

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 09-234

GRANITE STATE ELECTRIC COMPANY D/B/A NATIONAL GRID

Petition for Approval of 2010 Retail Rate Adjustments

Order Approving Rate Adjustments

ORDER NO. 25,057

December 29, 2009

APPEARANCES: Stacey M. Donnelly, Esq. for Granite State Electric Company d/b/a National Grid; and Matthew J. Fossum, Esq. on behalf of the Staff of the Public Utilities Commission.

I. PROCEDURAL BACKGROUND

On November 20, 2009, Granite State Electric Company d/b/a National Grid (National Grid or Company), filed a request for approval of its annual retail rate adjustments to its stranded cost charge and its transmission service charge for effect on January 1, 2010 on a service-rendered basis. Based upon National Grid's filing, the aggregate impact of the proposed rates would be a bill increase of \$1.06 per month, from \$65.95 to \$67.01, or 1.61%, for a typical residential customer using 500 kilowatt-hours (kWh) per month.

National Grid proposes to raise its stranded cost charge from a credit of 0.010 cents per kWh in 2009 to a charge of 0.070 cents per kWh for 2010. The primary purpose of the stranded cost charge is to recover the Contract Termination Charge (CTC) billed to National Grid by New England Power Company (NEP) in connection with the termination of NEP's all-requirements power contracts with National Grid prior to the advent of retail competition in National Grid's service territory. The Commission approved the applicable recovery mechanism in *Granite State Electric Company*, Order No. 23,041, 83 NH PUC 532, (October 7, 1998). On November 24,

2009, National Grid filed NEP's CTC reconciliation report of the costs and revenues under the CTC formula for the period October 1, 2008 through September 30, 2009. That filing was separately docketed by the Commission as Docket No. DE 09-238. The CTC reconciliation report supports the increase in the CTC from its current 2009 rate of a credit of 0.010 cents per kWh to a charge of 0.070 cents per kWh, as reflected in National Grid's proposed stranded cost charge in the instant docket. The stranded cost charge also includes class-specific adjustment factors to reflect class-specific reconciliations, where necessary.

National Grid's proposed transmission service charge, which is intended to cover costs the Company incurs in providing transmission service to customers, is an average of 1.633 cents per kWh, an increase of 0.060 cents per kWh over the current rate of 1.573 cents per kWh. This charge is designed to recover estimated transmission expenses during the coming calendar year, together with an adjustment for any over- or under-recoveries from the prior period based on actual expenses.

In support of its petition, National Grid filed the testimony and exhibits of Scott M. McCabe, Principal Analyst in the Electric Pricing group of Regulation and Pricing – Electricity Distribution and Generation, and James L. Loschiavo, Lead Analyst in Transmission Finance. The proposed retail rate adjustments were filed pursuant to the Company's Amended Restructuring Settlement Agreement as approved by the Commission in *Granite State Electric Co.*, Order No. 23,041 (October 7, 1998), and subsequent, related Commission orders.

On December 7, 2009, the Commission issued an order of notice scheduling a hearing for December 21, 2009. On December 16, 2009, the Company filed a motion for extension of the publication deadline for the order of notice in this docket due to an error in transmitting the order of notice to the Company. The extension was granted by a Secretarial Letter of December 16,

2009, and was confirmed by the Commission at the hearing on December 21, 2009. *See* Transcript of December 21, 2009 Hearing (Tr.) at 4.

II. POSITIONS OF THE PARTIES AND STAFF

A. National Grid

1. Stranded Cost Charge

According to its November 20, 2009 filing, National Grid's proposed stranded cost charge consists of two components: (1) a uniform per kWh charge it collects from all customers, reflecting the CTC assessed by NEP; and (2) rate class-specific adjustment factors reflecting the reconciliation of any excess or deficiency in stranded cost recovery from each rate class in the prior year. National Grid's filing notes that the proposed adjustments are in accordance with its tariff, which provides for adjustments to the stranded cost charge as a result of changes in the CTC as assessed by NEP, as well as the class-specific reconciliation.

National Grid's filing proposes to increase the stranded cost charge it currently assesses from a credit of 0.010 cents per kWh to a charge of 0.070 cents per kWh for service rendered on and after January 1, 2010. *See* Hearing Exhibit 3, Response to Staff 1-1, Summary of Changes to Stranded Cost Charge. Regarding the CTC portion of the stranded cost charge, National Grid noted that its filing of the CTC reconciliation report reconciles NEP's costs and revenues under its CTC formula during the period from October 1, 2008 through September 30, 2009. According to its filing, the increase in the CTC is attributable to increases in both the fixed and variable portions of the CTC. National Grid notes that the fixed portion is increasing because the Company is receiving less from an annual "pass back" from the USGenNE bankruptcy settlement proceeds. The amount flowing to National Grid from this settlement has been

decreasing for the last three years, and is down from \$577,000 in 2009 to \$357,000 for 2010. *See* Hearing Ex. 3. This “pass back” is due to terminate in 2010. *See* Hearing Ex. 3.

As to the variable portion of the charge, National Grid stated that the difference is caused by numerous cost variations. Particularly, National Grid noted that its decommissioning costs and power contract costs are lower than last year and both decreases produced credits. *See* Hearing Ex. 3. These credits, however, are offset by a decrease in the available credit from the Company’s Reconciliation Account, which covers items including decommissioning costs and above market power purchases. *See* Hearing Exhibit 2. The net impact of the changes to the variable portion of the charge is an increase of \$451,000 over last year. *See* Hearing Ex. 3. Consistent with prior practice, Staff will examine the CTC in more detail during its review in Docket No. DE 09-238 and, if an adjustment is required, National Grid will reflect the adjustment in its CTC Reconciliation Account and CTC filings for 2011.

2. Transmission Service Cost Adjustment Rates

National Grid’s transmission service charge proposal is intended to recover transmission-related expenses pursuant to the transmission service cost adjustment (TCA) provision in its tariff. National Grid’s proposed average transmission service charge incorporates two components, specifically, the base transmission service charge, which represents the forecasted calculation of transmission expenses for 2010, and the transmission service adjustment factor related to the reconciliation, which reflects the recoupment of the under-recovery of transmission expenses for 2009. These components are added together to determine the total transmission service charge.

As to the base transmission service charge, National Grid obtains transmission service for its customers as part of the retail delivery service it provides. To obtain transmission service, the

Company contracts with entities authorized by the Federal Energy Regulatory Commission (FERC) to provide transmission service in New England. ISO New England assesses transmission service charges to National Grid pursuant to the ISO New England Transmission, Markets and Services Tariff (ISO/RTO Tariff). Section II of the ISO/RTO Tariff provides access to New England's regionally networked transmission facilities (more commonly known as Pool Transmission Facilities (PTF) or bulk transmission facilities). National Grid receives its local transmission service over local transmission facilities under Schedule 21 of the ISO/RTO Tariff. The service provided over these facilities is referred to as Regional Network Service or RNS. The RNS rate recovers costs on a regionalized basis and is determined annually, based on an aggregation of the transmission revenue requirements of each transmission owner in New England, calculated in accordance with a FERC-approved formula.

National Grid testified that its forecasted 2010 transmission expenses will total approximately \$14,600,000, an increase of \$1,900,000 over expenses embedded in its 2009 retail rates. *See* Hearing Ex. 1 at 72. National Grid avers that the increase in expenses is due to significant investment in transmission plant throughout the region. Tr. at 18. This investment in plant results in FERC-approved revenue requirements that are passed to the Company from the regional level. Tr. at 19-20. The forecast of transmission expense yields an average base transmission service rate of 1.621 cents per kWh, compared to the currently effective average rate of 1.361 cents per kWh. National Grid proposed to implement the new class-specific base transmission service rates effective January 1, 2010.

Additionally, the TCA permits full reconciliation of transmission revenue and expenses. This reconciliation is done by means of an adjustment factor that takes account of prior over- or under-recoveries. National Grid testified that in its reconciliation of last year it had extended the

reconciliation period until December, rather than halting it in September, in order to begin correcting for an anticipated under-collection. *See* Hearing Exhibit 1, National Grid January 2010 Retail Rate Filing at 11.¹ National Grid stated that as of December 2008 it had projected an under-collection of approximately \$1,900,000 for recovery in calendar year 2009. *See* Hearing Ex. 1 at 11. Mr. McCabe testified that upon reconciliation in January 2009 the under-collection was determined to be smaller than had been anticipated and the difference was credited back to customers. Tr. at 22-23; *see also* Hearing Ex. 1 at 46, 42. As a result, this year's adjustment factor reflects adjustments for an under-recovery by the Company of \$7,636 relating to prior reconciliations, as well as a credit to customers of approximately \$130,000 covering the true up of transmission revenues and expenses from last year's extended reconciliation period of October through December 2008. *See* Hearing Ex. 1 at 12. Any remaining balance from the current recovery will be reflected in next year's reconciliation.

National Grid proposed a uniform transmission service adjustment factor related to the reconciliation of 0.012 cents per kWh. This factor was calculated by dividing the under-collection of transmission expense at September 2009 of \$109,881 by the forecasted kilowatt-hour deliveries for calendar year 2010, which are 901,598,563 kWh. The factor would go into effect on January 1, 2010, with the other proposed adjustments. In total, the combination of the base transmission service rate of 1.621 cents per kWh, and the adjustment factor of 0.012 cents per kWh, yields an overall transmission service cost adjustment of 1.633 cents per kWh.

3. Bill Impact for Residential Customers

National Grid testified that the total bill impact of the rates proposed in its filing, as compared to current rates, will be an increase of \$1.06, or 1.61 percent, from \$65.95 to \$67.01, per month for a typical residential customer using 500 kWh per month, broken down as follows:

¹ All references to page numbers for Hearing Exhibit 1 are to "Bates" numbers at the bottom right of each page.

	\$/kWh	\$ Amount
Customer Charge		\$4.32
Distribution Charge		
1st 250 kWh	\$0.01683	\$4.21
Excess of 250 kWh	\$0.04296	\$10.74
Transmission Charge	\$0.01811	\$9.06
Stranded Cost Charge	\$0.00070	\$0.35
System Benefits Charge	\$0.00330	\$1.65
Electricity Consumption Tax	\$0.00055	\$0.28
Default Service Charge	\$0.07280	\$36.40
TOTAL BILL		\$67.01

See Hearing Ex. 1 at 56. For customers using 648 kWh per month, which is the average monthly usage of a residential customer over the most recent twelve month period, the total bill impact would be an increase of \$1.36, or 1.58%, from \$86.11 to \$87.47, per month. See Hearing Ex. 1 at 57.

B. Staff

At the hearing, Staff noted that the Company's proposed CTC is subject to further in-depth review over the next several weeks and that the Commission had opened a separate docket, Docket No. DE 09-238, for purposes of incorporating additional information pertaining to that review. Tr. at 27. Staff asked how the Company would reflect an adjustment in the CTC reconciliation account in the event an adjustment is required pursuant to further review. The Company indicated that it would reflect any adjustments in its CTC reconciliation filings for 2011, and would work with Staff as needed in the event there is a large discrepancy to be reconciled. Tr. at 16-17.

With respect to the proposed transmission service rates and related adjustment rates, Staff asked National Grid to explain the reason for the approximate \$1,900,000 increase in transmission expenses from 2009 to 2010. Tr. at 18. National Grid responded that the increase

is caused primarily by the estimated \$1.1 billion in PTF capital additions expected to be placed in service in 2010. Tr. at 18. The Company noted that about \$111,000,000 of that cost was to be borne by National Grid-affiliated companies, and that some portion of that cost would fall to the Company. Tr. at 18-19, 25-26.

Staff noted that a major driver of these transmission costs is the development of transmission infrastructure at the regional level, and that this investment is substantial. Tr. at 27-28. Moreover, Staff observed that these costs, and the resulting rates, are approved by FERC. Tr. at 28. Staff recommended that the rates as proposed by the Company be approved. Tr. at 28. Staff conditionally recommended that the Company's proposed stranded cost charge be approved. Tr. at 27. Staff stated that the condition for approval was that any discrepancy discovered in Docket No. DE 09-238 would be later reconciled with the proposed stranded cost charge. Tr. at 27.

III. COMMISSION ANALYSIS

RSA 378:7 requires that the Commission determine whether rates charged to retail utility customers in New Hampshire are just, reasonable and lawful. RSA 374-F:4, VIII(a) further authorizes the Commission to "order such charges and other service provisions and to take such other actions that are necessary to implement [electric industry] restructuring and that are substantially consistent with the principles" set forth in RSA 374-F. Among the principles relevant to this proceeding are the objectives of providing "clear price information on the cost components of generation, transmission, distribution and any other ancillary charges" pursuant to RSA 374-F:3, III, and recovery of stranded costs through "a nonbypassable, nondiscriminatory, appropriately structured charge that is fair to all customer classes, lawful, constitutional, limited

in duration, [and] consistent with the promotion of fully competitive markets” pursuant to RSA 374-F:3, XII.

The underlying policy determinations relevant to this proceeding were made in *Granite State Electric Co.*, 83 NH PUC 532 (1998), approving the rate adjustment mechanisms reflected in National Grid’s proposal. However, the various component charges warrant discussion here.

First, we address the proposed stranded cost charge. National Grid proposes to increase the stranded cost charge from a credit of 0.010 cents per kWh to a charge of 0.070 cents per kWh for 2010. We note that the Commission has opened a separate docket, Docket No. DE 09-238, to allow Staff adequate time to conduct an in-depth review of the proposed stranded cost charge. In the event an adjustment is required, the Company will reflect the adjustment in its CTC Reconciliation Account and incorporate it into its CTC filings for 2011. Thus, we conditionally approve the proposed stranded cost charge, subject to the review to be undertaken in DE 09-238.

The proposed average transmission service charge of 1.633 cents per kWh incorporates two components. Specifically, the transmission service adjustment factor related to the reconciliation of 0.012 cents per kWh reflects the forecasted under-recovery of transmission expenses for 2009, while the average transmission service rate of 1.621 cents per kWh represents the forecasted rate calculation of transmission expenses for 2010. The majority of the proposed increase is attributable to charges assessed by federally regulated entities for scheduled PTF capital additions. The transmission service costs in question are derived from FERC-approved tariffs and subject to FERC jurisdiction. Those costs are then applied in accordance with the rate mechanism approved in *Granite State Electric Co.*, 83 NH PUC 532 (1998). Accordingly, we approve National Grid’s request to increase the average transmission service rate to 1.633 cents

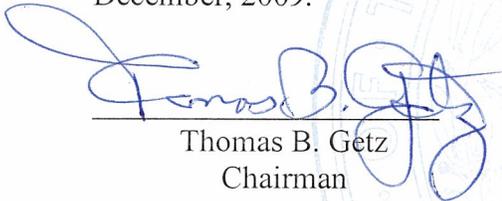
per kWh as of January 1, 2010. We also approve National Grid's request to change the transmission service adjustment factors for the various rate classes, as proposed in its filing.

Based upon the foregoing, it is hereby

ORDERED, that the retail rate adjustments and adjustment factors National Grid proposed in its filing on November 20, 2009, are hereby APPROVED effective January 1, 2010 on a service-rendered basis; and it is

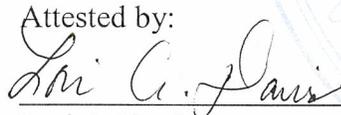
FURTHER ORDERED, that National Grid file appropriate tariff revisions that conform with this order within 30 days hereof pursuant to New Hampshire Code of Administrative Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of December, 2009.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


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Attested by:

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