

DE 06-162

GRANITE STATE ELECTRIC COMPANY d/b/a National Grid

Petition for Approval of 2007 Retail Rate Adjustments

Order Approving Petition

ORDER NO. 24,724

January 12, 2007

Appearances: Alexandra E. Blackmore, Esq. for Granite State Electric Company d/b/a National Grid; and Suzanne G. Amidon, Esq. on behalf of the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL BACKGROUND

On November 29, 2006, Granite State Electric Company d/b/a National Grid filed with the New Hampshire Public Utilities Commission (Commission) a petition requesting adjustments to its stranded cost charge, default service charge and transmission service charge. The Company also seeks to eliminate its transition service charge from its tariff. Based on National Grid's initial calculation, the aggregate impact of the proposed rates would increase the total bill of a residential customer using 500 kilowatt-hours (kWh) per month by \$0.27, or 0.35 percent, from \$77.90 to \$78.17 per month. National Grid requested that the retail rate changes become effective for service rendered on and after January 1, 2007.

In support of its petition, National Grid filed the testimony and related exhibits of Scott M. McCabe, senior analyst for distribution regulatory services and Mary P. Haines, senior analyst, transmission rates, of National Grid USA Service Company, a National Grid affiliate. National Grid filed the retail rate adjustments pursuant to its Amended Restructuring Settlement Agreement (Settlement Agreement) as approved by the Commission in *Granite State Electric Company*, 83 NH PUC 532 (1998) and subsequent Commission orders.

National Grid proposes to increase its stranded cost charge from \$0.0016 per kWh to \$0.0017 per kWh for 2007. The purpose of the stranded cost charge is to collect the Contract Termination Charge (CTC) billed to National Grid from its affiliate, New England Power Company (NEP), in connection with the termination of NEP's all-requirements power contracts with National Grid prior to the opening of National Grid's service territory to retail competition. NEP filed a report on the reconciliation of the CTC with National Grid on December 1, 2006.

The service territories of electric utilities were opened to retail competition pursuant to the Electric Utility Restructuring Act, RSA 374-F. The statute requires utilities to continue to offer energy to customers not using a competitive supplier. Initially, the utilities were to offer transition service, defined as "electric supply that is available to [a utility's] existing retail customers prior to each customer's first choice of a competitive electric supplier" and others as authorized by the Commission, RSA 374-F:2, V, and default service, defined as "electricity supply that is available to retail customers who are otherwise without an electricity supplier and are ineligible for transition service," RSA 374-F:2, I-a. The Legislature required transition service to end throughout the state for all customers no later than April 30, 2006.¹

National Grid noted that, with the end of transition service on April 30, 2006, all of its customers who did not choose to receive their electric supply from a competitive supplier were placed on default service. Therefore, National Grid did not propose a transition service adjustment, but requested authority to include the over-recovery resulting from the final transition service reconciliation with the default service balance.

¹ Specifically, transition service was required to be available "for at least one but not more than 5 years after competition has been certified to exist in at least 70 percent of the state pursuant to RSA 38:26." RSA 374-F:3, V(b). The commission made this certification on May 1, 2001.

National Grid prepared two reconciliations of default service pursuant to Order No. 24,577 (January 13, 2006), which required National Grid to adjust all costs associated with default service supplied as of May 1, 2006 in the default service rates. Therefore, National Grid separately calculated a default service reconciliation for the period from October 2005 through April 2006, and for the period from May 2006 through October 2006.

For the period from October 2005 through April 2006, National Grid calculated a default service under-recovery of \$99,246; for the period from May 2006 through October 2006, the company calculated an over-recovery of \$28,627. National Grid is recommending that the final transition service over-recovery be combined with the default service reconciliation under-recovery. The calculation results in a net over-recovery of \$224,270. National Grid proposes to credit the over-recovery to default service customers. The credit amounts to \$0.00033 per kWh.

National Grid states that the company administers transmission service rates through separate transmission factors for each rate class. National Grid estimates that transmission costs forecast for 2007 will result in an average transmission rate of approximately \$0.00835 per kWh, as compared with the currently effective average transmission rate of \$0.00757 per kWh. In addition to the rates necessary to recover the projected transmission expenses for 2007, National Grid is proposing a uniform transmission service adjustment factor of \$0.00047 per kWh to recover an under-collection for the reconciliation period of October 2005 through October 2006.

On December 4, 2006, the Commission issued an order of notice scheduling a hearing for December 18, 2006. At hearing, National Grid filed revisions to the testimony and schedules of Mr. McCabe. On December 21, 2006, Staff filed a letter with the Commission requesting the record be kept open, and National Grid filed amended schedules on December 26, 2006. On

December 29, 2006, the Commission issued a Secretarial Letter approving the filing, subject to certain revisions as contained herein.

II. POSITIONS OF THE PARTIES

A. Granite State Electric Company

1. Stranded Cost Charge

National Grid testified that, based on the 2006 CTC Reconciliation report, its stranded cost charge would increase from \$0.0016 per kWh in 2006 to \$0.0017 per kWh in 2007.

National Grid reported that the CTC rate of \$0.0017 per kWh is estimated to produce approximately \$1.5 million of CTC revenues based on forecasted deliveries of 857,000² megawatt-hours (MWh) and represents a decrease of \$0.0002 per kWh, or approximately \$0.1 million from the estimated 2007 CTC charge of \$0.0019 per kWh included in New England Power's 2005 CTC reconciliation report. National Grid noted that costs were allocated pursuant to a formula approved by the Commission in Order No. 24,573 (December 30, 2005) and filed with the Federal Energy Regulatory Commission (FERC) as an amendment to the applicable wholesale tariff.³

2. Transition and Default Service Charges

At hearing, National Grid offered revised testimony and schedules of Mr. McCabe, correcting errors that came to light during discovery. National Grid explained that it conducted a

²National Grid's CTC reconciliation report states that the forecasted deliveries are "857 MWh" but the CTC rate of \$0.0017 per kWh is based on forecasted deliveries of 857,000 MWh, and this order reflects the correction. See CTC reconciliation report at page 5.

³ See Order No. 24,573 (December 30, 2005) for a complete explanation of the agreement regarding allocation of CTC costs to National Grid. As explained more fully in Order No. 24,573, the CTC mitigation formula approved by the Commission allowed National Grid to credit over several years funds that it recovered in a bankruptcy proceeding involving USGen New England, Inc.

reconciliation of transition service revenues and expenses for the period of October 2005 through April 2006. National Grid noted that the transition service reconciliation is the last one to be conducted by the company because transition service ended on April 30, 2006. Based on the corrected testimony, National Grid stated that at the end of the transition service period, National Grid calculated a \$268,691 over-recovery in transition service revenue, which is approximately \$26,000 less than what the company reported in its petition. National Grid recommended that the final balance in the transition service reconciliation be combined with the two default service reconciliation balances and credited to default service customers in default service rates. National Grid testified that the correction to the transition service over-recovery reduced the customer credit by \$0.00004 per kWh.

National Grid performed separate default service reconciliations for the periods before and after the end of transition service, i.e., October 2005 through April 2006, and May through September 2006, respectively. National Grid performed these separate calculations to assure that revenue and expenses associated with default service would be properly allocated to the period in which service was provided. From October 2005 through April 2006, National Grid reported an under-recovery of \$99,246 in default service revenue. For the period of May through October 2006, National Grid calculated an over-recovery of \$28,627 in default service revenue. National Grid combined the revised transition service over-recovery with the net default service under-recovery and calculated a credit of \$0.00029 per kWh applicable to all default service customers.

3. Transmission Service Rate

National Grid testified that, during 2007, transmission expenses are forecasted to be approximately \$7.8 million, an increase of \$1.1 million over 2006 expenses. Most (over 90

percent) of this increase is related to PTF (pool transmission facility) charges assessed by the regional grid operator, Independent System Operator-New England (ISO-NE). National Grid noted that it also increased the rates based on an applicable FERC Opinion and Order on Initial Decision, dated October 31, 2006, in Dockets Nos. ER04-157-004 Docket No. ER04-714-001. These FERC orders authorized transmission charges based on a 12.4 percent return on equity, which includes an addition of 100 basis points (beyond the figure arising out of the traditional ratemaking methodology) applicable to the \$318.1 million in planned new investments in pool transmission facilities for 2007, as reflected in the ISO-NE regional transmission plan. Taking the FERC factors into consideration, National Grid calculated an average transmission rate of approximately \$0.00835 per kWh for 2007, as compared with the currently effective average transmission rate of \$0.00757 per kWh, exclusive of the transmission service adjustment factor.

National Grid stated that, in addition to the rates necessary to recover the projected transmission expenses for 2007, National Grid proposes a uniform transmission service adjustment factor of \$0.00047 per kWh. National Grid testified that it calculated this factor by dividing the under-collection of transmission expense as of October 2006 of \$441,580 by the forecasted kilowatt-hour deliveries for calendar year 2007.⁴

National Grid calculated that the net effect of the adjustments would increase default service rates by 0.37 percent for a typical residential customer with usage of 500 kWh per month. National Grid concluded its testimony by requesting that the adjustments contained in the retail rate filing become effective for service rendered on and after January 1, 2007.

⁴ Mr. McCabe testified that the factor was calculated by dividing the under-collection of transmission expenses at September 2006 (Testimony of Scott M. McCabe at page 23); however, the number \$441,580 reflects the under-collection through October 2006. *See* Schedule SMM-15.

B. Commission Staff

Staff inquired about Schedule SMM-9 appended to the testimony of Mr. McCabe, which depicts the default service reconciliation from October 2005 to April 2006, and from May to October 2006. Staff noted that as of May 1, 2006, National Grid showed an over/undercollection balance of zero. National Grid explained that, due to its billing cycles, it received half of default service revenue in May for May power supply; however, the company used the balance of zero to avoid interest costs that would otherwise be passed on to consumers. National Grid also pointed out that Schedule SMM-9 reflected National Grid's practice of reconciling six months of expense with six months of revenue, with the resulting over-collection of \$28,627 for the six-month period from May to September 2006.

Staff noted that the correspondence accompanying the CTC reconciliation report indicated that National Grid would participate in technical sessions to provide detailed information to interested parties, including Staff. National Grid acknowledged that no such technical session had yet been held. Staff also asked National Grid to clarify the PTF rate calculation and the Voltage Ampere Reactive (VAR) compensation charges assessed by the ISO-NE. National Grid supported the calculations and noted that the company assumed the finality of the FERC return-on-equity order in the final calculations.

Staff concluded by stating its support for the retail rate adjustments proposed by National Grid as amended by the revised testimony and exhibits of Mr. McCabe.

III. POST-HEARING REQUEST

On December 21, 2006, Staff filed a letter raising an issue regarding National Grid's reconciliation of default service for the period from May 1, 2006 through October 31, 2006.

Staff noted that National Grid had sought to recover the balance including interest in its reconciliation account for default service for the period of May 2006 through October 2006. Staff expressed concern about whether it was appropriate for electric utilities to recover interest on the under-collection of power costs through the reconciliation mechanism while also collecting interest on the working capital to finance the timing difference between the receipt of default service related revenues and the payment of default service related power costs.

Staff noted that it had previously raised this issue in connection with Docket No. DE 06-123, concerning rates for default service provided by Unitil Energy Systems, Inc. Staff recommended that the Commission defer the issue of awarding interest on under-collected amounts. Staff proposed that the Commission consider the issue when it reviews National Grid's default service rates for effect on May 1, 2007, consistent with the settlement agreement approved by the Commission in Order No. 24,577 (January 13, 2006) in Docket No. DE 05-126. In Docket No. DE 05-126, the Commission established the procedure to be used by National Grid in the procurement of default service power supply, and in the allocation of costs associated with the delivery of default service power supply into default service rates.

In response to Staff's letter, National Grid filed revised schedules on December 26, 2006. National Grid concurred with Staff's proposal to defer reconciliation of default service charges in the period from May through October 2006. National Grid stated that, pursuant to discussions with Staff, the company had revised its rate calculations to remove the reconciliation amount and associated interest for the period beginning May 1, 2006. As a result of this change in reconciliation amounts, the company proposed to adjust the default service credit to customers from \$0.00029 per kWh to \$0.00025 per kWh. National Grid requested that this credit be

implemented on January 1, 2007. National Grid stated that the change to the credit, with the other adjustments in this docket, would increase total bills by an aggregate 0.40 percent increase beginning January 1, 2007, as compared to rates currently in effect.

IV. SUMMARY OF PROPOSED RATES

Staff summarized the rates reflected in the revised schedules as follows:

	\$/kWh	\$ Amount				
Customer Charge		\$4.72				
Distribution Charge						
1st 250 kWh	0.01813	\$4.53				
next 250 kWh	0.04655	\$11.64				
Transmission Charge	0.00977	\$4.89				
Stranded Cost Charge	0.00170	\$0.85				
System Benefits Charge	0.00300	\$1.50				
Electricity Consumption Tax	0.00055	\$0.28				
Default Service Charge	0.09959	\$49.80				
TOTAL BILL		\$78.21				
Impact: The revised rates result in a total bill of \$78.21, which is an increase of \$0.31, or 0.4 percent						
over the current bill of \$77.90.						

V. COMMISSION ANALYSIS

RSA 378:7 vests the Commission with the responsibility to determine whether rates to be charged retail utility customers in New Hampshire are just, reasonable and lawful. RSA 374-F:4,VIII(a) further authorizes the Commission to “order such charges and other service provisions and to take such other actions that are necessary to implement [electric industry] restructuring and that are substantially consistent with the principles” as set forth in RSA 374-F:3. Among the RSA 374-F:3 principles that are relevant to this proceeding are the objectives of minimizing customer confusion arising out of restructuring, providing “clear price information

on the cost components of generation, transmission, distribution and any other ancillary charges,” RSA 374-F:3,III, pricing transition service to encourage customers to choose a competitive energy supplier, RSA 374-F:3,V(b), maintaining transition service as separate and distinct from default service and allocating administrative costs of default service to default service customers, RSA 374-F:3,V(c), and recovery of stranded costs through “a nonbypassable, nondiscriminatory, appropriately structured charge that is fair to all customer classes, lawful, constitutional, limited in duration, consistent with the promotion of fully competitive markets,” RSA 374-F:3,XII.

Most of the policy determinations relevant to this proceeding were made in *Granite State Electric Co.*, 87 NH PUC 302 (2002), when the Commission approved the adjustment mechanisms reflected in National Grid’s proposal. However, the various component changes warrant some discussion.

First, we address the stranded cost charge. National Grid proposed to increase the stranded cost charge by \$0.0001 from \$0.0016 per kWh to \$0.0017 per kWh. However, National Grid testified that it had not yet held technical sessions to allow Staff the opportunity to fully investigate the changes. Therefore, while we will allow the increase in the stranded cost charge to take effect on January 1, 2007, we will hold this docket open until such time as Staff has reported to us regarding the stranded cost rate change.

The requested increase in the transmission service charge would move the current average transmission rate of \$0.00757 per kWh to \$0.00835 per kWh, exclusive of the transmission service adjustment factor. The majority of the increase is attributable to charges assessed by the ISO-NE and much of it relates to scheduled additions to transmission facilities.

We realize that these costs are unavoidable and will therefore grant National Grid's request to increase the transmission service rate to \$0.00835 per kWh as of January 1, 2007. We also approve National Grid's request to change the transmission service adjustment factor to \$0.00047 per kWh for effect retroactive to January 1, 2007. In doing so, we note our intention to review the reconciliation of the transmission service charges in National Grid's next annual retail rate filing.

Finally, we review the transition service charge and the default service charge. We have considered the post-hearing letter filed by Staff expressing concern that it may be inappropriate for electric utilities to recover interest on under-collection of power costs while also collecting interest through the working capital adjustment to default service rates. We further note that in response to Staff's comments, and as a result of discussion between Staff and National Grid, the company proposes to credit customers for the over-recovery of default service and transition service that occurred prior to May 1 and re-submit its default service reconciliation for the period May through October 2006 when it files its proposed default rates effective May 1, 2007. We find this segregation of reconciliation amounts appropriate. We intend to review the company's practice of recovering interest on over- and under-collections in power supply costs in its next default service filing. We approve the credit as filed by National Grid on December 26, 2006, and we direct Staff and National Grid to develop a proposed methodology for the treatment of reconciliation amounts and associated interest to be submitted before or at the time of National Grid's default service filing in February 2007. In so finding, we do not prejudge the right of National Grid to argue that it properly claims interest in connection with default service reconciliations.

Based upon the foregoing, it is hereby

ORDERED, that the proposed retail rate adjustments and adjustment factors, as amended by National Grid in its filing of December 26, 2006, are hereby **APPROVED** for service rendered on or after January 1, 2007; and it is

FURTHER ORDERED, that National Grid and Staff develop a methodology for the treatment of reconciliation amounts and related interest no later than the next National Grid DS filing; and it is

FURTHER ORDERED, that National Grid file appropriate tariff changes that conform with this order within 30 days hereof pursuant to N.H. Admin. Rule Puc 1603.02.

By order of the Public Utilities Commission of New Hampshire this twelfth day of January, 2007.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

ChristiAne G. Mason
Assistant Executive Director & Secretary