

THE STATE OF NEW HAMPSHIRE

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April 3, 2008

Debra Howland
Executive Director & Secretary
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301

Re: DE 07-052 – Granite State Electric Company
2007 Integrated Resource Plan
Staff's Recommendation



Dear Ms. Howland:

Enclosed for filing with the Commission please find Staff's recommendation submitted in connection with the above referenced docket.

Please let me know if you should have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Suzanne Amidon".

Suzanne Amidon
Staff Attorney

cc: Service list

STATE OF NEW HAMPSHIRE
Inter-Department Communication

DATE: January 28, 2008
AT (OFFICE): NHPUC

FROM: Suzanne Amidon

SUBJECT: Granite State Electric's 2007 IRP - Docket No. DE 07-052

TO: Commissioners
Debra Howland
Tom Frantz
Mary Coleman

Introduction and Recommendation

Pursuant to RSA 378:38, Granite State Electric Company (Granite State or Company) submitted, on April 30 2007, a copy of its 2007 Least Cost Integrated Resource Plan ("2007 IRP").¹ Granite State notes that, because of the requirements of RSA 374-F and the Commission approved Electric Restructuring Settlement Agreement, it has divested all of its generation facilities. As a result, the Company states that the obligation to meet the power supply needs of its customers who do not directly contract with competitive suppliers has been transferred to unaffiliated third-party suppliers of Energy Service. In addition, Granite State notes that it no longer maintains control over generating assets and instead participates in the coordination of transmission planning through ISO-NE's Regional System Planning Process. For these reasons, Granite State contends that it no longer has a need to undertake traditional least cost integrated resource planning.

Based on Staff's review of the Company's filing, Staff has concluded that the current structure of Granite State does not lend itself to traditional least cost integrated resource planning, that is, the systematic assessment of available demand-side and supply-side resource options to satisfy customer requirements at the lowest cost consistent with reliable supply. Accordingly, we recommend that the Commission, pursuant to RSA 378:38-a, waive the requirement for Granite State to file traditional integrated resource plans regarding fuel supply.

RSA 378:38 also requires electric utilities to file a transmission plan. RSA 378:38-a does not authorize the Commission to waive plans relating to transmission and distribution.² Therefore, any order adopting this recommendation must make clear that the waiver does

¹ In addition to Granite State, the IRP was submitted on behalf of New England Power Company, New England Electric Transmission Corporation, New England Hydro-Transmission Corporation, and New England Hydro-Transmission Electric Company (collectively National Grid).

² It is important to note that there is no requirement in RSA 378:38 for utilities to file distribution plans. Accordingly, the prohibition against waiving such plans in RSA 378:38-a seems unnecessary.

not apply to transmission plans. It should also be noted that this recommendation applies to Granite State's 2005 IRP filing (Docket No. DE 05-066) and to its future filings as well.

Finally, Mike Harrington reviewed the transmission section of the IRP and advises that the planning processes described therein are consistent with the requirements of ISO-NE, who has primary responsibility for transmission planning in New England.

Filing Overview

Granite State's filing provides: an overview of its procurement strategy for power supply; a description of its participation in the New Hampshire Core Energy Efficiency programs and in ISO-NE's real time demand response programs; an overview of the effectiveness of those demand-side programs; and brief descriptions of Granite State's distribution planning process and National Grid's transmission planning process. The appendices to the filing include Granite State's peak load forecast and National Grid's Transmission Planning Guide.

Supply-side Assessment

Because Granite State is prohibited by statute from building or purchasing new generation capacity and must purchase its power supply needs from the competitive wholesale market, there appears to be little opportunity for the Company to perform the type of supply-side assessments undertaken by traditional vertically integrated electric utilities. This is certainly the case as long as the Company continues to meet customers' power supply needs with full requirements contracts. If, however, the Commission were to require the Company to use a portfolio approach to meeting customers' needs, as is the case with PSNH and New Hampshire's gas utilities, the need for supply-side assessments would have to be reconsidered.

Demand-side Assessment

The 2007 IRP does not include a comprehensive demand-side resource assessment of the type mandated by the Commission for PSNH (*See* Order No. 24,695). Instead, Granite State provides a description of its participation in the New Hampshire Core Energy Efficiency programs and in ISO-NE's Real-Time Demand Response Program. This is appropriate given the way Granite State procures power to supply the needs of Energy Service customers.

Specifically, Granite State buys power in the competitive market under so-called full requirements wholesale power contracts at prices that are fixed for the contract term. These are contracts where the supplier assumes the risks of changes in customer loads and market power prices.

A special feature of the requirements contracts entered into by Granite State is that every kWh purchased in a particular month is billed at the same fixed price. That is, power is

purchased under a uniform rate schedule rather than on a block structure basis. Therefore, if Granite State expanded its energy efficiency programs in order to reduce Energy Service loads, the per unit supply cost avoided by Granite State would equal the fixed price in the requirements contract. Further, the per unit supply cost saved by a retail customer participating in an energy efficiency program would at least equal the fixed price in the requirements contract because the contract price is fully reflected in the Energy Service rate charged to customers. Consequently, none of the direct cost savings associated with the incremental energy efficiency programs would be shared with non-participating customers.³ This means that if non-participating customers are required to share in the costs of implementing the incremental programs, such customers would experience higher rates. In short, based on the current price structure for full requirements contracts, the displacement of significant quantities of power supply by incremental energy efficiency programs could increase rates to non-participants.⁴ Since the bulk of Granite State's customers do not participate in energy efficiency programs, requiring Granite State to conduct demand-side assessments of the type required for PSNH would not be consistent with the traditional goal of utility planning, which is to minimize costs for the benefit of all customers.⁵

Conclusion

In conclusion, Staff recommends that the Commission issue an order waiving for Granite State the requirement that it file a least cost integrated resource plan for 1) this filing, 2) Docket No. DE 05-066, and 3) any future filings made by Granite State to comply with the requirements of RSA 378:38. We recommend that the Commission accept the Company's transmission plan as consistent with the requirements of the ISO-NE, which regulates transmission. Finally, we recommend that the Commission in its order continue to require Granite State to file a transmission plan, a requirement which, by statute, cannot be waived by the Commission.

Please let me know if you have any questions.

³ Non-participants may, however, benefit from indirect power supply cost savings such as those attributable to load factor improvements resulting from incremental energy efficiency programs. Non-participants may also benefit from distribution system avoided costs.

⁴ The increase in rates would be even higher if Granite State collected its lost revenues from all customers.

⁵ Note that the policy goal for the Core Energy Efficiency programs is not least cost planning but market transformation.