

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 08-072

GRANITE STATE ELECTRIC COMPANY d/b/a NATIONAL GRID

**Fiscal Year 2008 Reliability Enhancement and
Vegetation Management Plan Results and Reconciliation Filing**

Order Following Hearing

ORDER NO. 24,868

June 27, 2008

APPEARANCES: Alexandra E. Blackmore, Esq. on behalf of Granite State Electric Company d/b/a National Grid; and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

I. PROCEDURAL HISTORY

On May 15, 2008, Granite State Electric Company d/b/a National Grid (National Grid) submitted its fiscal year (FY) 2008 (April 1, 2007 – March 31, 2008) annual reliability enhancement plan and vegetation management plan results and reconciliation filing pursuant to the terms of the National Grid/KeySpan merger settlement agreement approved by the Commission in Order No. 24,777 (July 12, 2007). The filing included: (1) a report on actual spending on operation and maintenance activities and capital projects for FY 2008, including an explanation of differences from the FY 2008 budget, (2) a request for a capital investment allowance of \$165,840 to be included in distribution rates effective for service rendered on and after July 1, 2008, and (3) reliability performance results for calendar year 2007.

On May 22, 2008, an order of notice was issued scheduling a hearing for June 19, 2008. On June 16, 2008, National Grid filed the supporting testimony of Catherine T. McDonough, Peter F. Altenburger and Michael D. LaFlamme.

II. POSITIONS OF THE PARTIES AND STAFF

A. National Grid

National Grid explained that, by its concurrence with the settlement agreement approved in Order No. 24,777, it committed to improve its reliability performance through implementation of reliability enhancement and vegetation management activities. It noted that the reliability enhancement and vegetation management programs involve both operating expenses and capital investment. Included in the programs are: feeder hardening¹, augmented tree-trimming and clearing, asset replacement, and inspection and maintenance.

According to National Grid, it committed to implement aggressive reliability enhancement and vegetation management plans for FY 2008 even though the fiscal year was already under way at the time of the settlement. Pursuant to the settlement, National Grid budgeted \$1,950,000 for operating expenses and \$950,000 for capital investments in FY 2008. The settlement provided that, to the extent National Grid incurred less than \$1,950,000 of operating expenses from implementation of the two plans in FY 2008, the difference was to be accounted for and applied to increase the base operations and maintenance (O&M) amount for the plans in FY 2009. Further, the settlement provided that to the extent that actual FY 2008 O&M spending exceeded \$1,950,000, National Grid was required to absorb those costs with no impact to customers.

National Grid testified that the May 15, 2008 filing represented the first of an annual requirement during the five-year rate period to make a reconciliation filing for both its REP and

¹ Feeder hardening is defined in the settlement agreement as "a targeted program to improve the performance of the Company's worst performing feeders through remediation measures. Remediation measures may include equipment upgrades, such as replacement of fuse cutouts, crossarms, poles and transformers; installation of reclosers; lightning protection with bonding, grounding, and lightning arresters installations; and installation of animal guards."

VMP, detailing the amounts spent on REP and VMP activities during the prior fiscal year. As stated in the May 15th filing, National Grid spent a total of \$2,169,258 on O&M during FY 2008, and, in accordance with the terms of the Settlement Agreement, National Grid will absorb all costs in excess of the \$1,950,000 budgeted amounts.

National Grid explained that the May 15th filing also requested an increase to distribution rates to recover the revenue requirements associated with \$950,000 of capital investments made in its reliability enhancement plan for FY 2008. It testified that actual fiscal 2008 capital expenditures associated with reliability improvements totaled \$1,358,990. National Grid stated that it calculated the revenue requirement associated with the \$950,000 of capital expense according to the terms of the settlement and derived a revenue requirement of \$165,840. National Grid seeks to reflect the additional revenue requirement to its rates for usage on and after July 1, 2008.

As calculated by National Grid, the additional \$165,840 of distribution revenue requirement amounts to a 0.76 percent increase in distribution revenue. National Grid applied that percentage increase uniformly to each of the distribution rate charges for the various customer classes. According to National Grid, the resulting distribution rates would represent an increase of 0.2 percent in overall rates for residential customers. For a typical residential default service customer using 500 kilowatt-hours (kWh) per month, the bill impact of the proposed rate change will be \$0.14, or an increase from \$84.58 to \$84.72 per month. For a residential default service customer using 673 kWh per month (the average monthly usage of a National Grid residential customer over a recent twelve-month period), the monthly bill would increase \$0.20 from \$114.58 to \$114.78. Other customers would experience an increase to overall rates in the range from 0.1 percent to 0.2 percent.

For fiscal years 2009 through 2014, National Grid testified that it is required by the settlement to submit a filing on February 15 of each year to provide its reliability enhancement and vegetation management proposals for the subsequent fiscal year for Staff review. According to National Grid, the settlement established a base O&M expense amount of \$1,360,000 annually for fiscal years 2009 through 2013. National Grid testified that it submitted a fiscal year vegetation management and reliability enhancement plan for 2009 and, following discussions with Staff, established O&M spending for fiscal year 2009 at \$1,473,832. National Grid explained that, because the total amount allocated is greater than base O&M contemplated by the settlement, it would be able to request that the Commission approve a rate adjustment for the incremental amount of \$113,832.

For FY 2009, National Grid agreed with Staff on a recommended budget of \$500,000 to be spent on capital investments associated with the reliability enhancement program. However, referring to language from the settlement, National Grid explained that the review of the FY 2009 reliability enhancement and vegetation management plans by Staff does not relieve the company of its general obligation to maintain safe, reliable service, nor does it bind Staff to a particular position regarding the adequacy and/or effectiveness of the plans. National Grid acknowledged that the reliability enhancement and vegetation management activities and associated expenditures are subject to review by the Commission.

National Grid stated that it had improved System Average Interruption Frequency Index (SAIFI)² and System Average Interruption Duration Index (SAIDI)³ performance. National Grid

² SAIFI is calculated by dividing the total number of customer interruptions by the total number of customers served.

³ SAIDI is calculated by dividing the sum of all customer interruptions duration by the total number of customers served.

testified that its 2006 SAIFI results were 2.72 but declined to 2.16 in 2007. Similarly, SAIDI had been reduced from 264 minutes for 2006 to 228 minutes for 2007.

Regarding its FY 2008 reliability enhancement activities, National Grid stated that its actual spending was greater than forecast because the scope of some of the work was expanded. In addition, the company did not include the cost of removing capital assets from service in its budget estimate. National Grid said that it would use the lessons learned from the fiscal 2008 cycle to improve its budgeting process going forward. It further stated that although it exceeded its reliability enhancement and vegetation management budget for FY 2008, the extra costs were the direct result of performing needed work. In addition, the company pointed out that it was limited by the terms of the settlement to recovering only the revenue requirements associated with \$950,000 of capital spending for FY 2008, so customers would receive the reliability benefits of the additional capital spending immediately without experiencing the full rate impact of the additional expenditures until the company's next base rate proceeding.

B. Staff

Staff stated that the increase to distribution rates associated with the capital spending was anticipated at the time the settlement was approved. Although National Grid exceeded its capital and O&M budgets, Staff stated that the FY 2008 spending levels were effectively capped by the terms of the settlement for purposes of rate recovery. Staff recommended that National Grid be allowed to increase its distribution rates to recover the additional revenue requirement associated with the \$950,000 of capital spending, effective July 1, 2008. Staff stated that it considered its review of National Grid's reliability enhancement and vegetation activities and expenditures to be a subject of ongoing review.

III. COMMISSION ANALYSIS

Pursuant to the settlement approved in Order No. 24,777, we agree with Staff that National Grid's reliability enhancement and vegetation management activities and associated expenses are subject to Staff's ongoing investigation and recommendations. We do not make any findings here regarding the appropriateness or reasonableness of those activities or the expenses associated with those activities.

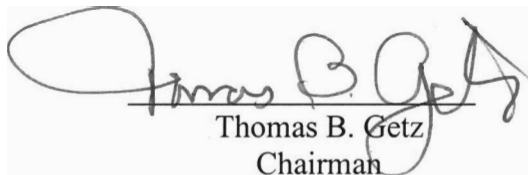
Our findings today concern whether it is appropriate to allow National Grid to recover the revenue requirement of \$165,840 associated with its FY 2008 capital expenditures for reliability enhancement and vegetation management. We agree with the company and Staff that additional capital investment in reliability improvements was anticipated as set forth in the settlement and the requested increase is in line with the recovery limits described therein. Therefore, we grant the company's request to recover an additional \$165,840 in its distribution revenue requirements effective July 1, 2008.

Based upon the foregoing, it is hereby

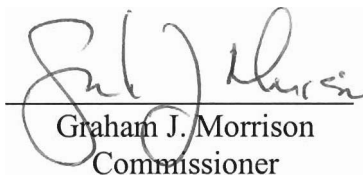
ORDERED, that the request of Granite State Electric Company d/b/a National Grid to increase its distribution revenues by \$165,840, effective with usage on and after July 1, 2008 is hereby GRANTED; and it is

FURTHER ORDERED, that National Grid shall file tariff revisions that conform with this Order within 30 days hereof.

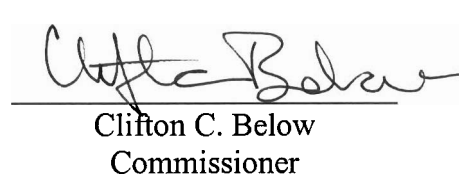
By order of the Public Utilities Commission of New Hampshire this twenty-seventh day
of, June 2008.



Thomas B. Getz
Chairman

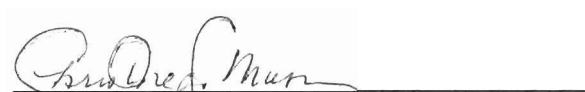


Graham J. Morrison
Commissioner



Clifton C. Below
Commissioner

Attested by:



ChristiAne G. Mason
Assistant Executive Director & Secretary



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Docket #: 08-072 Printed: June 25, 2008

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