

**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 – New  
8       England for National Grid USA Service Company, Inc. I conduct power procurement  
9       and energy supply related activities for National Grid’ s New England operating  
10      companies, including Granite State Electric Company d/b/a National Grid (“Granite  
11      State”). These activities include the procurement of power for Default Service for  
12      Granite State.

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

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

20   Q.   What is your professional background?

21   A.   In May 2000, I joined the National Grid USA Service Company as a Principal Analyst in  
22      Energy Supply – New England. In my position I have conducted a number of  
23      solicitations for wholesale power to meet the needs of National Grid USA’s New

1 England distribution companies. I also administer both short-term and long-term power  
2 purchase agreements for National Grid USA's New England distribution companies.  
3 Prior to my employment at National Grid USA, I was employed at COM/Energy (now  
4 NSTAR) from 1992 to 2000. From 1992 to 1997, I was a Rate Analyst in Regulatory  
5 Affairs at COM/Energy responsible for supporting state and federal rate filings. In 1997,  
6 I transferred to COM/Electric to work in Power Supply Administration.  
7

8 **II. Purpose of Testimony**

9 Q. What is the purpose of your testimony?

10 A. The purpose of my testimony is to request approval of the Default Service rates for the  
11 Large and Medium Commercial and Industrial Customer Group ("Large Customer  
12 Group"<sup>1</sup>) and the Residential and Small Commercial Customer Group ("Small Customer  
13 Group"<sup>2</sup>) resulting from Granite State's recent procurement of Default Service power  
14 supply. To support this request, I will describe the process used by Granite State to  
15 procure Default Service for the Large Customer Group for the three-month period  
16 November 1, 2008 through January 31, 2009 and for the Small Customer Group for the  
17 six-month period November 1, 2008 through April 30, 2009. My testimony presents  
18 National Grid's proposed Default Service rates, including rate adjustments, for usage on  
19 and after November 1, 2008, in accordance with the Default Service Adjustment  
20 Provision and Default Service Cost Reclassification Adjustment Provision of the  
21 Company's tariff, and the Settlement Agreement in Docket No. DE 05-126, post-

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<sup>1</sup> Customers taking service under General Long-Hour Service Rate G-2 or General Service Time-Of-Use Rate G-1 of the Company's Retail Delivery Tariff.

<sup>2</sup> Customers taking service under Domestic Service Rate D; Domestic Service - Optional Peak Load Pricing Rate D-

1 Transition Service, approved by the Commission in Order No. 24,577 (January 13, 2006)  
2 (“Settlement Agreement”). Finally, my testimony will describe how the Company  
3 proposes to meet the Renewable Portfolio Standard obligation.  
4

5 **III. Bidding Process**

6 Q. Why does Granite State need to procure Default Service for both the Large Customer  
7 Group and the Small Customer Group for the period beginning November 1, 2008?

8 A. Granite State’s currently effective Default Service supply contracts for both the Large  
9 Customer Group and the Small Customer Group expire on October 31, 2008. Therefore,  
10 to assure that Default Service will continue to be available to these customers, Granite  
11 State requires a new Default Service supply arrangement beginning November 1, 2008.  
12

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

14 A. Granite State conducted the procurement of Default Service supply in accordance with  
15 applicable New Hampshire rules and regulations including Granite State Electric  
16 Company’s Second Amended Restructuring Settlement Agreement (“Restructuring  
17 Settlement”), RSA 374-F (“New Hampshire Act”), and the terms of the Settlement  
18 Agreement approved by the Commission pursuant to Order No. 24,577<sup>3</sup> issued on  
19 January 13, 2006 in Docket No. DE 05-126 (the “Order”). Granite State and its retail  
20 distribution affiliates in Massachusetts, Massachusetts Electric Company and Nantucket

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10; Outdoor Lighting Service Rate M; Limited Total Electrical Living Rate T; General Service Rate G-3; or Limited Commercial Space Heating Rate V of the Company’s Retail Delivery Tariff.

<sup>3</sup> 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. 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.

1 Electric Company (together “Mass. Electric”), and in Rhode Island, The Narragansett  
2 Electric Company (“Narragansett”) (all four companies together “National Grid”), issued  
3 a joint request for proposals (“RFP”) for certain power supply services (including Granite  
4 State’s Default Service) from suppliers. The RFP sought a supply for Granite State’s  
5 Default Service, Rhode Island’s Last Resort Service and a portion of Mass. Electric’s  
6 Basic Service supply. This is consistent with the process approved by the Commission in  
7 the Order. This process is also consistent with past procurements. See Order No. 24,163,  
8 at 7 (April 25, 2003), Order No. 24,412 at 9 (December 22, 2004), Order No. 24,539 at 9  
9 (October 31, 2005), Order No. 24,609 at 10 (March 28, 2006), Order No. 24,637 at 10  
10 (June 22, 2006), Order No. 24,675 at 10 (September 29, 2006), Order No. 24,715 at 8  
11 (December 15, 2006), Order No. 24,736 at 10 (March 26, 2007), Order No. 24,764 at 9  
12 (June 22, 2007) and Order No. 24,862 at 9-10 (June 20, 2008).

13  
14 Q. Could you describe the nature of the RFP that National Grid issued?

15 A. On August 8, 2008, National Grid issued an RFP to over twenty-five potential suppliers  
16 soliciting power supplies for the period November 1, 2008 through April 30, 2009.  
17 National Grid also distributed the RFP to all members of the NEPOOL Markets  
18 Committee and posted the RFP on its energy supply website. As a result, the RFP had  
19 wide distribution throughout the New England energy supply marketplace. The RFP  
20 requested fixed pricing for each month of service on an as-delivered energy basis. Prices  
21 could vary by month and by service – that is, the prices did not have to be uniform across  
22 the entire service period or between Granite State, Narragansett and Mass. Electric. A  
23 copy of the RFP is provided as Schedule JDW-1.

1  
2 **IV. Results of Bidding**

3 Q. Did Granite State receive responses to the RFP?

4 A. Yes. Indicative proposals were received on September 10, 2008 and a confidential  
5 summary of the proposals was shared with Commission staff soon after. Final proposals  
6 were received on September 17, 2008. None of the bidders made their provision of  
7 Granite State's Default Service contingent upon the provision of any other service. A  
8 summary of the RFP process and bid evaluation is included in Schedule JDW-2.

9  
10 Q. How do the current futures prices for electricity and natural gas compare to the futures  
11 prices at the time of the August 10, 2007 and February 13, 2008 RFPs?

12 A. The futures market prices for electricity and natural gas at the time of the August 10,  
13 2007 and February 13, 2008 procurements as well as current futures market prices are  
14 shown in Schedule JDW-3.

15  
16 Q. Did Granite State select any of those proposals?

17 A. Yes. Granite State evaluated the bids received and selected the two suppliers that (i)  
18 provided a bid that was conforming to the RFP, (ii) had the lowest price, (iii) met the  
19 credit requirements described in the RFP, and (iv) passed our qualitative evaluation. On  
20 September 18, 2008, Granite State entered into wholesale Transaction Confirmation  
21 Agreements with FPL Energy Power Marketing, Inc. ("FPL EPM"), the winning bidder  
22 for the Large Customer Group block, to provide Default Service to the Large Customer  
23 Group for the three-month period November 1, 2008 through January 31, 2009, and with

1 PSEG Energy Resources & Trade LLC. ("PSEG ERT"), the winning bidder for the Small  
2 Customer Group block, to provide Default Service to the Small Customer Group for the  
3 six-month period November 1, 2008 through April 30, 2009. Together, a Transaction  
4 Confirmation Agreement and a Master Power Agreement provide the terms for the  
5 purchase of Default Service from a supplier. A copy of the FPL EPM Master Power  
6 Agreement was filed with the Commission on September 17, 2007 in Docket No. DE 07-  
7 012. The Transaction Confirmation Agreement between Granite State and FPL EPM,  
8 with certain confidential sections redacted, is attached hereto as Schedule JDW-4. A  
9 copy of the Master Power Agreement and the Transaction Confirmation Agreement  
10 between Granite State and PSEG ERT, with certain confidential sections redacted, is  
11 attached hereto as Schedule JDW-5. Granite State is filing the Master Power Agreement  
12 and Transaction Confirmation Agreements with the Commission pursuant to a Motion for  
13 Confidential Treatment. Although the Master Power Agreement and Transaction  
14 Confirmation Agreements have differences from the sample power supply agreement in  
15 the Settlement Agreement, the executed documents do not shift any of the risks or  
16 obligations described in the sample power supply agreement provided in the Settlement  
17 Agreement. A copy of the Master Power Agreement and Transaction Confirmation  
18 Agreement between Granite State and PSEG ERT, highlighted to identify changes made  
19 to the sample power supply agreement, with certain confidential sections redacted, is  
20 attached hereto as Schedule JDW-6.

21  
22 **V. Renewable Portfolio Standard**

23 Q. What is the Renewable Portfolio Standard ("RPS") obligation for 2008 and 2009?



1 A. As specified in the RPS law, the RPS obligation for calendar year 2008 is a minimum of  
2 four percent (4%) of Granite State's Default Service load, of which at least three and one-  
3 half percent (3.5%) can come from Class III Existing Renewable Energy Resources and  
4 at least one-half percent (0.5%) can come from Class IV Existing Renewable Energy  
5 Resources. For calendar year 2009, the RPS obligation is a minimum of six percent (6%)  
6 of Granite State's Default Service load, of which at least one-half percent (0.5%) can  
7 come from Class I New Renewable Energy Resources, at least four and one-half percent  
8 (4.5%) can come from Class III Existing Renewable Energy Resources and at least one  
9 percent (1.0%) can come from Class IV Existing Renewable Energy Resources.

10  
11 Q. How does Granite State expect to satisfy its RPS obligations consistent with the RPS  
12 rules as promulgated by the Commission?

13 A. On July 28, 2008, Granite State submitted a draft plan for RPS compliance to  
14 Commission Staff and, shortly thereafter, to the Office of Consumer Advocate. Staff  
15 indicated that they had no concerns with the Company's plan. The Office of Consumer  
16 Advocate indicated that they had no position regarding the plan. Granite State is now  
17 providing its RPS plan, attached as Schedule JDW-8, for the Commission's review and  
18 approval. This filing is consistent with the process described in the Company's RPS  
19 plan. As part of its overall strategy to meet its RPS requirements in New Hampshire,  
20 Granite State requested suppliers to provide a bid for RPS compliance to satisfy the RPS  
21 obligation for the two customer groups in the RFP. If accepted, the winning supplier  
22 would be required to provide Granite State with sufficient Renewable Energy Certificates  
23 ("RECs") to meet the RPS requirements associated with the load it would be serving. If

1 not accepted, Granite State would seek to purchase RPS RECs at a lower cost through a  
2 separate solicitation using a process similar to the one used for procuring Default Service.

3  
4 Q. What were the criteria Granite State used to evaluate the RPS compliance bids?

5 A. Granite State intended to evaluate the RPS compliance bids by comparing them to market  
6 prices for New Hampshire RECs. At this time, Granite State is unaware of any market  
7 data for New Hampshire RECs. As a result, Granite State used the ACPs for the various  
8 RPS classes as a proxy for New Hampshire REC market prices. While the RPS  
9 compliance bids were slightly lower than the ACPs, we believe that Granite State could  
10 get lower costs by purchasing RECs in the wholesale marketplace once that market  
11 develops. Consistent with the RPS plan, Granite State plans to issue an RFP in the near  
12 future for the acquisition of RECs. If the Company is able to purchase RECs via a  
13 separate solicitation, the Company will make a filing with the Commission requesting  
14 approval of the contracts associated with this solicitation. If Granite State is unable to  
15 purchase sufficient RECs to meet its NH RPS obligations, it will then, consistent with the  
16 RPS rules, make ACPs to the Renewable Energy Fund.

17  
18 Q. Is Granite State proposing any changes to the previously approved RPS Adder at this  
19 time?

20 A. Yes. Granite State is including in its Default Service rates an RPS Adder of 0.119¢ per  
21 kWh in for November and December 2008 and 0.199¢ per kWh in 2009 for both its  
22 Large Customer Group and Small Customer Group customers. Granite State has

1 proposed to use the RPS Adder until such time as the Company is able to contract for  
2 RECs. As discussed above, the Company has not yet contracted for RECs.

3  
4 Q. How did Granite State calculate the RPS Adder?

5 A. As shown in Schedule JDW-7, Granite State calculated the wholesale RPS costs on a per  
6 MWh basis. The Company then converted the wholesale RPS costs to a retail cost by  
7 multiplying the calculated costs by the average Granite State loss factor and then dividing  
8 by ten in order to convert from a \$ per MWh wholesale cost to a ¢ per kWh rate for retail  
9 use.

10  
11 Q. What costs did Granite State use to develop its RPS Adder?

12 A. As a proxy for actual RPS costs, the RPS Adder is based on the Alternative Compliance  
13 Payment ("ACP") rates for the Class I, III and IV obligations.

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

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

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

7  
8 **VI. Proposed Default Service Rates**

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

11 A.. Granite State estimates the procurement costs for Default Service at the retail customer  
12 meter for each month to be as set forth in Schedule JDW-9 and Schedule JDW-10.  
13 The simple average of the commodity costs for the Large Customer Group is 10.251¢ per  
14 kWh compared to the simple average Default Service costs of 13.827¢ per kWh for the  
15 period August 2008 through October 2008. The simple average of the commodity costs  
16 for the Small Customer Group is 9.880¢ per kWh compared to the simple average  
17 Default Service costs of 11.382¢ per kWh for the period May 2008 through October  
18 2008. The commodity costs at the retail customer meter (¢ per kWh) were calculated by  
19 multiplying the commodity costs at the wholesale level (\$ per MWh) by the applicable  
20 loss factor and then dividing the results by ten. The applicable loss factors can be found  
21 in the RFP summary in Schedule JDW-2.

22  
23 Q. What are the Default Service rates that the Company is proposing for the Large Customer

1 Group?

2 A. As presented in Schedule JDW-9, the Company is proposing monthly Default Service  
3 rates for the Large Customer Group based on the three monthly contract prices contained  
4 in the supply agreement with the winning Default Service supplier for the Large  
5 Customer Group. These base rates are adjusted by the currently effective Default Service  
6 Cost Reclassification Adjustment Factor to recover administrative costs associated with  
7 Default Service in accordance with Second Revised Page 93 of its tariff. On line (3)  
8 these rates are further adjusted by the currently effective Default Service Adjustment  
9 Factor in accordance with the Second Revised Page 87 of the Company's tariff. Finally,  
10 on line (4) these rates are adjusted by the proposed RPS adders discussed above. As  
11 displayed on line (5), the proposed base Default Service rates for the Large Customer  
12 Group are 9.428¢ per kilowatt-hour, 10.324¢ per kilowatt-hour, and 11.561¢ per  
13 kilowatt-hour for the months of November 2008 through January 2009.

14  
15 Q. What are the Default Service rates that the Company is proposing for the Small Customer  
16 Group?

17 A. National Grid is proposing a fixed six-month base Default Service rate for the Small  
18 Customer Group based on the weighted average of the sum of six monthly contract prices  
19 contained in the supply agreement with the winning Default Service supplier for the  
20 Small Customer Group, the Default Service Adjustment Factor, the Default Service Cost  
21 Reclassification Adjustment Factor and the Proposed RPS adders. The calculation of the  
22 six month Default Service rate for the Small Customer Group is presented in Schedule  
23 JDW-10. As displayed on line (14), the proposed base Default Service rate for the Small

1 Customer Group is 10.119¢ per kilowatt-hour.

2  
3 Q. How will Granite State reconcile any difference in costs associated with Default Service?

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

9  
10 Q. How and when is the Company proposing that these rate changes be implemented?

11 A. Consistent with the Commission's rules on the implementation of rate changes, the  
12 Company is proposing that these Default Service rates become effective for usage on and  
13 after November 1, 2008.

14  
15 Q. Has the Company determined the impact of these rate changes on customer bills?

16 A. Yes. The Company has provided typical bill impacts in Schedule JDW-11. The effect of  
17 the Company's proposal on the monthly bill of a 500 kWh residential default service  
18 customer is a decrease of \$7.68, or 9.1%, from \$84.72 to \$77.04. In addition, a bill  
19 comparison for a Default Service residential customer with an average kilowatt-hour  
20 usage of 669, which is the average monthly usage over the 12 months ending August  
21 2008, has also been included. The total bill impact of the rates proposed in this filing, as  
22 compared to rates in effect today, is a bill decrease of \$10.27 or 9.0%, from \$114.07 to  
23 \$103.80. For other customers in the Small Customer Group, decreases range from 8.6%

1 to 11.2% (see pages 1 to 9 of Schedule JDW-11). For customers in the Large Customer  
2 Group who are billed monthly default service rates, the bill impacts from going to the  
3 October rate to the proposed November rate are decreases ranging from 23.4% to 26.3%  
4 (see pages 10 to 16 of Schedule JDW-10).

5  
6 Q. Has the Company prepared a revised Summary of Rates tariff page reflecting the  
7 proposed rates?

8 A. Yes. It is included as Schedule JDW-12. The Summary of Rates reflects the proposed  
9 Default Service rate changes contained in this filing. Upon receiving orders in this  
10 proceeding, the Company will file a Fifty-second Revised Page 84, Summary of Rates,  
11 reflecting the appropriate approved rates.

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

16 A. The quarterly report of customer migration information for the second quarter of calendar  
17 year 2008 is included as Schedule JDW-13.

18  
19 **VII. Conclusion**

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

21 A. The Large Customer Group rates proposed in this filing end on January 31, 2009. Per the  
22 terms of the Settlement Agreement, Granite State will issue an RFP for the Large

1 Customer Group in late-October 2008. For purposes of notice to the Commission, the  
2 following table illustrates National Grid's proposed timeline for the next two RFPs:  
3

RFP	October 2008 RFP	February 2009 RFP
RFP Issued	October 31, 2008	February 13, 2009
Indicative Bids Due	December 3, 2008	March 4, 2009
Final Bids Due	December 10, 2008	March 11, 2009
Contract Execution	December 10, 2008	March 11, 2009
Default Service Filing to Commission	December 15, 2008	March 16, 2009
Commission Order Needed	December 19, 2008	March 23, 2009
Service Begins	February 1, 2009	May 1, 2009

4  
5 Q. Does this conclude your testimony?

6 A. Yes. It does.