZ: Ms. Hatfield.

19 MS. HATFIELD: Thank you, Mr. Chairman.

20 Good afternoon, Mr. Warshaw.

21 WITNESS WARSHAW: Good afternoon.

22 **CROSS-EXAMINATION**

23 BY MS. HATFIELD:

24 Q. Are there any methodological changes from the last

[WITNESS: Warshaw]

1 filing as approved by the Commission as it relates to
2 small customers?

3 A. Not that I'm aware of.

4 Q. For the small customers in your filing, you indicate
5 that you have chosen PSEG ERT as the winning bidder, is
6 that correct?

7 A. Yes.

8 Q. Does the Company have any concern in light of the
9 recent turmoil in the markets with respect to the
10 creditworthiness of the winning bidder?

11 A. No.

12 Q. And, due to the turmoil in the markets, did you give
13 any extra emphasis to reviewing creditworthiness or any
14 related issues?

15 A. For some of the suppliers we did, yes.

16 Q. With respect to how you will go about meeting your RPS
17 requirements, I think you've testified that, because
18 you didn't select a Default Service bid that included
19 RPS compliance, that you'll be conducting a later bid
20 solicitation, is that correct?

21 A. Yes.

22 Q. And, do you know approximately when the Company plans
23 to do that?

24 A. We were looking at doing that sometime over the --

[WITNESS: Warshaw]

1 within the next month or two, in the fall.

2 Q. And, if you can, I'm wondering if you can comment on
3 whether the Company would continue to follow the policy
4 of not paying REC prices that are at the ACP, but
5 instead would the Company just pay the ACP into the
6 state Renewable Energy Fund?

7 A. We would continue that, yes. We feel that it's a
8 better policy to send a market signal to the market
9 that we are not willing to pay ACP prices for RECs.

10 Q. Do you think that there would be administrative costs
11 that result from separating out the two bids and having
12 one bid for Default Service and a separate bid for the
13 RPS compliance?

14 A. There may be. But, as far as how those costs would be
15 recovered, I would not be able to address that.

16 Q. But, when the Company does undertake that process, is
17 it my understanding that you'll be coming back to the
18 Commission for approval of that process and for
19 recovery of those costs?

20 A. If that's how we're so directed, that's what we would
21 be doing.

22 MS. HATFIELD: No further questions.

23 Thank you.

24 CHAIRMAN GETZ: Ms. Amidon.

[WITNESS: Warshaw]

1 MS. AMIDON: Thank you. Good afternoon.

2 WITNESS WARSHAW: Good afternoon.

3 BY MS. AMIDON:

4 Q. At the outset, I just want to remind you, if you did
5 not know, that I did have a conversation with Attorney
6 Blackmore regarding Staff's position on the RPS
7 proposal. And, at that point, I did tell Ms. Blackmore
8 that we do not have any particular concerns. But, upon
9 closer review, we do have some questions regarding this
10 proposal, which is I think at Schedule JDW-8. So, I
11 will be following Attorney Hatfield's questioning.
12 Correct me if I'm wrong, as I understand it, if the
13 Company goes forward and requests bids for RECs with
14 its power supply, you would be seeking RECs on a
15 separate or unbundled basis, is that correct?

16 A. Could you repeat?

17 Q. Well, I would want to contrast it with capacity.

18 A. Okay.

19 Q. For example, when you seek bids for power and capacity,
20 you look for bids with power only, and then you would
21 seek a combined all-inclusive energy and capacity bid.

22 A. Correct.

23 Q. As I understand it, and correct me if I'm wrong, RECs
24 are a separate or additional, a severable product that

[WITNESS: Warshaw]

1 you would be seeking when you go out for a power
2 supply, is that correct?

3 A. Yes, it would be a separate obligation.

4 Q. Okay. And, your testimony reflects the fact that the
5 Company's obligation to procure RECs will increase in
6 2009, as opposed to your obligations for 2008. That's
7 correct?

8 A. Yes.

9 Q. So, in essence, 4 percent of your power sales have to
10 be represented by Renewable Energy Credits for 2008,
11 but, for 2009, it will be 6 percent of your power
12 sales?

13 A. Correct.

14 Q. All right. At present, do you believe that there is a
15 market in New Hampshire for Class III RECs? And, just
16 to refresh your memory, "Class III" is the existing
17 eligible biomass facilities.

18 A. To my -- I have not seen any direct information that
19 there is a market that's developed yet. I do get some
20 broker reports. I haven't seen New Hampshire RECs on
21 those broker reports. I'm also -- I don't know how
22 many supplier -- generators have come to New Hampshire
23 to get approved as, you know, a Class I through Class
24 IV provider. I also don't know how many have been

[WITNESS: Warshaw]

1 approved of the ones that have applied. I could only
2 speculate that, you know, because the rules were not
3 finished until the beginning of the summer, that it
4 takes a little while for the suppliers to gear up to do
5 this.

6 Q. Okay. And, what are your observations about a market
7 for Class IV RECs? Which, again, to refresh your
8 memory, is existing small hydro. Would it be the same?

9 A. It would be the same. I think -- I believe that that's
10 an easy class for generators, existing generators to
11 submit and get approval in New Hampshire to be able to
12 provide those RECs. There's no incremental investment
13 that they have to make on their generating plants. At
14 best, it's just a filing, I think, with New Hampshire,
15 and New Hampshire reviews the data and either approves
16 or disapproves.

17 MS. AMIDON: One moment please.

18 (Atty. Amidon conferring with
19 Mr. McCluskey.)

20 BY MS. AMIDON:

21 Q. And, so, if I am interpreting your answer correctly,
22 there is -- you currently see no market in New
23 Hampshire for New Hampshire Class III or IV RECs?

24 A. I personally have not seen market information. I have

[WITNESS: Warshaw]

1 heard from other individuals and in informal
2 conversations that there have been a number of -- a few
3 generators that have been approved. But until -- I
4 don't think I would actually see those generators until
5 I issued an RFP out to the market, and then get
6 responses back from those suppliers, those owners of
7 the generation.

8 Q. So, in this first solicitation, where you're looking
9 for RECs, were you surprised at the cost that came in
10 that was close to the Alternative Compliance Payment?

11 A. Not at all. I was not surprised at all. Those -- The
12 suppliers who provide load-serving service through our
13 general Default Service RFP are usually a different
14 group of suppliers than the owners of renewable
15 generators. Renewable generators are very small and
16 they would not be looking to take on the obligation of
17 serving -- of load serving for our assets in New
18 Hampshire. They don't have the capability, they don't
19 have the background, they probably don't have enough
20 load to do that -- or, enough generation, pardon me.

21 Q. So, on what basis or what kind of response would you
22 expect then, if you went and did a separate RFP for
23 RECs, if there's no New Hampshire market for Class III
24 or IV RECs at this time?

[WITNESS: Warsaw]

1 A. That would go to a different group than the one that
2 this solicitation just went to. This would actually go
3 to, hopefully, owners of the individual generation and
4 it would also go to brokers, and that would be enough
5 to help, we believe, based on our experience in Mass.
6 and Rhode Island, that that would be enough to start
7 creating the market and the interest in providing those
8 RECs.

9 Q. In your Exhibit 8, at the last page, you talk about --
10 which is Bates stamp 170, there's a provision on "Cost
11 Recovery". If you undertake to go out for a separate
12 RFP for RECs, do you anticipate the Company will incur
13 additional costs?

14 A. There may be some broker costs that we would incur, as
15 opposed to buying directly from a generator.

16 Q. Internal costs for the Company? Labor costs?

17 A. I don't think there would be any incremental labor
18 costs. We have the same staff that we use now for
19 Mass. and Rhode Island we would use for New Hampshire.

20 Q. And, about a proceeding going before this Commission
21 asking for approval and inclusion of those costs in a
22 Default Service rate?

23 A. If that -- If those costs were segregated and put into
24 a Default Service rate, then, yes, there would be some

[WITNESS: Warshaw]

1 incremental cost as a result of that.

2 Q. And, given the fact that there will be, you know, you
3 anticipate that the Commission will allow recovery, at
4 least this is what's stated in your "Cost Recovery"
5 section, "of any and all costs incurred in meeting the
6 RPS law", "direct purchase costs, broker fees, option
7 costs", *etcetera*, is it possible that soliciting a
8 separate RFP for RECs that you're going to be paying
9 more than the market price, is that --

10 A. No. We would not be paying more than the market price.

11 Q. Even in considering that there are these additional
12 costs?

13 A. Any of those additional costs that we include with
14 Default Service, I would -- I would speculate, and this
15 is pure speculation, would be included and adjusted in
16 the Default Service Cost Reclassification Factor.

17 Q. And, do you think that --

18 A. So, --

19 Q. Oh, I'm sorry.

20 A. So, as a result, I think that those costs would be a
21 net wash.

22 Q. Do you think that those additional costs could result
23 in the Company actually paying the equivalent of the
24 Alternative Compliance Payment for RECs?

[WITNESS: Warshaw]

1 A. No.

2 Q. And, why is that?

3 A. Well, I know that, if I was buying RECs directly from a
4 broker, I would not buy RECs from a broker that, when
5 you add the broker fee on to the cost of the REC, it
6 would be equivalent to the ACP, I would not -- we would
7 not agree to that. We have never agreed to that in
8 Mass. and we have not agreed to that in Rhode Island.

9 Q. And, because this is a new proposal, would the Company
10 be willing to sit down with Staff and sort of flesh out
11 the details on, and with the OCA, to flesh out the
12 details on procurement of RECs through a separate RFP?

13 A. Yes, we would definitely like to, we would be happy to
14 do that.

15 Q. And, I have a question about the REC revenues and how
16 they're treated, in terms of your working capital
17 requirements. The working capital requirements, are
18 they adjusted in your Retail Rate Reconciliation or are
19 they adjusted in the Default Service rate?

20 A. Can we take that either --

21 Q. Would you believe that I asked Mr. McCabe that
22 question, and that his answer to me was that it is
23 taken care of in the May Default Service filing on an
24 annual basis?

[WITNESS: Warshaw]

1 A. If Mr. McCabe said that, then I would believe that
2 100 percent.

3 Q. Okay. So, and at this point I would expect that, if
4 you don't know the answer, and Mr. McCabe might, maybe
5 we could get him sworn in and answer the question. At
6 present time I would assume, and you could correct me
7 if I'm wrong, that you do not include this long lead
8 time where you receive REC revenue from ratepayers in
9 your lead/lag study? In other words, beginning
10 January 2008, you started collecting money from
11 customers for payments that are due in June 2009 or
12 July 2009, and those payments are due to this day. Is
13 it fair to say that you have not included that long
14 lead in the lead/lag study for your working capital
15 requirements?

16 A. I actually -- we'd have to, subject to check, I would
17 say we don't, but --

18 Q. And, assuming that that's true, would the Company have
19 any problem, when it does come forward with its new
20 cash working capital requirements, to include that long
21 lead in the lead/lag study for working capital
22 requirements?

23 A. I can't see why not.

24 Q. Okay. And, there is just, and this is just a

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1 correction to one of the exhibits I think that is
2 warranted. It's on -- I'm looking at the public
3 document, Exhibit 11, at Page 107. Is it 107? That
4 doesn't look like the right page. Maybe it's the
5 confidential document. Give me one minute please. One
6 moment please, I believe I have the wrong page number
7 in my notes.

8 MS. AMIDON: Well, we'll come back to
9 that. I apologize for that. But Mr. McCluskey does have
10 a few questions for you as well. So, I'll turn the
11 questioning over to him. Thank you.

12 MR. McCLUSKEY: Thank you.

13 BY MR. McCLUSKEY:

14 Q. Mr. Warshaw, if we could start by looking at your
15 Schedule JDW-9, which is the summary of retail rate
16 calculations for your Large Customer Group, which is on
17 Page 211. You see that?

18 A. Uh-huh. Yes.

19 Q. In developing the retail rates for each month of the
20 three-month period for the Large Customer Group, you
21 multiply the wholesale contract prices by a loss
22 factor, is that correct?

23 A. Correct.

24 Q. And, the loss factor for the Large Customer Group is

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[WITNESS: Warsaw]

1 approximately _____ percent, is that correct?

2 A. Correct.

3 Q. And, if you turn to Schedule 10, which is the same
4 calculation for the Small Customer Group, there's a lot
5 more on this page, on Page 213, but, effectively, you
6 multiplied the wholesale contract cost for that group
7 by a loss factor of --

8 MS. HATFIELD: May I interrupt for one
9 moment?

10 MR. McCLUSKEY: Sure.

11 MS. HATFIELD: I'm sorry. I thought we
12 had had a discussion before the hearing that these are
13 confidential numbers. So, should we be on the
14 confidential record?

15 MR. McCLUSKEY: That's correct. We
16 should.

17 MS. HATFIELD: For that number that was
18 just stated and then the number that I think the witness
19 was about to say are both confidential --

20 MS. AMIDON: Thank you. Sorry about
21 that.

22 MS. HATFIELD: -- in Exhibit 12 and 14.

23 MR. McCLUSKEY: Yes. You're correct.

24 These are. I'm actually referring to the schedules in the

[WITNESS: Warsaw]

1 confidential document. I should have said that to begin
2 with.

3 CHAIRMAN GETZ: Well, let's just then
4 use the procedure we've used in some other cases, ask
5 counsel to confer after the close of the hearing and work
6 with the stenographer to make sure that materials that are
7 appropriately redacted from the record are redacted.

8 MR. McCLUSKEY: Okay.

9 MS. BLACKMORE: Yes.

10 BY MR. McCLUSKEY:

11 Q. So, I started by referring to Schedule 9, which I
12 should have said "in the confidential document", and
13 then turn to Schedule 10 in the same document. And,
14 that schedule shows the loss factor for the small group
15 to be approximately _____ percent, is that correct?

16 A. Yes.

17 Q. Okay. Could you just, in summary fashion, explain how
18 the Company develops those two loss factors. Just take
19 the Large Customer Group as an example.

20 A. For the Large Customer Group, the Company -- on a very
21 simple basis, the Company, the group called "Meter Data
22 Services", actually develops the hourly values for the
23 Large Customer Group, based on various sources of
24 information, and then uses that information to create

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1 both an hourly value that is representative of the
2 values that's sold at retail. And, then, they also
3 develop, based on other information, similar values
4 that are for the values that are purchased at
5 wholesale. And, we use those two values to come up
6 with what the loss factor is, which is the -- basically
7 represents the losses on the Company's transmission and
8 distribution system from the wholesale purchase point
9 to the actual sales to the retail meter.

10 Q. So, one important point is that the purchases,
11 wholesale purchases and the retail sales are both
12 estimates at this point, is that correct? The
13 Company's metering staff is using estimated numbers to
14 develop its loss factor?

15 A. Yes, using estimated numbers from among information,
16 load research data, and other data sources that they
17 have.

18 Q. And, they -- presumably, the Company would subsequently
19 reconcile those estimates with harder data, both for
20 wholesale and retail, when it comes to reconcile its
21 Default Service costs and revenues, is that correct?

22 A. They do, yes. But they do use actual retail meter
23 data, but they still need to use estimate -- they still
24 have to use estimation data load factors, from the load

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1 research people, to move from the retail sales to the
2 actual individual hourly sales.

3 Q. For calculating the wholesale costs?

4 A. Yes, for calculating the wholesale.

5 Q. Okay. But, presumably, those wholesale estimates are
6 based on final purchases as estimated by the ISO, is
7 that correct?

8 A. No, the ISO -- the ISO doesn't estimate the values. We
9 provide -- our Meter Data Services provides that data
10 to the ISO.

11 Q. I see. Okay. Now, isn't it correct that earlier this
12 week I spoke with you about your loss factor estimates
13 for both the Large Customer and Small Customer Groups?

14 A. Yes.

15 Q. And, you kindly provided some monthly data for those
16 two groups?

17 A. Yes.

18 Q. Which show both the wholesale loads and retail loads by
19 month for some fairly significant past period, is that
20 correct?

21 A. Yes.

22 MR. McCLUSKEY: And, I'll ask my
23 attorney to kindly pass around copies of that data that
24 you provided.

[WITNESS: Warshaw]

1 MS. AMIDON: And, we would like to
2 request that this be marked for identification as "Exhibit
3 15". The title of the document is "Granite State Electric
4 Company". And, the loss factors for the Large Customers
5 are on the left-hand side of the document and for the
6 residential customers are on the right-hand side of the
7 document.

8 CHAIRMAN GETZ: They will be so marked.

9 (The document, as described, was
10 herewith marked as **Exhibit 15** for
11 identification.)

12 CHAIRMAN GETZ: And, are these
13 confidential?

14 MS. BLACKMORE: I don't -- are these
15 confidential? I believe we discussed this just prior to
16 the hearing. This information is not confidential because
17 it's --

18 WITNESS WARSHAW: Available.

19 MS. BLACKMORE: -- it's available now in
20 the energy supply marketplace. However, it's just been
21 pointed out to me that the loss factor that's actually
22 being used in the current filing does appear on this page.
23 So, we would request confidential treatment of this
24 schedule.

[WITNESS: Warsaw]

1 MR. McCLUSKEY: Yes. If I could just
2 add that the information provided by Mr. Warsaw is
3 everything in the block. And, just for comparison
4 purposes, since that block ends with June of '08, I just
5 typed in at the bottom the proposed loss factors that
6 would be effective for the Default Service period that
7 we're about to enter, which would begin November of '08.

8 BY MR. McCLUSKEY:

9 Q. Now, this, again just focusing on the Large Customer
10 Group as an example, you show for almost a two-year
11 period monthly wholesale loads, with the losses
12 included, a column which is effectively the retail load
13 with losses excluded, and you show a monthly loss
14 factor. And, you also show a column which is the loss
15 factor for a rolling 12-month average. The interesting
16 thing about those numbers is that, if you look at loss
17 factors on a monthly basis, there can be some
18 considerable variation because of the variation in
19 loads. But, if you do the analysis on a constant
20 12-month basis, I think the idea is that you eliminate
21 seasonal differentiation in the factor. So, I think
22 the column showing the rolling 12-month loss factor is
23 an interesting one to look at. And, Mr. Warsaw, would
24 you agree that, with regard to the Large Customer

[WITNESS: Warshaw]

1 Group, that this schedule is showing a fairly constant
2 reduction in loss factor beginning April '07 through
3 June of '08?

4 A. I would say that the significant change did not begin
5 until starting in the beginning of January/February of
6 '08.

7 Q. Okay. And, if you could just run your eye down the
8 column for the Small Customer Group, would you like to
9 comment on that?

10 A. Again, the same reduction would not be, I would not
11 speculate, until the early part of beginning of 2008
12 also.

13 MR. McCLUSKEY: Okay. Again, I'll ask
14 my attorney to hand out a chart which just plots these two
15 series, so we can see visually how it's changed from April
16 '07, on a 12-month basis again, through June of '08.

17 MS. AMIDON: I would ask that this be
18 marked for identification as "Exhibit 16". And, I would
19 point out that this chart was put together by
20 Mr. McCluskey, in his preparation and analysis of this
21 docket.

22 CHAIRMAN GETZ: Okay. So marked.

23 (The document, as described, was
24 herewith marked as **Exhibit 16** for

[WITNESS: Warshaw]

1 identification.)

2 MR. McCLUSKEY: Did John get a copy?

3 MS. AMIDON: No. Sorry. I thought you
4 had given him one ahead of time.

5 WITNESS WARSHAW: Thank you.

6 BY MR. McCLUSKEY:

7 Q. So, Mr. Warshaw, would you agree, just looking at these
8 series of numbers, that effectively there appears to be
9 two periods where there's a reduction, in the first --
10 in the first few months, and then, again, in the later
11 months beginning February of '08 that you referred to?
12 Appears to be two periods during which the loss factor
13 seems to drop, which, by the way, is an improvement, if
14 it's a real one, reduction in loss factor, it's an
15 improvement, both for the Company and for customers.
16 But would you agree that there's actually two periods
17 where it appears to be declining?

18 A. Yes.

19 Q. Thank you. Could you explain. I think earlier you
20 said that the loss is essentially due to a physical
21 loss on the Company's transmission/distribution system.
22 Could you explain what you think is causing this
23 reduction in loss factor over time?

24 A. Well, theoretically, the loss factor is the losses on

[WITNESS: Warshaw]

1 the transmission and distribution system. The actual
2 calculation is based on a large number, a large amount
3 of data and a large amount of input that goes into a
4 fairly sophisticated system to come up with this
5 calculation. I can't explain why this has happened. I
6 recognize this, this trend earlier and raised it with
7 the group within the Company that actually does this
8 calculation, and they have been looking at this. They
9 have yet to be able to identify what if any change or
10 what if anything is causing this change to be -- to be
11 observed in these calculations.

12 Q. And, is that review continuing at the Company?

13 A. Yes, it is.

14 Q. It is. And, would the Company be willing to share the
15 results of that review, assuming the Company reaches
16 some concrete conclusions in the future?

17 A. I would guess it would be, yes.

18 CHAIRMAN GETZ: Excuse me. Are you
19 suggesting there's a possibility it's just more accurate
20 and better reporting, rather than changed circumstances
21 physically in the system?

22 WITNESS WARSHAW: It could be. I am not
23 part of the Meter Data Services folks. I'm not a meter
24 engineer. So, I couldn't speculate any further, then it's

[WITNESS: Warsaw]

1 either a changed circumstance or an improvement in the
2 system, possibly an improvement in the calculation that
3 has reduced some level of uncertainty, or it could just be
4 a introduction of additional uncertainty that's causing
5 this reduction. I don't -- I personally could not say
6 what it is. But we -- But, in raising this issue to the
7 Meter Data Services folks, they are looking into this,
8 they have been looking into this. They have not yet been
9 able to come up with a determination of why this is
10 happening.

11 BY MR. McCLUSKEY:

12 Q. If we could change the focus of the questions to rates
13 and rate impact. The Company uses the loss factor to
14 develop its retail rates, and hence it impacts the
15 revenues that it will recover from the customers. If
16 it uses a higher loss factor, you recover higher
17 revenues; if you uses a lower loss factor, you recover
18 lower revenues. Is there any potential, given the
19 uncertainty as to what the appropriate loss factor is,
20 for the Company to under collect its costs or over
21 collect its costs?

22 A. Could you repeat the question?

23 Q. Given the uncertainty about the accuracy of the loss
24 factor that's being utilize to develop retail rates, is

[WITNESS: Warshaw]

1 there any potential for the Company to over collect or
2 under collect its power costs?

3 A. Yes, there's always been that potential. We use -- We
4 have always used a backward-looking loss factor to be
5 able to estimate what -- to develop the retail rates
6 going forward. But we do not have -- But that
7 estimation has always been subject to actual results.
8 And, no matter what, the costs to customers have always
9 been reconcilable, reconcilable against the purchases
10 that we make at wholesale.

11 Q. So, you're saying that the Company would always look at
12 its power bill and recover dollar for dollar whatever
13 that bill is?

14 A. Yes.

15 Q. But there is a reconciliation process that you refer
16 to. And, to the extent that the Company is under or
17 over collecting its power costs, that under/over
18 collection would generate interest through the
19 reconciliation process?

20 A. Yes.

21 Q. And, that interest is not subject to reconciliation, is
22 it?

23 A. No.

24 Q. So, if the Company was wildly off, in terms of its

[WITNESS: Warshaw]

1 revenue collection, up or down, there's the potential
2 for the interest earned through the reconciliation
3 process to be higher or lower than it should be?

4 A. Yes.

5 Q. So, you would agree that that's the driving force
6 behind developing a accurate estimate of the loss
7 factor?

8 A. Yes.

9 Q. At least one of the drivers of developing that factor?

10 A. Yes.

11 Q. So, to cut to the chase, I believe the Company is
12 willing to sit down with Staff to investigate this
13 issue further, so we can refine the ratemaking process
14 going forward. Do you agree with that statement?

15 A. Yes.

16 MR. McCLUSKEY: Thank you.

17 BY MS. AMIDON:

18 Q. And, I did find the page where I believe that there is
19 an error. I'm looking at the public filing, at Exhibit
20 11, and it's at Page 68. And, the numbers are not in
21 this filing, because the numbers that are in this
22 particular graph are confidential. But, if you go to
23 the left-hand column, and you go all the way down to
24 the bottom, it says "Final Small CG Price with Capacity

[WITNESS: Warsaw]

1 3/12/2008". That really should be "September 17th,
2 2008", isn't that correct?

3 A. Yes. That's correct.

4 Q. And, that was the only thing I wanted to say. And, I
5 also wanted to make sure that you understood that, in
6 the discussions with respect regarding the loss factor
7 and anything else, that we've talked about getting
8 together or discussing outside the hearing, that the
9 Office of Consumer Advocate will be included in those
10 discussions?

11 A. Yes.

12 MS. AMIDON: Thank you. That's all I
13 have. Thank you.

14 CHAIRMAN GETZ: Redirect, Ms. Blackmore?

15 MS. BLACKMORE: Yes, I think I do have a
16 question.

17 **REDIRECT EXAMINATION**

18 BY MS. BLACKMORE:

19 Q. With regard to the RPS compliance plan that we included
20 in Schedule JDW-8, the RPS bids that we requested from
21 suppliers at the same time that we solicited bids for
22 power supply, it was -- correct me if I'm wrong, but it
23 was a request to provide compliance with the RPS
24 requirements in New Hampshire, it was not a

[WITNESS: Warshaw]

1 solicitation for RECs?

2 A. Correct.

3 Q. So, I understand we've agreed to discuss this issue
4 with Staff further, and we have. But we wanted to -- I
5 just wanted to make it clear or request that John make
6 it clear that Staff was suggesting that we would
7 procure RECs at the same time that we procure power --
8 that we solicit bids for power supply. Is there a
9 concern with doing that?

10 A. There is a concern, because of the -- we're soliciting
11 -- soliciting the actual RECs is a different market and
12 a different group of suppliers than soliciting Default
13 Service. They're two totally different. And, the
14 process is sort of different and the actual -- there's
15 just a different process, and we've used a different
16 process in Rhode Island and Massachusetts.

17 Q. So, your recommendation would be that it would be
18 better to procure RECs separately from requesting bids
19 from suppliers, either for RPS compliance, in
20 association with power supply procurement?

21 A. That's my recommendation. But I think we would want to
22 chat further about that.

23 MS. BLACKMORE: Yes. I just wanted to
24 make sure. I have nothing further.

[WITNESS: Warshaw]

1 CHAIRMAN GETZ: Anything else for this
2 witness?

3 (No verbal response)

4 CHAIRMAN GETZ: Hearing nothing, then
5 you're excused. Thank you, Mr. Warshaw. Other witnesses
6 this afternoon?

7 (No verbal response)

8 CHAIRMAN GETZ: Is there any objection
9 to striking identifications and admitting the exhibits
10 into evidence?

11 (No verbal response)

12 CHAIRMAN GETZ: Hearing no objection,
13 they will be admitted into evidence. Is there anything
14 further to address, before we provide an opportunity for
15 closings?

16 (No verbal response)

17 CHAIRMAN GETZ: Hearing nothing, then
18 Ms. Hatfield.

19 MS. HATFIELD: Thank you, Mr. Chairman.
20 The OCA has no objection to National Grid's request before
21 the Commission today. And, we look forward to working
22 with the Company and the Staff to further explore how the
23 Company will comply with the RPS requirements and also to
24 discuss the loss factor issues that were raised today.

1 CHAIRMAN GETZ: Thank you. Ms. Amidon.

2 MS. AMIDON: Thank you. Staff has
3 reviewed the filing and the solicitation and bid
4 evaluation process. We believe it was appropriate and
5 consistent with the process approved by the Commission,
6 and that the Company chose the bidder who could provide
7 the Default Service at the best price. And, we think it
8 was also appropriate to have an all-inclusive energy and
9 capacity bid. As you could tell from our
10 cross-examination, we have some questions about how the
11 solicitation for compliance with the RPS statute will take
12 place. And, we look forward to working with the Company
13 and with the Office of Consumer Advocate to resolve those
14 questions. But, having said that, we recommend the
15 Commission approve the petition.

16 CHAIRMAN GETZ: Thank you.
17 Ms. Blackmore.

18 MS. BLACKMORE: Thank you. National
19 Grid also looks forward to working with Staff and the
20 Office of Consumer Advocate regarding the RPS procurement
21 plans in the future. And, we are respectfully requesting
22 that the Commission approve the proposed Default Service
23 rates no later than September 29th, so that the rates can
24 become effective on and after November 1st, 2008. Thank

1 you.

2 CHAIRMAN GETZ: Okay. Thank you,
3 everyone. We'll close the hearing and take the matter
4 under advisement.

5 (Whereupon the hearing ended at 2:50
6 p.m.)

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