

RECONCILIATION OF CONTRACT  
TERMINATION CHARGE TO  
GRANITE STATE ELECTRIC  
COMPANY

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Submitted by:

**nationalgrid**



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I. INTRODUCTION

This report is made pursuant to the Settlements of New England Power Company's ("NEP") all-requirements contracts with Granite State Electric Company ("Granite State"). Effective October 2005, Granite State and NEP began doing business as National Grid, and effective July 2012, Granite State began doing business as Liberty Utilities. For ease of reference, however, in this report the companies will continue to be referred to as Granite State and NEP. The Settlements were approved by the Federal Energy Regulatory Commission ("FERC") in Docket Nos. ER98-2023-000 and (as amended) ER98-3925-000, and by the New Hampshire Public Utilities Commission in N.H.P.U.C. Docket No. DR 98-012 ("Settlement"). The report is designed to reconcile costs and revenues under the Settlements for 2011. The Contract Termination Charge ("CTC") formula set forth in the Settlements provides for a reconciliation to be performed annually. Capitalized terms not otherwise defined in this report are intended to have the same meaning set forth in the CTC formula. This report is subject to the dispute resolution process set forth in Section 3.5 of the Settlement. A copy of both the wholesale and retail settlement documents was compiled and provided with NEP's 1998 CTC reconciliation report ("Compiled Settlement"). Section 3.5 of the Settlement is shown at pages 43-44 of the Compiled Settlement.

NEP, Granite State and the New Hampshire Public Utilities Commission entered into an agreement ("USGenNE CTC Settlement") on December 5, 2005, related to issues surrounding the resolution of the USGenNE bankruptcy proceeding. The USGenNE CTC Settlement provided that Granite State's allocated share of the allowed claim proceeds received by NEP be

used to pay down all of the remaining NEP power purchase contract buyout payments allocable to New Hampshire and to provide a residual value credit, with return, through the year 2010. The settlement also provided for updates to decommissioning expense and purchased power costs that are included in the base CTC. FERC approval was received on February 28, 2006.

In accordance with the Settlements, the estimated CTC related costs that are reconciled annually are primarily the costs comprising the Variable Component. These estimated costs are reconciled to actual costs through the Reconciliation Adjustment (Schedule 2, page 2b) and accumulated in the Reconciliation Account (Schedule 2, page 3). In addition, revenues collected through the CTC are reconciled to actual revenues based upon differences in megawatt hour (“MWh”) deliveries on Schedule 2, page 2a.

For ease of reference, the schedules used in this report have been maintained in the same format as in NEP’s prior CTC reconciliation reports. Beginning with the 2000 CTC reconciliation reports, schedules that were previously expressed in millions are now shown in thousands. For NEP’s 2012 CTC Reconciliation Report, the months from October 2011 through September 2012 show actual costs and revenues, and the months of October, November, and December 2012 are estimates. These estimated amounts will be reconciled to actual in NEP’s 2013 CTC Reconciliation Report to be made next year.

II. SUMMARY OF RESULTS

As shown on Schedule 1, page 1, NEP's CTC to Granite State for calendar year 2013 will be 0.15 cents per kilowatt hour ("kWh"). The CTC rate of 0.15 cents per kWh is estimated to produce approximately \$1.4 million of CTC revenue based on forecasted deliveries of 947 MWh. The 2013 rate represents an increase of 0.06 cents per kWh from the CTC rate presently in effect and an increase of 0.03 cents per kWh, or approximately \$0.2 million, from the estimated 2013 CTC rate of 0.12 cents per kWh, included in NEP's 2011 CTC Reconciliation Report.

III. RECONCILIATION ANALYSIS

A. Fixed Cost Adjustments

There are no adjustments to the Fixed Component; therefore, the representative pages included in this reconciliation report have been labeled "No Adjustments". However, in accordance with Section 1.1.4 of the CTC formula, net proceeds from sales of property, whose costs were included in the CTC, have been included in the Reconciliation Account when applicable (Compiled Settlement, page 150, footnote 6).

B. Variable Component Adjustments

The Variable Component of the formula is adjusted to reconcile for differences between estimated and actual variable costs from October 2011 through September 2012. The Variable Component is set forth in Section 1.2 of the CTC formula. Specific adjustments are discussed below.

1. Revenues

The reconciliation of estimated to actual Granite State kWh deliveries from October 2011 through December 2011 and from January 2012 through September 2012 is shown on Schedule 2, page 2a. In the last three months of 2011, actual MWh deliveries were less than the estimate by approximately 14.9 MWh. For the period of January through September 2012, actual MWh deliveries were above the estimated MWh deliveries by approximately 00.7 MWh. These variances in MWh deliveries produce an increase aggregating to approximately \$11,000 for the period being reconciled in this report, as shown on Schedule 2, page 2a.

2. Variable Costs

The estimated Variable Component costs for the period October 2011 through December 2012 are shown in Column (7) on Schedule 2, page 2b of this report, agree with the amounts included on Schedule 1, page 16, and amount to \$46.7 million at the NEP level before the allocation to Granite State. The actual and estimated variable costs for the period October 2011 through December 2012 are shown in this report in Column (21) of Schedule 2, page 2b and amount to \$54.8 million. When these actual amounts are compared to the estimated amounts, the over or under recoveries are produced and NEP's and Granite State's shares are shown on Schedule 2, page 2b in Column (22) and (23), respectively. The variances by individual cost element is summarized below:

a. Nuclear Decommissioning and Other Post Shut-Down Costs

The actual Nuclear Decommissioning and Other Post Shut-Down Costs shown in Column (8) of Schedule 2, page 2b are greater than the estimates by approximately \$11.3 million in aggregate for the period being reconciled in this report. This difference is because there are no cost estimates for the Connecticut Yankee, Maine Yankee, and Yankee Atomic nuclear units in calendar year 2012 and onwards.

b. Power Contracts

As a result of the US GenNE bankruptcy, economic responsibility for seven remaining power purchase contracts returned to NEP effective April 2005. Actual Power Contract Obligations shown in Column (9) of Schedule 2, page 2b, include the actual purchase power contract costs for these seven returning power purchase contracts, as well as Hydro Quebec. Column (10) represents the actual market value of NEP's power entitlements from the seven returning contracts as well as NEP's capacity entitlements under the Hydro Quebec Interconnection Agreement.

In aggregate, the power contract costs were approximately \$3.6 million less than the estimated power contract costs. The variance is due to overall higher than estimated revenue and lower than estimated costs for the remaining units as well as NEP's capacity entitlements under the Hydro Quebec Interconnection Agreement.

c. Credits for Unit Sales

All Unit Sales Contracts that were originally included in Section 1.2.2 (b) (iii) of the CTC formula (Compiled Settlement, page 158) have been terminated. Thus, there are no credits for unit sales in this subsection of the Variable Component.

d. Above Market Fuel Transportation Costs

Fuel transportation costs were assumed by USGenNE at the closing of NEP's divestiture and all such amounts were restated at zero as part of NEP's post-divestiture CTC formula. See Schedule 1(a), page 16 of 16 on page 182 of the Compiled Settlement. Consequently, there are no adjustments in this category.

e. Transmission in Support of Remote Generating Units

Estimates for transmission support were set to zero beginning in 2002 and will be collected as incurred. No costs were incurred during the reconciliation period.

f. Payments in Lieu of Property Taxes

Payments under NEP's property tax settlements were assumed by USGenNE. NEP has not been assessed payments in lieu of property taxes by any non-settling towns. Therefore, there are no adjustments in this category.

g. Damages, Costs, or Net Recoveries from Claims

There were no damages, costs, or net recoveries from claims for the period being reconciled in this report.

h. Nuclear PBR

The Nuclear PBR was initially estimated as zero in the original CTC settlement (Compiled Settlement, page 182). Per the Settlement (Compiled Settlement, pages 161-162), 80 percent of any costs or income related to the Nuclear PBR are recovered from or returned to customers. During the months from October 2011 through September 2012, the Nuclear PBR produced a charge of approximately \$0.2 million (Column (19) of Schedule 2, page 2b). This is due to a payment of approximately \$0.2 million (at the 80 percent level) made to the Commonwealth of

Massachusetts to support the activities of the Massachusetts Emergency Management Agency (“MEMA”), which is assessed to electric companies in the Commonwealth who own or purchase power from nuclear plants operating outside the Commonwealth but within ten miles of Massachusetts cities and towns. This MEMA payment is partially offset by the receipt of insurance refunds of approximately \$22,000 (at the 80 percent level). The details of the Nuclear PBR calculation are attached to this report.

i. Environmental Response Costs

As of September 2012, NEP had a reserve and associated regulatory asset of approximately \$7.8 million for the estimated future clean up of four sites, one located in Beverly, Massachusetts, one located in Somerset, Massachusetts, a federal Superfund site located in Plaistow, New Hampshire, and one new site located in Salem, Massachusetts. The reserve for the Salem site is \$7.3 million and relates to estimated environmental costs associated with the Company's former investment in the Salem Harbor Power Station which is scheduled to be dismantled. The reserve and regulatory asset are based on an estimated liability for site remediation.

Environmental Response Costs are collected from customers as incurred and are recoverable through the CTC pursuant to section 1.2.2 (i) of the CTC formula. NEP incurred \$121,000 in Environmental Response Costs associated with the sites during the period being reconciled in this report as shown on Schedule 2, page 2b, Column (20).

3. Reconciliation Adjustment

The sum of all differences between NEP's Estimated Base Variable Component and its actual variable cost is shown in Column (22) on Schedule 2, page 2b, and totals \$8 million. Granite State's 3.0 percent share of the total variance is shown in Column (23) which, when combined with the revenue over-recovery shown in Column (6) of Schedule 2, page 2a, produces a Granite State Reconciliation Adjustment shortfall, including estimates for October, November and December 2012, of \$0.2 million for the period being reconciled in this report. This net shortfall is shown in Column (24) on Schedule 2, page 2b.

These monthly over and under-recoveries are then carried forward to the Reconciliation Account shown in Column (3) on Schedule 2, page 3. To that amount are added the reconciliation adjustments associated with the Section 1.1.4 of the CTC formula. Details of these Section 1.1.4 adjustments are provided below and are shown on page 4 (NEP total) and on page 5 (Granite State's share) of Schedule 2. The net shortfall or excess is then shown in Column (5) of Schedule 2, page 3. A return is then calculated annually on the accumulated balance for the prior year as shown in Column (6). The annual return is spread evenly over the twelve months.

4. Section 1.1.4 Adjustments

As provided for in Section 1.1.4 of the Settlement (pages 146-153 of the Compiled Settlement), the following adjustments are included in the Reconciliation Account on Schedule 2, page 4:

a. Vermont Yankee

The Vermont Yankee offering set the terms of the sale as a sale of assets only, with the Vermont Yankee Nuclear Power Corporation (“VYNPC”) surviving to administer the existing, albeit amended, wholesale purchased power contracts. VYNPC entered into a power purchase agreement with the new owner of the plant and continues to sell the power to the original equity owners under the existing Vermont Yankee contracts. The power component assignment to a third party did not include the ongoing overhead and administrative costs of VYNPC. These ongoing administrative services produced a credit aggregating approximately \$11,000 for the reconciliation period and are included as divestiture related items on Schedule 2, page 3, Column (4).

5. Calculation of the 2012 CTC Rate

This 2012 CTC Reconciliation Report produces a 2013 CTC rate for Granite State of 0.15 cents per kWh as shown on Schedule 1, page 1. This is an increase of 0.03 cents per kWh, or approximately \$0.3 million, from the estimated 2013 CTC of 0.12 cents per kWh included in NEP’s 2011 CTC Reconciliation Report, and represents an increase of 0.06 cents per kWh from the rate of 0.09 cents per kWh presently in effect.

IV. SIMPLIFIED FORMAT FOR CTC SCHEDULES

At the request of certain parties, the Company has again prepared a set of simplified CTC schedules intended to ease the CTC review process while at the same time providing more information than currently contained in the existing CTC schedules. These simplified schedules are included in this report as Attachment 1. These schedules have been designed to provide detailed actual costs, as well as comparisons to original estimates, while illustrating a more concise approach to the calculation mechanism supporting the 2013 CTC rate.