

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 09-094

GRANITE STATE ELECTRIC COMPANY d/b/a NATIONAL GRID

**2009 Annual Reliability Enhancement and
Vegetation Management Program Results and Reconciliation**

Order Approving Petition

ORDER NO. 24,998

July 31, 2009

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

I. PROCEDURAL BACKGROUND

On May 15, 2009, Granite State Electric Company d/b/a National Grid (National Grid or Company) filed its fiscal year (FY) 2009 annual reliability enhancement and vegetation management program results and reconciliation report with supporting testimony and schedules. National Grid made the filing pursuant to a settlement agreement approved by the Commission in Docket No. DG 06-107, *Granite State Electric Company d/b/a National Grid*, Order No. 24,777 (July 12, 2007) 92 NH PUC 279.

In accordance with the settlement agreement, the report contained the following information:

- (1) actual spending on operating and maintenance (O&M) activities and capital projects for fiscal year 2009, including an explanation of differences from the FY 2009 budget;
- (2) a request for recovery in distribution rates of the incremental O&M expense of \$113,832 above the base O&M amount of \$1,360,000 through the reliability

enhancement and vegetation management program adjustment provision, effective with service rendered on and after July 1, 2009;

(3) a request for a reliability enhancement program (REP) capital investment allowance of \$75,740, which is the revenue requirement associated with \$500,000 of capital spending budgeted for fiscal year 2009, to be included in rates effective for service rendered on and after July 1, 2009; and

(4) calendar year 2008 reliability performance results.

The total incremental annual revenue requirement National Grid seeks to recover through its distribution rates commencing July 1, 2009 is \$189,572.

Staff filed a letter on July 1, 2009 notifying the Commission that the Company had revised its requested effective date for the rate changes to August 1, 2009, rather than July 1, 2009. The Commission issued an order of notice on July 6, 2009, scheduling a hearing for July 16, 2009.

On July 13, 2009, National Grid filed revised schedules and on July 16, 2009 filed revised testimony to reflect the changes necessitated by the change in effective date. The hearing was held as scheduled.

II. POSITIONS OF THE PARTIES

A. Granite State Electric Company d/b/a National Grid

National Grid said that, as part of the settlement agreement approved in Order No. 24,777, the Company committed to improve its reliability performance through implementation of a reliability enhancement program and vegetation management program. According to National Grid, the reliability enhancement and vegetation management programs (collectively, Programs) are premised on the idea that a certain amount of annual spending on both capital and

O&M programs is necessary to maintain the safety and reliability of National Grid's electric distribution system. Through the Programs, National Grid undertakes reliability activities including feeder hardening, augmented tree-trimming and clearing, asset replacement, and inspection and maintenance.

According to the Company, the settlement agreement assumed that a base amount of \$1,360,000 would be spent on O&M activities associated with the Programs during each fiscal year of the Company's five-year rate plan. Under the settlement agreement, the Company establishes a proposed budget for REP capital investments for each fiscal year following discussions with Staff. To the extent that National Grid spends less than the agreed-upon base O&M budget on the Programs activities for a given fiscal year, the difference will be credited to customers as a refund in rates, or credited to the following year's O&M budget, as determined by the Commission.

In addition, National Grid said that it has the flexibility under the settlement agreement to propose and implement an alternative plan that exceeds the base O&M amount, provided that the Staff agrees to such plan. In such event, and subject to Commission approval, the incremental expense above the base level O&M budget would be included in rates through a uniform adjustment factor on a per kilowatt-hour basis, and recovered over a twelve-month period beginning on July 1 of the subject year.

For FY 2009, the Company said it reached an agreement with Staff to spend a total of \$1,473,832 on O&M, consisting of an initial budget of \$1,373,832 plus an additional \$100,000 to be spent on the removal of hazard trees. National Grid stated it actually spent \$1,477,916 on O&M in FY 2009, but said it is only requesting recovery of \$113,832 above the base amount. According to National Grid, the FY 2009 O&M budget was spent on the following activities:

\$1,309,167 on vegetation management O&M; \$106,566 on enhanced hazard tree removals; and \$62,183 on reliability enhancement O&M activities.

National Grid also requested approval to recover a capital investment allowance of \$75,740, which is the revenue requirement associated with \$500,000 of associated capital investments made by the Company in FY 2009. National Grid testified that it experienced an increase in per unit costs to perform feeder hardening activities since the time it created its FY 2009 budget and, as a result, it actually spent \$543,229 in capital investments associated with reliability enhancement in FY 2009. However, the Company said it is only seeking recovery for the incremental revenue requirements related to \$500,000 of that amount.

Pursuant to the settlement agreement, National Grid requested that the total incremental revenue requirement of \$189,572 be recovered through distribution rates. According to National Grid, the revised rates were calculated consistent with the terms of the settlement agreement. In its revised testimony, National Grid stated that a typical residential customer using 500 kilowatt-hours (kWh) per month would see a bill increase of \$0.13 per month, or an overall increase of 0.2 percent for those customers taking default service from National Grid. The respective bill impacts for an average residential customer taking default service using 656 kWh per month, would be a bill increase of \$0.18 per month, or 0.2 percent overall. National Grid further stated that other customers would experience bill increases ranging from 0.1 percent to 0.2 percent.

National Grid acknowledged that the Programs were first established to address what was a worsening trend in its reliability statistics subsequent to 2004. The Company testified that the Programs are designed to restore performance to the levels experienced prior to 2005 and that it is making progress in achieving the desired performance levels.

At hearing, the Company explained the reasons for the additional costs incurred in connection with the Programs. National Grid stated that it budgets for feeder hardening based on historical costs. According to the Company, the need for feeder hardening is estimated at the time the budget is established, but the actual work is based on a field survey for deficiencies conducted by Company personnel. Consequently, National Grid said, costs for feeder hardening can vary from mile to mile, and for FY 2009 exceeded the budgeted amount.

At hearing, National Grid explained certain variances between budgeted activities and the work that was actually performed. The Company attributed some of the variances to higher per unit costs as higher costs per mile for cyclic tree trimming. Regarding tree trimming, National Grid stated that it does a 100 percent field audit of the work performed by its contractors and does not pay for the work until it has been inspected and approved by its in-house arborist.

Finally, National Grid testified that, while it had filed its FY 2010 reliability enhancement and vegetation management plans in February 2009, it had not yet met with Staff to review the details of the plans.

B. Commission Staff

Staff stated that it had reviewed the petition and determined that the request was consistent with the settlement agreement approved by the Commission in Order No. 24,777. In addition, Staff said that it plans to meet with the Company to review the reliability enhancement and vegetation management plans for the current fiscal year. Staff concluded by recommending that the Commission approve the petition.

III. COMMISSION ANALYSIS

Pursuant to the settlement approved in Order No. 24,777, National Grid's reliability enhancement and vegetation management activities and associated expenses are subject to

Staff's ongoing investigation and recommendations. We understand that Staff and National Grid will meet to review the planned reliability and vegetation management activities for the current fiscal year. We do not make any findings here regarding the appropriateness or reasonableness of those activities or the expenses associated with those activities.

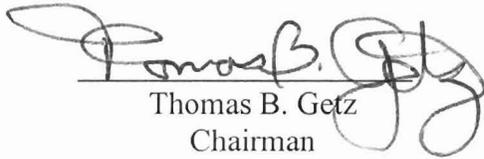
As for the activities that took place during FY 2009, additional capital investment in reliability improvements was anticipated as set forth in the settlement agreement and the requested increase is in line with the recovery parameters described therein as well as the FY 2009 budget agreed upon by National Grid and Staff. Therefore, we grant National Grid's request to recover an additional \$189,572 in its distribution revenue requirements effective with service rendered on and after August 1, 2009, and we find that the resulting rates are just and reasonable.

Based upon the foregoing, it is hereby

ORDERED, that the petition of Granite State Electric Company d/b/a National Grid to recover the incremental revenue requirement associated with its FY 2009 reliability enhancement and vegetation management plan is hereby **APPROVED**; and it is

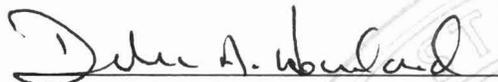
FURTHER ORDERED, that National Grid shall file tariffs conforming with this Order within 30 days of the day hereof.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of
July, 2009.


Thomas B. Getz
Chairman


Clifton C. Below (Kws)
Commissioner

Attested by:


Debra A. Howland
Executive Director

