

**REDACTED**

# Granite State Electric Company d/b/a Liberty Utilities

## Default Service

For the Period Beginning  
February 1, 2014

Testimony and Schedules  
of  
John D. Warshaw

December 16, 2013

Submitted to:  
New Hampshire Public Utilities Commission  
Docket No. DE 13-018

ORIGINAL	
N.H.P.U.C. Case No.	DE 13-018
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Witness	John D. Warshaw
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**STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION**

Docket No. DE 13-018

Granite State Electric Company d/b/a Liberty Utilities

**DIRECT TESTIMONY  
OF  
JOHN D. WARSHAW**

**December 16, 2013**

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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 11 Northeastern Blvd., Salem,  
4       NH 03079.

5  
6   **Q. Please state your position.**

7   A. I am the Manager, Electric Supply for Liberty Energy Utilities (New Hampshire) Corp.  
8       ("Liberty Energy NH") which is the sole shareholder of Granite State Electric Company  
9       ("Granite State" or the "Company") and provides services to Granite State. I oversee the  
10      procurement of power for Default Service for Granite State as well as the procurement of  
11      renewable energy certificates ("RECs").

12  
13   **Q. Please describe your educational background and training.**

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

18  
19   **Q. What is your professional background?**

20   A. In November of 2011, I joined Liberty Energy NH as Manager, Electric Supply for  
21      Granite State. Prior to my employment at Liberty Energy NH, I was employed by  
22      National Grid USA Service Company ("National Grid") as a Principal Analyst in Energy  
23      Supply – New England from 2000 to 2010. In that position I conducted a number of

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

8  
9 **Q. Have you previously testified before the New Hampshire Public Utilities**  
10 **Commission ("Commission")?**

11 A. Yes. I most recently testified before the Commission in Docket DE 13-018 on October  
12 30, 2013.

13  
14 **Q. Have you testified before any other state regulatory agencies?**

15 A. Yes. I have testified before both the Massachusetts Department of Public Utilities and  
16 the Rhode Island Public Utilities Commission regarding electric supply and renewable  
17 portfolio procurement activities.

18  
19 **II. PURPOSE OF TESTIMONY**

20 **Q. Mr. Warshaw, what is the purpose of your testimony?**

21 A. The purpose of my testimony is to request Commission approval of Granite State's  
22 proposed Default Service rates for the Large and Medium Commercial and Industrial

1 Customer Group (“Large Customer Group”<sup>1</sup>) for the three-month period February 1,  
2 2014 through April 30, 2014. My testimony will describe the process used by Granite  
3 State to procure Default Service for the Large Customer Group, the proposed Default  
4 Service rates, how the Company proposes to meet its 2013 Renewable Portfolio Standard  
5 (“RPS”) obligation and the resulting Renewable Portfolio Standard Adder for service  
6 rendered on and after February 1, 2014. In addition, I will provide an update to the  
7 settlement negotiations with National Grid regarding payment to Granite State for  
8 borderline sales to Massachusetts Electric Company’s customers dating back to June  
9 2006.

10  
11 **III. DEFAULT SERVICE BIDDING PROCESS**

12 **Q. Mr. Warshaw, why does Granite State need to procure Default Service for the**  
13 **Large Customer Group for the period beginning February 1, 2014?**

14 A. Pursuant to the procurement process approved by the Commission, which I describe later  
15 in my testimony, Granite State procures power supply through contracts having a three-  
16 month term for the Large Customer Group. Granite State’s currently effective Default  
17 Service supply contracts for the Large Customer Group expire on January 31, 2014.  
18 Therefore, to assure that Default Service will continue to be available, Granite State  
19 requires a new Default Service supply arrangement beginning February 1, 2014.

20  

---

<sup>1</sup> The Large Customer Group is comprised of 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.

1   **Q.    Please describe the process Granite State used to procure its Default Service supply**  
2       **for the period beginning February 1, 2014.**

3    A.   Granite State conducted its procurement of Default Service supply in accordance with  
4       applicable law and Commission directives. The Company complied with the solicitation,  
5       bid evaluation and procurement process set forth in the Settlement Agreement dated  
6       November 18, 2005, which agreement was approved by the Commission in Order No.  
7       24,577 (“Order”) on January 13, 2006 in Docket DE 05-126, amended by Order No.  
8       24,922 in Docket DE 08-011 and further amended by Order No. 25, 601 in Docket DE  
9       13-018 (as amended, the “Settlement Agreement”). Granite State issued a request for  
10      proposals (“RFP”) for certain power supply services and sought a supplier for Granite  
11      State’s Default Service covering the Large Customer Group.

12  
13   **Q:    Was the Company’s solicitation for the period beginning February 1, 2014**  
14       **consistent with the Company’s prior solicitations for Default Service?**

15   A.   Yes, Granite State’s Default Service RFP was conducted in a manner similar to previous  
16       solicitations. This process is consistent with the process approved by the Commission in  
17       the Order as well as with Granite State’s past procurements. As in past procurements  
18       when a market uncertainty during the period of the RFP could potentially cause bidders  
19       to either refrain from submitting final bids or include a risk premium for a cost that they  
20       may or may not incur, Granite State has allowed bidders to include a requirement that  
21       such costs be incremental to the final, agreed to prices in the transaction.

1 **Q. Could you describe the nature of the market uncertainty described above?**

2 A. Yes. On June 28, 2013 ISO-NE filed a Winter 2013-2014 Reliability Program with the  
3 FERC (Docket ER13-1851) to prevent any potential capacity shortfalls during the 2013-  
4 2014 winter period due to increased reliance on natural gas-fueled generation in New  
5 England. At times of extreme cold weather, natural gas-fueled generation may not have  
6 sufficient fuel to meet New England's electric energy requirements. On September 16,  
7 2013 the FERC conditionally accepted ISO-NE's Winter Reliability Program but ordered  
8 costs be allocated to Real-Time Load Obligation instead of Network Load. At the  
9 September 18, 2013 hearing in this docket, Granite State proposed to include an adder in  
10 its Default Service Rates to collect any costs associated with the Winter Reliability  
11 Program. The Commission in Order 25,573 approved the collection of such costs.  
12 Granite State is proposing to include the adder in the Default Service Rates proposed in  
13 this filing because the Winter Reliability Program obligations continue.

14  
15 **Q. Could you describe the nature of the RFP that Granite State issued?**

16 A. On November 8, 2013, Granite State issued a RFP to approximately twenty-five potential  
17 suppliers soliciting power supplies for the period February 1, 2014 through April 30,  
18 2014. Granite State also distributed the RFP to all members of the New England Power  
19 Pool ("NEPOOL") Markets Committee and posted the RFP on Granite State's energy  
20 supply website. As a result, the RFP had wide distribution throughout the New England  
21 energy supply marketplace. The RFP requested fixed pricing for each month of service  
22 on an as-delivered energy basis. Prices could vary by month and by service – that is, the

1 prices did not have to be uniform across the entire service period or between the two  
2 customer groups. A copy of the RFP is provided as Schedule JDW-1.  
3

4 **Q. Are the Company's Default Service rates consistent with least cost resource**  
5 **planning?**

6 A. Yes. As indicated during the hearing held before the Commission on December 19, 2012  
7 in Docket DE 12-023 (Default Service proceeding) and in the Company's previous  
8 Default Service filings, the Company has conducted its Default Service RFP process in a  
9 manner that complies with RSA 378:41 and conforms to least cost planning principles by  
10 proposing Default Service rates resulting from a competitive bidding process. This is  
11 consistent with least cost planning goals, which are to minimize costs in the procurement  
12 of energy.  
13

14 **IV. RESULTS OF DEFAULT SERVICE BIDDING**

15 **Q. Mr. Warshaw, did Granite State receive responses to the RFP?**

16 A. Yes. Indicative proposals were received on December 3, 2013. Final proposals were  
17 received on December 10, 2013. None of the bidders made their provision of Granite  
18 State's Default Service contingent upon the provision of any other service. A summary  
19 of the RFP process and bid evaluation is included in Schedule JDW-2.  
20

21 **Q. Was participation in this RFP similar to past RFPs?**

22 A. Yes. The number of bidders providing final prices was the same as in the September 12,  
23 2013 filing but less than in previous solicitations for this period of time during the year.

1 The reason for the lower than normal turnout is the market's fear of electric market prices  
2 spiking during a prolonged period of very cold weather in New England during this  
3 winter season.  
4

5 **Q. How do the current futures prices for electricity and natural gas compare to the**  
6 **futures prices at the time of the Company's December 11, 2012 solicitation?**

7 A. The futures market prices for electricity and natural gas at the time of the December 11,  
8 2012 solicitation as well as current futures market prices are shown in Schedule JDW-3.  
9 As shown, the futures market prices for electricity in 2014 are significantly higher than  
10 the prices just one year ago.  
11

12 **Q. Can you explain why the prices are significantly higher this coming year as**  
13 **compared to last year?**

14 A. The New England generation mix has become dominated by natural gas generation. As  
15 a result, there is significant fear in the market that if New England experiences a  
16 prolonged cold snap, there may not be sufficient natural gas supply to meet the supply  
17 needs of electric generation. While ISO-NE has implemented a Winter Reliability  
18 Program to offset this risk, the market still views a potential supply disruption as a  
19 significant risk and thus is reflecting this risk in the market prices during the winter  
20 months.  
21

22 **Q. Did Granite State select any of the proposals received in response to the RFP?**

23 A. Yes. Granite State evaluated the bids received and selected the supplier that: (i)

provided a bid that was conforming to the RFP, (ii) had the lowest price, (iii) met the credit requirements described in the RFP, and (iv) passed our qualitative evaluation. On December 11, 2013, Granite State entered into a wholesale Transaction Confirmation with Dominion Energy Marketing, Inc. (“Dominion”), the winning bidder for the Large Customer Group block, to provide Default Service to the Large Customer Group for the three-month period February 1, 2014 through April 30, 2014. Together, a Transaction Confirmation and a Master Power Agreement provide the terms for the purchase of Default Service from a supplier. A copy of the Dominion Master Power Agreement was filed with the Commission on March 16, 2009 in Docket DE 09-010. A copy of the First Amendment to the Master Power Agreement was filed with the Commission on September 20, 2010 in Docket DE 10-020. The Transaction Confirmation between Granite State and Dominion, with certain confidential sections redacted, is attached hereto as Schedule JDW-4.

**V. RENEWABLE PORTFOLIO STANDARD**

**Q. Mr. Warshaw, what is the RPS obligation for 2014?**

A. As specified in the RPS law, RSA 362-F, the RPS law requires a provider of electricity to obtain electric supply that meets the following minimum percentages:

Year	Class I	Class I Thermal	Class II	Class III	Class IV	Total
2014	5.0%	0.4%	0.3%	7.0%	1.4%	14.1%

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

A. On February 18, 2009, Granite State entered into an amended settlement agreement with

1 Commission Staff and the Office of Consumer Advocate intended to resolve all issues  
2 associated with the process by which Granite State would comply with the requirements  
3 of the RPS law and the Puc 2500 rules (“Amended RPS Settlement”). The Amended  
4 RPS Settlement was approved by the Commission on March 23, 2009 in Order No.  
5 24,953 in Docket DE 09-010. The Company may satisfy RPS obligations by providing  
6 either RECs for each RPS class from the New England Power Pool Generation  
7 Information System (“NEPOOL-GIS”) or by making an Alternative Compliance  
8 Payment (“ACP”) to the State of New Hampshire’s Renewable Energy Fund. As  
9 specified in the Amended RPS Settlement, Granite State requested bidders to provide a  
10 separate RPS compliance adder with their bids. This RPS compliance adder is the  
11 incremental charge by a bidder for agreeing to take on the RPS obligation with the  
12 Default Service obligation.

13  
14 **Q. If a winning bidder’s RPS compliance adder is accepted, how would the bidder**  
15 **satisfy the RPS obligation?**

16 **A.** The supplier assumes the RPS obligation for its transaction when the RPS compliance  
17 adder is accepted. This means that the supplier must deliver RECs to satisfy each RPS  
18 class obligation to the Company’s NEPOOL-GIS account, or it must pay the Company  
19 the ACP for the undelivered RECs. The quantity of RECs required is calculated by  
20 multiplying the RPS obligation percentage for each REC class by the electricity sales for  
21 the term of the transaction.

1 **Q. What were the criteria Granite State used to evaluate the RPS compliance adders**  
2 **provided by the bidders?**

3 A. None of the bidders submitted a RPS compliance adder. Granite State issued a request  
4 for proposals on November 8, 2013 for the acquisition of RECs to meet its 2013 and a  
5 portion of its 2014 RPS obligations. Granite State received bids to supply RECs on  
6 December 9, 2013. In addition, if Granite State is unable to purchase sufficient RECs to  
7 meet its New Hampshire RPS obligations, it will then, consistent with the RPS rules,  
8 make an ACP to the state of New Hampshire's Renewable Energy Fund. The results of  
9 Granite State's November 8, 2013 RPS solicitation is included in Schedule JDW-2,  
10 Exhibit 10.

11  
12 **Q. Is Granite State proposing any changes to the RPS compliance adder at this time?**

13 A. Yes. Granite State is proposing to change the Commission-approved RPS compliance  
14 adder to reflect the results of its RPS solicitation. Granite State proposes to use a  
15 combination of the bid prices of RPS classes it received in its RPS solicitation and the  
16 applicable ACP for those RPS classes that did not receive bids in its RPS solicitation.

17  
18 **Q. How did Granite State calculate the Renewable Portfolio Standard Adder?**

19 A. As shown in Schedule JDW-2, Exhibit 11, Granite State used a combination of prices it  
20 received in its RPS solicitation and ACPs. The retail RPS costs were calculated on a per  
21 MWh basis. The Company divided the calculated costs by ten in order to convert from a  
22 dollars per MWh retail cost to a cents per kWh rate for retail use.

1 **Q. What happens if Granite State's actual RPS compliance costs are different from**  
2 **that used in calculating the RPS compliance adder?**

3 A. Granite State reconciles its costs of RPS compliance with the revenue billed to customers  
4 from the RPS compliance adder. This reconciliation occurs as part of this filing which  
5 contains the annual default service reconciliation.  
6

7 **Q. Has Granite State been able to contract for RECs?**

8 A. Yes. In October 2012, Granite State contracted for Class I and Class IV obligations for  
9 2012 and Class I obligations for 2013. A summary of the results of Granite State's  
10 November 8, 2013 RPS solicitation is included in Schedule JDW-2, Exhibit 10. At this  
11 time, Granite State has completed its analysis of the bids but has not started contract  
12 negotiations with the bidders. Granite State will notify the winning bidders by December  
13 17, 2013 and begin contract negotiations and will provide an update in the next Default  
14 Service filing scheduled for March 2014.  
15

16 **Q. When will Granite State issue the next REC request for proposals?**

17 A. Granite State plans to issue a RPS solicitation in February 2014 to procure RECs to  
18 satisfy the 2013 and 2014 RPS obligations. Granite State will attempt to procure the  
19 quantity of RECs necessary to satisfy the 2013 and 2014 obligations for load that will be  
20 serviced under Default Service supply contracts.  
21

1   **VI.    DEFAULT SERVICE COMMODITY COSTS**

2   **Q.    Mr. Warshaw, please summarize the power supply cost at the retail meter based on**  
3       **Granite State's expected procurement cost used to develop the proposed retail rates.**

4   A.   The load-weighted average of the power supply costs for the Large Customer Group for  
5       February 1, 2014 through April 30, 2014 is 9.986¢ per kWh compared to the load-  
6       weighted average of 8.695¢ per kWh for the period November 1, 2013 through January  
7       31, 2014. The power supply costs at the retail customer meter (¢ per kWh) were  
8       calculated by multiplying the commodity prices at the wholesale level (\$ per MWh) by  
9       the applicable loss factor and then dividing the results by ten. The applicable loss factors  
10      can be found in the RFP summary in Schedule JDW-2. The loss factor is a calculated  
11      ratio of wholesale purchases to retail deliveries.

12  
13   **Q.    How will Granite State reconcile any difference in costs associated with Default**  
14       **Service?**

15   A.   To the extent that the actual cost of procuring Default Service vary from the amounts  
16       billed to customers for the service, Granite State will continue to reconcile the difference  
17       through a reconciliation mechanism pursuant to Granite State's Default Service  
18       Adjustment Provision contained in its currently effective Retail Delivery Tariff.

19  
20   **VII.   RGGI REBATE**

21   **Q.    Did Granite State include a credit to its Default Service customers for any RGGI**  
22       **revenue rebates received from the State of New Hampshire in 2013 as required in**  
23       **Order No. 25,471 ?**

1     A.     Yes. In its September 12, 2013 filing, Granite State calculated a RGGI Auction Excess  
2           Revenue Adjustment Factor credit of 0.212¢/kWh that was applicable for all Default  
3           Service customers during the November 1, 2013 through April 30, 2014 period. This  
4           RGGI Auction Excess Revenue Adjustment Factor credit was based on the funds  
5           received in 2013 by Granite State from the State of New Hampshire for the Q1 & Q2  
6           2013 RGGI Auctions. Granite State will propose a new RGGI Auction Excess Revenue  
7           Adjustment Factor credit for the period May 1, 2014 through October 31, 2014 in its next  
8           Default Service filing in March 2014. This factor will be based on the funds it receives in  
9           2013 from the Q3 & Q4 2013 RGGI Auctions. Granite State will reconcile the actual  
10          factor credited to customers against the funds received plus any applicable interest in the  
11          next Default Service reconciliation filing.

12  
13    **Q.     Has Granite State included a calculation for a 2014 RGGI Auction Excess Revenue**  
14          **Adjustment Factor credit consistent with the changes to RSA 125-O:23 that become**  
15          **effective on January 1, 2014?**

16    A.     No. Granite State proposes to include a calculation of a RGGI Auction Excess Revenue  
17          Adjustment Factor for credits received in 2014, including interest, that will be applicable  
18          to all retail electric customers in next year's Annual Retail Rate Adjustment Filing.

**VIII. SUMMARY OF DEFAULT SERVICE RATES**

**Q. Please summarize the proposed Default Service rates resulting from the Default Service procurement, adjusted by the factors which Granite State is proposing to implement for service rendered on and after February 1, 2014.**

**A.** As I describe in more detail later in my testimony, Granite State proposes to implement the following Default Service rates beginning February 1, 2014, for service rendered on and after that date:

	Medium & Large C&I		
	February	March	April
Base Default Service Rate	15.332 ¢	8.257 ¢	6.306 ¢
2013 Default Service Adjustment Factor	0.087 ¢	0.087 ¢	0.087 ¢
Default Service Cost Reclassification Adjustment Factor	0.039 ¢	0.039 ¢	0.039 ¢
RGGI Auction Excess Revenue Adjustment Factor	(0.212) ¢	(0.212) ¢	(0.212) ¢
Winter Reliability Program Adder	0.241 ¢	0.000 ¢	0.000 ¢
Renewable Portfolio Standard ("RPS") Adder	0.553 ¢	0.553 ¢	0.553 ¢
Total Default Service Rate	16.040 ¢	8.724 ¢	6.773 ¢

The Default Service rates which the Company proposes to bill its customers receiving Default Service are also summarized in Schedules JDW-6.

1 **IX. BASE DEFAULT SERVICE RATES**

2 **Q. What are the “base” Default Service rates that the Company is proposing for**  
3 **service rendered on and after February 1, 2014?**

4 A. Consistent with the Settlement Agreement, Granite State is proposing monthly base  
5 Default Service rates for the Large Customer Group based on the three monthly contract  
6 prices contained in the supply agreement with the winning Default Service supplier for  
7 the Large Customer Group. As shown on line (5) of Schedule JDW-5, page 1, the  
8 proposed base Default Service rates for the Large Customer Group are 15.332 ¢ per kWh,  
9 8.257 ¢ per kWh, and 6.306 ¢ per kWh for the months of February, March and April  
10 2014, respectively.

11  
12 **X. EFFECTIVE DATE AND BILL IMPACT**

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

14 A. Consistent with the Commission’s rules on the implementation of rate changes, the  
15 Company is proposing that all of the above rate changes be made effective for service  
16 rendered on and after February 1, 2014.

17  
18 **Q. Has the Company determined the impact of these rate changes on customer bills?**

19 A. Yes. These bill impacts are included in Schedule JDW-6. Schedule JDW-6 shows the  
20 impact on customers in the Large Customer Group. The Company has provided bill  
21 impacts for illustrative load-weighted rates. The bill impacts for the three-month period  
22 ending April 2014 are increases ranging from 8.8% to 10.2 % as compared to the three-  
23 month period ending January 2014 (see pages 1 to 7 of Schedule JDW-6).

1 **Q. Has the Company prepared a revised Summary of Rates tariff page reflecting the**  
2 **proposed rates?**

3 A. Yes. It is included as Schedule JDW-7. The Summary of Rates tariff page reflects the  
4 proposed Default Service rate changes contained in this filing. Upon receiving an order  
5 in this proceeding, the Company will file an Eleventh Revised Page 84, Summary of  
6 Rates, reflecting the appropriate approved rates.

7  
8 **Q. Has the Company included the most recent quarterly report of migration**  
9 **information based on monthly migration by customer class and load, as required by**  
10 **the Commission's Order No. 24,715 in Docket DE 06-115?**

11 A. Yes. The quarterly report of customer migration information for the third quarter of  
12 calendar year 2013 is included as Schedule JDW-8.

13  
14 **XI. BORDERLINE SALES NEGOTIATIONS WITH NATIONAL GRID**

15 **Q. Can you provide an update regarding the negotiations with Nation Grid to resolve**  
16 **the borderlines sales issue?**

17 A. Yes. Shortly after the sale of Granite State from National Grid to Liberty Utilities,  
18 Liberty discovered that it was serving a number of Massachusetts Electric Company's  
19 (MECO) customers from its system without a borderline sales agreement. MECO  
20 executed a borderline sales agreement with Granite State on October 1, 2012 and since  
21 then, MECO has paid Granite State for commodity, transmission and distribution service  
22 to its customers on a monthly basis.

1 Q. Had Granite State been compensated for serving MECO's customers prior to  
2 October 1, 2012?

3 A. No. To date, Granite State has not received any payment for those services. Granite  
4 State has been in negotiations with National Grid for nearly a year to attempt to resolve  
5 the payment for sales from June 2006, the date when Granite State's borderline sales  
6 tariff was first filed with the Federal Energy Regulatory Commission, to September 30,  
7 2012, just prior to the effect of the current borderline sales agreement.

8

9

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**XII. CONCLUSION**

**Q. Mr. Warshaw, when will Granite State issue the next RFP for Default Service?**

A. Both the Large Customer Group rates proposed in this filing and the Small Customer Group Rates end on April 30, 2014. Per the terms of the Settlement Agreement, Granite State will issue a RFP for both groups in August 2013. This will be the first RFP in which Granite State will be requesting six months of pricing for the Large Customer Group. For purposes of notice to the Commission, the following table illustrates Granite State's proposed timeline for the next RFP:

<b>RFP Process Steps</b>	<b>September 2013 RFP</b>
RFP Issued	February 9, 2014
Indicative Bids Due	March 11, 2014
Final Bids Due	March 18, 2014
Contract Execution	March 18 or 19, 2014
Default Service Filing to Commission	March 21, 2014
Commission Order Needed	March 28, 2014
Service Begins	May 1, 2014

**Q. Does this conclude your testimony?**

A. Yes. It does.