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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

March 19, 2008 - 2:22 p.m.  
Concord, New Hampshire

RE: DE 08-011  
GRANITE STATE ELECTRIC COMPANY d/b/a  
NATIONAL GRID: Default Service Request  
for Proposals for the Period May 1, 2008  
through July 31, 2008 for the Large  
Customer Group and May 1, 2008 through  
October 31, 2008 for the Small Customer  
Group.

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

Connie Fillion, Clerk

APPEARANCES: Reptg. Granite State Electric Co. d/b/a  
National Grid:  
Alexandra E. Blackmore, Esq.  
  
Reptg. Residential Ratepayers:  
Meredith Hatfield, Esq., Consumer Advocate  
Stephen Eckberg  
Office of Consumer Advocate  
  
Reptg. PUC Staff:  
Suzanne G. Amidon, Esq.

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

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## I N D E X

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WITNESS PANEL: JOHN D. WARSHAW  
SCOTT M. McCABE

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## E X H I B I T S

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EXHIBIT NO.

D E S C R I P T I O N

PAGE NO.

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1

Default Service filing for the  
 period beginning May 1, 2008  
 (redacted for public use)

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Default Service filing for the  
 period beginning May 1, 2008  
 (CONFIDENTIAL & PROPRIETARY)

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Revised Schedule SMM-3, Page 2 of 3

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Supplemental Responses to Data  
 Request Staff 1-4(d)and(e) 13

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RESERVED (Record request re: Labor  
 costs regarding non-productive hours)

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RESERVED (Record request re: Total  
 in dollars for each billing pool...)

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RESERVED (Record request regarding  
 the 670 hours...)

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1 P R O C E E D I N G S

2 CHAIRMAN GETZ: Okay. Good afternoon.  
3 We'll open the hearing in docket DE 08-011. On  
4 February 1, 2008, Granite State Electric Company filed  
5 notice that on February 13 it would issue a request for  
6 proposals to procure Default Service for the period  
7 beginning May 1, 2008. National Grid is seeking a  
8 three-month Default Service supply for the period May 1  
9 through July 31, 2008 for the Large Customer Group and a  
10 six-month Default Service supply for the period May 1  
11 through October 31, 2008 for the Small Customer Group. An  
12 order of notice was issued on February 28th setting the  
13 hearing for this afternoon.

14 Can we take appearances please.

15 MS. BLACKMORE: Good afternoon,  
16 Commissioners. My name is Alexandra Blackmore and I'm  
17 appearing on behalf of National Grid. And, testifying  
18 today are John Warshaw, Principal Analyst for Regulated  
19 Electric Load and Distributed Generation, and Scott  
20 McCabe, who is the Senior Analyst for Regulation and  
21 Pricing.

22 CHAIRMAN GETZ: Good afternoon.

23 CMSR. MORRISON: Good afternoon.

24 MS. HATFIELD: Good afternoon. Meredith

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1 Hatfield, with the Office of Consumer Advocate, on behalf  
2 of residential ratepayers, and with me is Steve Eckberg  
3 from our office.

4 CHAIRMAN GETZ: Good afternoon.

5 CMSR. MORRISON: Good afternoon.

6 MS. AMIDON: Good afternoon. Suzanne  
7 Amidon, for Commission Staff, and with me today is George  
8 McCluskey, who is a Utility Analyst in the Electric  
9 Division.

10 CMSR. MORRISON: Good afternoon.

11 CHAIRMAN GETZ: Good afternoon. Are  
12 there preliminary matters to handle before we hear from  
13 the witnesses?

14 MS. BLACKMORE: Yes, I have a few  
15 exhibits I'd like to mark for identification. The first  
16 is the March 17th Default Service filing in this  
17 proceeding, which has a confidential version, as well as a  
18 non-confidential version.

19 CHAIRMAN GETZ: Okay. Let's mark the  
20 public version as "Exhibit Number 1" and the confidential  
21 version as "Exhibit Number 2".

22 (The documents, as described, were  
23 herewith marked as Exhibit 1 and  
24 Exhibit 2, respectively, for

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[WITNESS PANEL: Warshaw|McCabe]

1 identification.)

2 MS. BLACKMORE: And, I also have a page  
3 of corrections to Mr. McCabe's testimony, which I'd like  
4 to have marked for identification.

5 CHAIRMAN GETZ: And, they will be marked  
6 as "Exhibit Number 3".

7 (The document, as described, was  
8 herewith marked as Exhibit 3 for  
9 identification.)

10 (Whereupon John D. Warshaw and Scott M.  
11 McCabe was duly sworn and cautioned by  
12 the Court Reporter.)

13 JOHN D. WARSHAW, SWORN

14 SCOTT M. McCABE, SWORN

15 DIRECT EXAMINATION

16 BY MS. BLACKMORE:

17 Q. Mr. Warshaw, would you please state your full name and  
18 business address.

19 A. (Warshaw) John D. Warshaw, 55 Bearfoot Road,  
20 Northborough, Massachusetts.

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

22 A. (Warshaw) I'm a Principal Analyst in the Regulated  
23 Electric Load and Distributed Generation Department.

24 Q. And, what are your duties and responsibilities in that

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[WITNESS PANEL: Warshaw|McCabe]

1 position?

2 A. (Warshaw) Among my other disputes, I also do the  
3 procurements for Default Service in New Hampshire and  
4 in Massachusetts and Last Resort Service in Rhode  
5 Island.

6 Q. Mr. McCabe, would you please state your full name and  
7 business address?

8 A. (McCabe) Scott McCabe, 55 Bearfoot Road, in  
9 Northborough, Massachusetts.

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

11 A. (McCabe) I'm a Senior Analyst in the Regulation and  
12 Pricing Department of the National Grid USA Service  
13 Company.

14 Q. And, what are your duties and responsibilities in that  
15 position?

16 A. (McCabe) I perform rate-related services for the  
17 distribution companies of National Grid, specifically  
18 in New England, including Granite State Electric.

19 Q. I'd like to turn first to Mr. Warshaw. Mr. Warshaw,  
20 I'm showing you what's been marked as Exhibits 1 and 2.  
21 Can you please identify it?

22 A. (Warshaw) Yes. They're the filing for our Default  
23 Service rates in New Hampshire.

24 Q. And, does the filing contain your testimony and

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[WITNESS PANEL: Warshaw|McCabe]

1 schedules?

2 A. (Warshaw) Yes.

3 Q. And, do you have any corrections to make to your  
4 testimony at this time?

5 A. (Warshaw) No.

6 Q. Do you adopt the testimony and schedules as your own?

7 A. (Warshaw) Yes.

8 Q. Could you please provide a brief summary of your  
9 testimony.

10 A. (Warshaw) Yes. On February 13th, National Grid issued  
11 an RFP for Default Service in New Hampshire, Default  
12 Service in Massachusetts, and Last Resort Service in  
13 Rhode Island. We received indicative bids on March 5th  
14 and final bids on March 12th. We chose the winning  
15 bidders with the lowest cost for Default Service.

16 Q. And, did National Grid also solicit bids from suppliers  
17 that contained both pass-through and all-inclusive  
18 prices for capacity costs?

19 A. (Warshaw) Yes.

20 Q. And, which winning bid did we select, an all-inclusive  
21 or a pass-through?

22 A. (Warshaw) We chose the all-inclusive bid. Even though,  
23 based on our estimate of capacity costs for the Small  
24 Customer Group, our estimate was a little bit lower

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[WITNESS PANEL: Warshaw|McCabe]

1 than the value that the winning bidder had put on it,  
2 we felt -- and we felt that the small amount of  
3 increase that was with the all-inclusive bid was  
4 worthwhile, because it would take out any market risk  
5 or any additional costs that the customers would face.

6 Q. So, in your opinion, are the proposed Default Service  
7 rates for both the Large and Small Customer Groups  
8 reflective of current market prices?

9 A. (Warshaw) Yes, they are.

10 Q. Thank you. I'd like to turn now to Mr. McCabe. Mr.  
11 McCabe, I'm showing you what's been marked as  
12 "Exhibits 1" and "2". Can you please describe it?

13 A. (McCabe) Sure. Exhibits 1 and 2 are the public and  
14 confidential versions of the Default Service filing  
15 that the Company made on March 17th, 2008. And, it  
16 contains my testimony and schedules.

17 Q. And, do you have any corrections to your testimony at  
18 this time?

19 A. (McCabe) I have one correction, and the page is a  
20 revision of Schedule SMM-3, Page 2 of 3. It's been  
21 marked as "Exhibit 3". And, the correction is simply  
22 the numbers in the "Total", on the incorrect page, only  
23 summed expenses through October. The formula in the  
24 spreadsheet was incorrect, and it's been corrected to

[WITNESS PANEL: Warshaw|McCabe]

1 sum expenses through January 2008. And, that's in all  
2 of the columns on that schedule.

3 Q. Okay. And, do you adopt your testimony and schedules  
4 as your own?

5 A. (McCabe) Yes, I do.

6 Q. Would you please summarize your testimony.

7 A. (McCabe) Sure. My testimony supports the various  
8 Default Service related adjustments that the Company is  
9 proposing to make for May 1st, 2008. These adjustments  
10 are made in accordance with the Company's tariff, as  
11 well as the approved Settlement Agreement in the post  
12 Transition Service docket, DE 05-126. If you can turn  
13 to Page 4 of my testimony, which is on Page 79 of  
14 Exhibit 1, there's a table that summarizes the proposed  
15 rates.

16 We're proposing a fixed six-month  
17 Default Service rate for the Small Customer Group of  
18 11.422 cents, which is based on the weighted average of  
19 the six monthly contract prices in the supply agreement  
20 with the winning Default Service supplier for the Small  
21 Customer Group. We're also proposing monthly based  
22 Default Service rates for the Large Customer Group,  
23 again, based on the contract prices with the winning  
24 supplier for the Large Customer Group. And, those

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[WITNESS PANEL: Warshaw|McCabe]

1 rates are 10.614 cents, 11.267 cents, and 12.151 cents  
2 per kilowatt-hour in the months of May, June, and July,  
3 respectively.

4 The Company is also proposing a Default  
5 Service Adjustment Factor of 0.009 cents per  
6 kilowatt-hour. And, this adjustment is based on the  
7 reconciliation of the Default Service power supply  
8 expenses and revenues for the period from February 2007  
9 through January 2008.

10 The Company is also proposing Default  
11 Service Reclassification Adjustment Factors. The  
12 factor for the Small Customer Group is 0.116 cents per  
13 kilowatt-hour and the factor for the Large Customer  
14 Group is 0.032 cents per kilowatt-hour. And, these  
15 costs are based on the projection of the administrative  
16 costs that the Company expects to incur in the  
17 provision of Default Service for the -- over the next  
18 year, as well as an undercollection of the expenses  
19 that the Company incurred for the period from  
20 February 2007 through January 2008.

21 The table also includes a Renewable  
22 Portfolio Standard Adder of 0.108. And, that is a rate  
23 that is -- it's not a new rate being proposed in this  
24 proceeding, it was approved in previous Default Service

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[WITNESS PANEL: Warshaw|McCabe]

1 dockets.

2 And, the rate impact of the overall  
3 rates is shown in Schedule SMM-9. And, on Page 1 of  
4 Schedule SMM-9, we provide some residential rate  
5 impacts. And, the net effect of these changes to a  
6 typical 500 kWh customer is a bill increase of \$12.47,  
7 or 17.3 percent, from \$72.11 to \$84.58.

8 We also have provided a typical bill  
9 impact, based on a previous request from the Office of  
10 Consumer Advocate, for an average residential customer.  
11 And, the average for calendar -- we used the calendar  
12 year 2007, that average was 677 kilowatt-hours per  
13 month. And, the total bill for an average residential  
14 customer using the 677 kilowatt-hours increased 16.88  
15 -- \$16.88, or 17.2 percent, excuse me, from \$98.39 to  
16 \$115.27.

17 Q. And, are these Default Service reconciliations and  
18 adjustments the same as the reconciliations and  
19 adjustments that Granite State typically performs?

20 A. (McCabe) Yes, they are.

21 MS. BLACKMORE: Thank you. I have no  
22 further questions.

23 CHAIRMAN GETZ: Ms. Hatfield.

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

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1 In discussions with Staff, the OCA and Staff agreed that  
2 Staff would conduct their questions first.

3 CHAIRMAN GETZ: Thank you. Ms. Amidon.

4 MS. AMIDON: Thank you. Prior, during  
5 the course of the past month or so, Staff and the OCA has  
6 been working with the Company to understand with a little  
7 bit more clarity the administrative cost component. And,  
8 in particular, the number of manhours in the Energy  
9 Contracts office, for lack of a better terminology, that  
10 are devoted to Default Service acquisition in New  
11 Hampshire. And, in connection with that, you have in  
12 front of you, and I would like it marked for  
13 identification as "Exhibit Number 4", a letter dated March  
14 18th, 2008, which includes, as an attachment, National  
15 Grid's response to what are referred to as "Staff 1-4(d)  
16 and (e) supplemental data requests. And, with your  
17 permission, Mr. McCluskey will be addressing this document  
18 and some other issues related to administrative costs.

19 MR. McCLUSKEY: Okay. Thank you.

20 CHAIRMAN GETZ: And, we'll just note  
21 we'll mark the March 18 letter as Exhibit Number 4.

22 (The document, as described, was  
23 herewith marked as Exhibit 4 for  
24 identification.)

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[WITNESS PANEL: Warshaw|McCabe]

1 CHAIRMAN GETZ: Mr. McCluskey.

2 BY MR. McCLUSKEY:

3 Q. Before I get into that subject of administrative costs,  
4 I've just got a couple of questions related to the  
5 revision to the Company's filing that was submitted  
6 today, just so I understand what's on this schedule.

7 CHAIRMAN GETZ: And, this is the Exhibit  
8 3, the one-page handout?

9 MR. McCLUSKEY: It's one page, and it's  
10 Schedule SMM-3, Page 2 of 3.

11 BY MR. McCLUSKEY:

12 Q. Mr. McCabe, just so I'm understanding what you're  
13 showing here. You have actually -- you've got two  
14 columns of numbers with the same title, the first  
15 column and the second title -- and the last column,  
16 first column and the last column. Could you just  
17 explain what is actually happening. Do you add the  
18 Columns (2), (3), and (4) to the first column, for  
19 example, or what's going on?

20 A. (McCabe) The first column is the "Total Default Service  
21 Revenue" that the Company receives. And, the total  
22 Default Service revenue is based on the base rate that  
23 I discussed earlier, as well as the Default Service  
24 Adjustment Factor and the appropriate Default Service

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[WITNESS PANEL: Warshaw|McCabe]

1           Reclassification Adjustment Factor. So that the Column  
2           (1), and I apologize, I suppose Column (5) more  
3           appropriately should say "Net" or "Base Default Service  
4           Revenue". Column (1) is really total billed Default  
5           Service revenue. So, what we're doing in Column (5) is  
6           subtracting out those revenues that are related to the  
7           adjustment factors. And, those are the revenues that  
8           are used in our -- what we call our Default Service  
9           reconciliation. Now, the adjustment factors are  
10          included and the revenue for those are included in our  
11          other reconciliations which are filed. So, I apologize  
12          for any confusion by that.

13   Q.    So, rather than adding, you're subtracting --

14   A.    (McCabe) We're subtracting.

15   Q.    -- Columns (2), (3), and (4)?

16   A.    (McCabe) Exactly. If you look at the Footnote Number  
17          5, you know, it spells it out.

18   Q.    Okay. And, you said the result in Column (5) is used  
19          for reconciliation purposes?

20   A.    (McCabe) For the power supply reconciliation, correct.

21   Q.    Okay.

22   A.    (McCabe) Yes.

23   Q.    The fact that you had to correct this schedule, did  
24          that have any implications for your reconciliation

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[WITNESS PANEL: Warshaw|McCabe]

1 calculations?

2 A. (McCabe) Fortunately, it did not. The numbers in  
3 Column (5), if you turn to -- if you want to look on  
4 the filing, it's on Page 96 --

5 Q. 96.

6 A. (McCabe) -- of Exhibit 1. The source of the Default  
7 Service revenues in Column (b) of Page 1 of 3 of SMM-3  
8 --

9 Q. Yes.

10 A. (McCabe) -- is, hopefully it's footed correctly, well,  
11 it just says it's on Page 2, but it would be Column (5)  
12 on Page 2. So, the 61, total of \$61,422 -- \$61,422,214  
13 is the amount of expenses. So, that was correct. The  
14 only thing that was wrong on Page 2 was the sum at the  
15 bottom.

16 Q. Okay. Thank you. So, moving back to administrative  
17 costs, Attorney Amidon said that we've, over a period  
18 of weeks or more, we've had a couple of discussions  
19 regarding administrative costs. And, the Company did  
20 file responses to several discovery questions that we  
21 issued, I think we got those, what, two or three weeks  
22 ago, is that correct? It's not really important. We  
23 got them some while back. And, yesterday you submitted  
24 a supplement to one of those discovery responses, is

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[WITNESS PANEL: Warshaw|McCabe]

- 1           that correct?
- 2    A.   (McCabe) That's correct. Right.
- 3    Q.   Okay. And, it's the supplement that we've had marked
- 4           today.
- 5    A.   (McCabe) Okay.
- 6    Q.   Correct?
- 7    A.   (McCabe) As Exhibit 4, okay.
- 8    Q.   I just want to go through what I believe that the
- 9           supplement is saying, then I'll have a couple of
- 10           questions regarding some of the numbers.
- 11   A.   (McCabe) Okay.
- 12   Q.   The supplement is saying that the -- I believe it's
- 13           called the "Energy Supply Group", yes, the Energy
- 14           Supply Group for National Grid New England has five
- 15           individuals, professionals working in it. And, so, the
- 16           total manhours, annual manhours is of the order of
- 17           10,000. You would agree with that?
- 18   A.   (McCabe) That's correct, yes.
- 19   Q.   And, some of those manhours are charged directly to
- 20           Default Service for the several companies that National
- 21           Grid New England services, that's correct?
- 22   A.   (McCabe) Yes, that is correct.
- 23   Q.   And, the total directly assigned number of manhours is
- 24           actually 1,306. You would agree with that?

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[WITNESS PANEL: Warshaw|McCabe]

- 1 A. (McCabe) Yes, if that's -- if that is the sum of the  
2 543 hours to New Hampshire, 640 hours to Massachusetts,  
3 and 124 hours to Rhode Island, yes.
- 4 Q. Yes. That's correct.
- 5 A. (McCabe) That's the amount, correct.
- 6 Q. Then, we have a number of just over 2,000 hours which  
7 are assigned to the utilities other than Granite State.  
8 I'm not sure what activity is going on, perhaps it's  
9 Default Service related, but it's not assigned to  
10 Granite State, that's correct?
- 11 A. (McCabe) That's correct.
- 12 Q. And, then, we have another figure, which is 1,364  
13 hours, which you referred to as "non-productive time".
- 14 A. (McCabe) Correct.
- 15 Q. Holidays, sick time, that kind of thing?
- 16 A. (McCabe) Yes.
- 17 Q. So, if you sum those three, and subtract from the total  
18 of 10,000, you come up with the figure of 4,691, which  
19 apparently are allocated to National Grid Service  
20 Company?
- 21 A. (McCabe) Yes.
- 22 Q. For subsequent recovery from other companies?
- 23 A. (McCabe) Yes.
- 24 Q. Is that correct?

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[WITNESS PANEL: Warshaw|McCabe]

1 A. (McCabe) Yes. They're allocated, they're charged to,  
2 well, on our time entry system, we have company  
3 numbers, and it's called "Company 99", which is the  
4 National Grid Service Company, of which John and the  
5 folks in Energy Supply are employees.

6 Q. Okay. So, as you stated, of the 1,306 that are  
7 assigned to Default Service, Granite State's share of  
8 that is 543?

9 A. (McCabe) Yes.

10 Q. I'm not going to ask questions on that. I believe my  
11 counterpart for the OCA will be addressing that issue.  
12 But one issue that we did talk about on our conference  
13 call was the non-productive hours, the 1,364. And, we  
14 asked the Company to explain how those were allocated  
15 and collected, and the associated labor costs  
16 collected. So, I believe, based on this response, you  
17 appear to be saying that the non-productive hours are  
18 essentially allocated in proportion to the directly  
19 assigned hours?

20 A. (McCabe) Essentially, yes. I apologize, the answer was  
21 a little long-winded. I had to ask the question of our  
22 Service Company accounting person, and she provided an  
23 answer. And, yes, to summarize, yes, they are  
24 allocated in proportion to kind of how all the other

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[WITNESS PANEL: Warshaw|McCabe]

1 hours are charged.

2 Q. Okay.

3 A. (McCabe) That's my understanding.

4 Q. I think the more important question for us is how will  
5 the associated labor costs, associated with the  
6 non-productive hours, how were they collected? Is it  
7 through Default Service rates or is it through some  
8 other collection mechanism?

9 A. (McCabe) There would be some, since we did allocate  
10 some hours to Default Service, there would be some  
11 associated hours, I believe, that would be also  
12 allocated. We actually allocate the dollars, as  
13 opposed to the hours, I believe, based on the answer  
14 that was provided to me. And, yes, some of those  
15 costs, if you want to call them "non-productive time",  
16 would be allocated as an expense type, which is  
17 collected through the Default Service rates.

18 Q. Hmm. I guess the problem that we're having is, it's  
19 our understanding that, once the number of hours for a  
20 particular activity are determined, the Company then  
21 multiplies those hours by a unit labor cost, adjusted  
22 for overheads. And, the head of the Audit Division at  
23 the Commission, Stuart Hodgdon, tells me that costs  
24 associated with non-productive hours are recovered

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[WITNESS PANEL: Warshaw|McCabe]

1 through the overhead portion of the calculation that  
2 I've just referred to. And, so, it seems to me, if  
3 these non-productive hours are allocated to Granite  
4 State, so, in addition to the 543 hours that are  
5 directly assigned, you were assigning more hours, which  
6 then are multiplied by a labor cost adjusted for  
7 overheads, there's a potential for double recovery.

8 A. (McCabe) I don't believe -- we're not assigning more  
9 hours. It is, as you described, it is part of the  
10 overhead. But I believe the, and I can confirm this  
11 with our -- I'm not in the Accounting Department, but I  
12 believe that the hours or the dollars are part of an  
13 overhead. They're specifically -- There's an expense  
14 type that, and it won't mean anything to you, but I  
15 believe it's "P-50", is where they delineate what the  
16 charges related to the non-productive time are charged.  
17 And, if your point is, "then we're taking those dollars  
18 and adding an overhead to those hours", I don't believe  
19 that's the case.

20 Q. Okay. And, I think that was the nature of our question  
21 on the conference calls.

22 A. (McCabe) Okay.

23 Q. We're concerned about the potential for double  
24 recovery. If the Company -- We would like the Company

[WITNESS PANEL: Warshaw|McCabe]

1 to confirm the --

2 A. (McCabe) Okay.

3 Q. -- the response that I think you've just given us.

4 That is that the --

5 A. (McCabe) That it is not a double recovery.

6 Q. If I could just finish the question.

7 A. (McCabe) I'm sorry.

8 Q. The labor costs associated with the non-productive  
9 hours, are they recovered through the overhead portion  
10 of the labor cost calculation?

11 A. (McCabe) Okay.

12 Q. If not, we would like to know how they are recovered,  
13 and particularly the costs assigned to Granite State.

14 A. (McCabe) Okay. We can take that as a data request?

15 Q. Yes, please.

16 A. (McCabe) That's okay?

17 Q. Yes.

18 CHAIRMAN GETZ: We will reserve Exhibit  
19 Number 5 for that record request.

20 (Exhibit 5 reserved)

21 WITNESS McCABE: Okay.

22 BY MR. McCLUSKEY:

23 Q. Moving onto what I call the "remaining hours", the  
24 4,691, which are, my understanding, was allocated to

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[WITNESS PANEL: Warshaw|McCabe]

1 the Service Company. You state in this response that  
2 there's two allocators that recover the labor costs  
3 associated with those hours?

4 A. (McCabe) Yes.

5 Q. Could you just explain how that works. It's not clear  
6 to me how the labor costs associated with those hours  
7 are broken down into the two, to the two billing pools.  
8 How does that work?

9 A. (McCabe) We have -- All Service Company employees  
10 charge their time on a time entry system, and we have  
11 what are called "billing pools", and those billing  
12 pools are based on different allocating factors. The  
13 ones that are used by the Energy Supply Department  
14 appear -- well, they're based on distribution,  
15 operation and maintenance expense allocators, as  
16 opposed to, for instance, somebody in Human Resources,  
17 I believe, would charge their time based on number of  
18 employees in each retail company, you know, those  
19 types, and there are allocators that are based on  
20 number of customers in each retail company. So, there  
21 are different allocators. These happen to be based on  
22 operation and maintenance expenses. And, each company,  
23 based on their proportion of those expenses, receive a  
24 percentage of the total charges or total payroll from

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1 the Energy Supply employees. And, Granite State  
2 Electric, based on one of the billing pools, receives  
3 1.75 percent, and, based on the second billing pool,  
4 receives 0.688 percent of the total charges.

5 Q. I see that. But what are the total dollars associated  
6 with each pool? If I wanted to calculate how much  
7 Granite State was going to get allocated, I'd apply a  
8 percentage of 1.75 to a certain number of dollars.

9 A. (McCabe) Okay.

10 Q. Then, I'd apply a percentage of 1.589 to another number  
11 of dollars.

12 A. (McCabe) Correct.

13 Q. How do we determine what those two dollar amounts are?

14 A. (McCabe) I have it based on hours in front of me. I  
15 don't have the dollar amount. That is something that  
16 we could provide. I just didn't ask for a query based  
17 on dollars, I just asked for the hours.

18 Q. Okay. If you --

19 CMSR. BELOW: Excuse me, before you go  
20 on. I think you may have said something that wasn't quite  
21 correct. You said the second allocator was "0.688" to  
22 Granite State, and that looks like that's to Nantucket  
23 Electric.

24 WITNESS McCABE: Oh, I'm sorry. Thank

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1 you for correcting me. I did look to the number after it.

2 It was 1.589 percent. Thank you.

3 CMSR. BELOW: Okay. Thanks.

4 BY MR. McCLUSKEY:

5 Q. So, if you could provide that information through a  
6 second discovery response?

7 A. (McCabe) Certainly.

8 Q. We'd appreciate it. Thank you.

9 CHAIRMAN GETZ: Okay. We'll reserve  
10 Exhibit Number 5 for that record response.

11 MS. BLACKMORE: Is that Exhibit 6 for  
12 the second?

13 CHAIRMAN GETZ: Yes.

14 MS. BLACKMORE: Okay.

15 (Exhibit 6 reserved)

16 BY MR. McCLUSKEY:

17 Q. Now, the next area of inquiry from this supplement  
18 relates to New England Power Company, which you  
19 reference in Paragraph (e). In Paragraph (d), you just  
20 told us that the remaining hours get reallocated by the  
21 Service Company based on the percentages that you  
22 reference in your response.

23 A. (McCabe) That's correct.

24 Q. And, so, how does New England Power Company fit into

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1 the picture, I'm not understanding?

2 A. (McCabe) Okay. We were looking, trying to -- we looked  
3 at the response that we provided to you, and we were  
4 trying to make sure it was correct. And, so, we went  
5 to look back at some of our -- because, in our  
6 conversations, we had talked about whether or not we  
7 needed to back additional costs out of distribution  
8 and, you know, and add some costs to Default Service so  
9 that Default Service were correctly reflective of our  
10 cost to provide Default Service.

11 Q. Uh-huh.

12 A. (McCabe) And, we were looking, looked back at some of  
13 our previous proceedings where we actually had full  
14 rate -- cost of service rate cases, we haven't had one  
15 in a little while. And, we were trying to determine  
16 whether or not the time of, well, actually, we didn't  
17 have an Energy Supply Department at the time when we  
18 had the full cost of service rate case.

19 Q. Yes.

20 A. (McCabe) We had -- We owned our generation, and we had  
21 fuel procurement people to procure fuel for the  
22 generation. And, that was about as close as you can  
23 get to what we have for energy supply at this point.  
24 And, at the time when he did have the full cost of

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1 service rate case and the subsequent unbundling docket,  
2 those employees that did the work were employees of New  
3 England Power, as opposed to National Grid Service  
4 Company, it was New England Power.

5 Q. Uh-huh.

6 A. (McCabe) And, they charged their time to New England  
7 Power. And, this is my understanding, this is just a  
8 caveat, this predates me, so this is based on talking  
9 to folks in the Company that have been around longer  
10 than I have. But their time would have been charged to  
11 the retail affiliates through the Purchased Power Cost  
12 Adjustment, as opposed to charged to the distribution  
13 rate company. And, so, it wasn't -- my understanding  
14 is it wasn't a case where they allocated their time and  
15 it was actually allocated by -- you know, they charged  
16 their time, and it wasn't allocated to the retail  
17 companies based on some sort of allocator, it was  
18 charged directly to New England Power.

19 Q. Okay.

20 A. (McCabe) And, I guess the point there is that, as such,  
21 their time wasn't included in the distribution rates.  
22 So, I don't think it's, you know, appropriate to back  
23 it out of the distribution rates. That's the point  
24 that we're trying to make.

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1 Q. Okay. So, you, what I'm taking from that response is,  
2 there are no labor costs associated with the existing  
3 Energy Supply Group that are recovered through  
4 distribution rates?

5 A. (McCabe) That's correct. And, which was not the  
6 response we initially provided to you in the first set  
7 of data requests. And, that's why we provided this  
8 correction.

9 Q. Okay. But, when I go back to Paragraph (d), the  
10 paragraph we've just been focusing on, talking about  
11 those various percentages, you are saying there that  
12 the service company for National Grid is allocating  
13 costs to Granite State through two allocators. How are  
14 the labor costs associated with those hours collected,  
15 if they're not collected through distribution rates?

16 A. (McCabe) I wouldn't say that they're necessarily at  
17 this point --

18 Q. Excuse me?

19 A. (McCabe) I was -- well, I can continue. They're not  
20 collected through the Default Service Adjustment  
21 Factors, because we haven't allocated those to the  
22 Default Service project number. The distribution  
23 rates, in our initial response, my instinct was that  
24 they were collected through the distribution rates, in

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1 so much as we only have so many mechanisms to collect  
2 our expenses. One is, obviously, the base distribution  
3 rates, then we have an Electricity Consumption Tax,  
4 transmission charges, Stranded Cost Charges, Default  
5 Service charges, and I believe the Systems Benefits  
6 Charge, are all of the charges -- mechanisms through  
7 which we collect costs. And, they're not collected  
8 through any of the rates, the alternative mechanisms  
9 that I mentioned. So, by default, I was saying that  
10 they were collected through distribution rates, but I  
11 was corrected and told that "well, distribution rates  
12 weren't necessarily designed to collect those charges."

13 Q. So, at least, as far as Granite State's concerned,  
14 those costs are not collected at all, unless we've  
15 missed a rate component?

16 A. (McCabe) Correct.

17 Q. Is that the correct impression?

18 A. (McCabe) Yes, it's an expense that probably was not  
19 built into distribution rates.

20 MR. McCLUSKEY: Okay. Thank you.

21 That's it.

22 MS. AMIDON: Thank you.

23 CHAIRMAN GETZ: Ms. Hatfield.

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

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[WITNESS PANEL: Warshaw|McCabe]

1 Mr. Eckberg has one or two questions on this topic.

2 MR. ECKBERG: Thank you. Mr. McCabe,  
3 you're doing such a great job here with this Schedule  
4 SMM-8, I just had a couple small questions for you as  
5 well.

6 WITNESS McCABE: Sure.

7 MR. ECKBERG: Okay?

8 WITNESS McCABE: Thank you.

9 BY MR. ECKBERG:

10 Q. I'm looking at stamped Pages 158 and 159, that is  
11 Schedule SMM-8, Workpaper 1, Pages 1 and 2. Okay?

12 A. (McCabe) Okay.

13 Q. And, I'm wondering if you could clarify for me how I  
14 should understand these. In each one of the tasks  
15 here, there's a New Hampshire allocation factor. For  
16 instance, in the first task, there's a 25 percent  
17 factor. Over on the second page, with another one of  
18 the tasks, there's a 100 percent allocation factor.  
19 Can you enlighten me on that a little bit?

20 A. (McCabe) Sure. This schedule actually was designed by  
21 the former -- well, he's no longer employed here, the  
22 former Manager of Energy Supply. And, the intent of it  
23 is to provide an estimate of the costs that the Company  
24 will incur to provide Default Service. And, it's not

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1 the actual -- it doesn't represent the actual costs  
2 that we charge. As Mr. McCluskey went through, we have  
3 certain ways of charging time.

4 Q. Uh-huh.

5 A. (McCabe) And, for Default Service, we specifically set  
6 up what we call a "work order" or a "project number" in  
7 our time entry system, where, if somebody is working  
8 on, if John -- Mr. Warshaw is working on his Default  
9 Service procurement or I'm working on the Default  
10 Service filing, we can say, you know, "I worked two  
11 hours on this. I'll charge it to that project number."  
12 This is an attempt to estimate the amount of time that  
13 we will eventually be actually charging to Default  
14 Service. So, these are estimates, and they will be  
15 reconciled, I guess is my point.

16 But, to look at this schedule, for  
17 instance, if you look at the first task, "preparation  
18 of documents and supporting data to be included in each  
19 proposal", there was an estimate that that task would  
20 take 32 hours to perform. And, that task occurs four  
21 times a year, we go out for procurement four times a  
22 year, twice for everything and twice for just the large  
23 customer group.

24 Q. Uh-huh.

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1 A. (McCabe) And, the estimate that was provided is that  
2 Granite State would be allocated 25 percent of that, of  
3 that task. And, the basis for that allocation, I  
4 realize it's my workpaper, so I'm responsible for it,  
5 but the basis for that allocation I would assume is  
6 that we have four companies, four retail companies for  
7 which we're doing the procurement. So, they allocated  
8 -- 25 percent of that effort has been allocated to  
9 Granite State Electric. And, the same holds for the  
10 remainder of the tasks. That's how the worksheet is  
11 set up. So, it's kind of clean. If you look at that  
12 first task, there was a total of 32 hours, happens four  
13 times a year, but New Hampshire received 25 percent of  
14 it, so New Hampshire's total is 32 hours. And, then,  
15 it's just multiplied times the estimate of labor rates  
16 and overheads, actually, overheads for the previous  
17 year.

18 Q. Okay.

19 A. (McCabe) Does that answer your question?

20 Q. Yes, it does. Thank you. So, do I understand you to  
21 be saying that, if I look at the total, annual total  
22 for all tasks at the bottom of Page 2, this is the  
23 number, "490 hours"? That's -- Do I understand  
24 correctly, that's an estimate of this procurement task?

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[WITNESS PANEL: Warshaw|McCabe]

- 1 A. (McCabe) Correct.
- 2 Q. And, so, when I try to compare that with a number in  
3 your data response to Staff 1-4, Part (c), where you  
4 indicate "543 hours were directly charged to Default  
5 Service", what those two numbers represent, an actual  
6 versus an estimate?
- 7 A. (McCabe) Well, you're correct, the "490 hours" is an  
8 estimate.
- 9 Q. Okay.
- 10 A. (McCabe) And, the "543" represents the same number,  
11 with the exception that this schedule includes more  
12 people than just the Energy Supply Department. For  
13 instance, it includes my time and Ms. Blackmore's time,  
14 --
- 15 Q. Okay.
- 16 A. (McCabe) -- and other people that are involved with  
17 procurement of Default Service. So, the total hours  
18 that were allocated to that project number, I have a  
19 sheet in front of me here, for the 12-month period from  
20 February 2007 through January 2008, I believe were 670  
21 hours. So, that's the apples-to-apples comparison that  
22 you were asking for.
- 23 Q. Okay. So, the "670" versus the "490"?
- 24 A. (McCabe) Yes.

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1 MR. ECKBERG: Okay. Okay. I think  
2 that's very helpful. That's what I was trying to see if I  
3 was comparing apples and apples or annual with quarterly  
4 or something like that. Thank you very much.

5 WITNESS McCABE: You're welcome.

6 MR. McCLUSKEY: Just one follow-up on  
7 that. Just one follow-up, Commissioners.

8 BY MR. McCLUSKEY:

9 Q. With regard to the 670 hours that you've just mentioned  
10 is the actual allocation for these Energy Supply, plus  
11 Legal, and other ratemaking activities, is it correct  
12 here to say that 543 of those hours are Energy Supply  
13 related?

14 A. (McCabe) Absolutely. Yes.

15 MR. McCLUSKEY: Okay. Thank you.

16 WITNESS McCABE: You're welcome.

17 CHAIRMAN GETZ: Ms. Hatfield.

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

19 BY MS. HATFIELD:

20 Q. Mr. McCabe, the reference you just made to the "670  
21 hours", I think you said you were reading from  
22 something. I'm wondering if perhaps we could get a  
23 copy or you could refer us in the filing where that  
24 number was?

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1 A. (McCabe) It is not in the filing. I'd be happy to show  
2 you a copy of this afterwards. It's not in any formal  
3 format.

4 CHAIRMAN GETZ: And, I'm sorry. The  
5 "640" that you're referring to --

6 WITNESS McCABE: "670 hours" was the  
7 total number of hours charged to Default Service.

8 CHAIRMAN GETZ: Okay. So, this is a --  
9 well, would it make more sense to have another record  
10 request to make that part of the record? Okay. Let's  
11 have that document submitted as Exhibit Number 7.

12 (Exhibit 7 reserved)

13 MS. HATFIELD: Thank you.

14 CHAIRMAN GETZ: Is there anything  
15 confidential that we need to be --

16 WITNESS McCABE: There are some direct  
17 payroll costs listed underneath, which typically we try to  
18 be careful with people's salaries and such. There are  
19 some names listed, so you might want to --

20 CHAIRMAN GETZ: Okay. I would just ask  
21 the parties to confer and reach some agreement on what  
22 should be protected.

23 MS. HATFIELD: Okay.

24 WITNESS McCABE: I can -- excuse me,

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[WITNESS PANEL: Warshaw|McCabe]

1 Commissioner. I can certainly prepare a schedule also,  
2 you know, when I get back to the office, that just lists  
3 the hours, and that would be not confidential. Okay.

4 CHAIRMAN GETZ: Well, I'll leave it to  
5 the parties to confer.

6 WITNESS McCABE: Thank you.

7 MS. HATFIELD: Thank you.

8 BY MS. HATFIELD:

9 Q. Mr. Warshaw, could you please turn to Page 6 of your  
10 testimony. I believe that's on Page 8 of both Exhibits  
11 1 and 2. And, starting on Page 6, and continuing on to  
12 the top of Page 11, you provide a very helpful  
13 description of how the Company is accounting for the  
14 Renewable Portfolio Standard obligations for 2008.  
15 And, I'd like to have you just give us a brief overview  
16 of the RPS adder and how you developed it and how it's  
17 included in rates, if you would?

18 A. (Warshaw) We developed an RPS adder towards the -- last  
19 summer, to be able to basically recover from customers  
20 the actual cost or an estimate of the costs that we  
21 would -- that's being incurred to meet the obligation  
22 for RPS that the Company has based on the customers'  
23 load. And, what we did was, in looking at the RPS, and  
24 what parts of the RPS begin in 2008, which is a three

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1 and a half percent -- there will be a 4 percent RPS  
2 requirement of that, three and a half percent is Class  
3 III and half a percent is Class IV. What we did was we  
4 came up with a estimate of what the costs would be for  
5 meeting the Class III costs and also the Class IV  
6 costs. And, we basically monetized those over -- to be  
7 an incremental cost on a dollar per megawatt basis, and  
8 then adjusted that for losses to create the 1.08 cents  
9 per kilowatt-hour adder. And, the intent of that,  
10 again, is to allow the Company to recover the costs  
11 from the customers we're incurring that obligation for,  
12 and as close as we can to when those customers are  
13 actually taking energy service from the Company.

14 Q. And, because those are estimates, at some point you  
15 will be reconciling those when you have the actual  
16 costs of complying with the RPS?

17 A. (Warshaw) Yes.

18 MS. HATFIELD: That completes my  
19 questions. Thank you.

20 CHAIRMAN GETZ: Ms. Amidon.

21 MS. AMIDON: Yes, I just have one  
22 follow-up request.

23 BY MS. AMIDON:

24 Q. In the future, could you include a schedule which

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1 describes how you derive the RPS adder? Even it's  
2 repetitive for this, for the 2008, you'll be doing it  
3 the same way, I imagine, but it would be very helpful.

4 A. (Warshaw) Yes. I will continue to include something  
5 similar to Schedule JDW-5.

6 Q. Okay. So, it is there?

7 A. (Warshaw) Yes.

8 MS. AMIDON: All right. I missed that.

9 I apologize.

10 WITNESS WARSHAW: But we'll keep it in  
11 there.

12 MS. AMIDON: All right. Sounds like a  
13 deal. Thanks.

14 BY CMSR. BELOW:

15 Q. Mr. McCabe, on Page 151, Schedule SMM-9, you pointed  
16 out a number that shows a customer with average monthly  
17 consumption of 677 kilowatt-hours a month, correct?

18 A. (McCabe) Yes.

19 Q. Based on calendar year '07?

20 A. (McCabe) Yes.

21 Q. That's a customer with average consumption. Arguably,  
22 the average customer would be the median customer, and  
23 that would be a different number, would you agree?

24 A. (McCabe) Yes.

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[WITNESS PANEL: Warshaw|McCabe]

1 Q. Do you know what the median consumption was for  
2 residential customers in calendar year '07?

3 A. (McCabe) I don't. I believe it's closer to the 500  
4 number, but I don't.

5 Q. Could, in the future, you also show, in addition to the  
6 average consumption, a median consumption number in  
7 this table?

8 A. (McCabe) I will certainly endeavor to do so. I'll just  
9 have to check with our billing folks to see what kind  
10 of information I'm able to get from the billing system,  
11 but, certainly.

12 CMSR. BELOW: Okay. Thanks.

13 CHAIRMAN GETZ: Redirect, Ms. Blackmore?

14 MS. BLACKMORE: I have no further  
15 questions.

16 CHAIRMAN GETZ: Okay. Then, the  
17 witnesses are excused. Thank you, gentlemen. Is there  
18 any objection to striking identifications and admitting  
19 the exhibits into evidence?

20 (No verbal response)

21 CHAIRMAN GETZ: Hearing no objection,  
22 they will be admitted into evidence. Any other matters to  
23 discuss, before we provide the opportunity for closings?

24 (No verbal response)

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1                   CHAIRMAN GETZ: Hearing nothing, then,  
2 Ms. Hatfield.

3                   MS. HATFIELD: Thank you, Mr. Chairman.  
4 The OCA does not object to Granite State's request in this  
5 filing.

6                   CHAIRMAN GETZ: Thank you. Ms. Amidon.

7                   MS. AMIDON: Thank you. Staff has  
8 reviewed the filing, and it's our opinion that Granite  
9 State followed the process and procedure that the  
10 Commission approved in a prior docket related to Default  
11 Service procurement. And, that they conducted the  
12 solicitation accordingly, and that they appropriately  
13 evaluated the bids. We also believe that they made the  
14 correct decision in accepting an all-inclusive energy and  
15 capacity bid. And, we believe that the resulting rates  
16 are market-based. And, we request that the Commission  
17 approve the petition.

18                   CHAIRMAN GETZ: Thank you.  
19 Ms. Blackmore.

20                   MS. BLACKMORE: Thank you. National  
21 Grid is respectfully requesting an order approving the  
22 proposed Default Service rates by March 24th, 2008, so  
23 that the rates can become effective for May 1st, 2008.  
24 Thank you.

1                           CHAIRMAN GETZ: Okay. Thank you. Then,  
2 we'll close the hearing and take the matter under  
3 advisement.

4                           (Whereupon the hearing ended at 3:14  
5 p.m.)

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