DE 01-234

GRANITE STATE ELECTRIC COMPANY

2002 Retail Rate Adjustment

Order Approving Adjustments

O R D E R   N O. 23,883

December 31, 2001

APPEARANCES: Gallagher, Callahan & Gartrell by Seth Shortlidge, Esq. for Granite State Electric Company; and Lynmarie Cusack, Esq. for the Staff of the New Hampshire Public Utilities Commission.

1. PROCEDURAL HISTORY

On November 30, 2001, Granite State Electric Company (GSEC or the Company) filed with the New Hampshire Public Utilities Commission (Commission) a petition, which included supporting testimony and exhibits, requesting adjustments to various charges collected in its rates. GSEC requested an increase to its Stranded Cost Charge of $0.0015 per kilowatt-hour (kWh), raising it to $0.00680 per kWh; a reduction to its Transmission Service Charge and adjustment factor by $0.00316 per kWh, lowering it to $0.00595 per kWh; a reduction in its Transition Service Adjustment factor from $0.00215 per kWh to $0.00130 per kWh; and, an increase in its Electric Service Adjustment factor to $0.00384 per kWh, an increase of $0.00249 per kWh.

GSEC also requested that the Commission retain its currently effective Systems Benefit Charge (SBC) of $0.00014 per kWh for the low-income portion of the charge until GSEC makes its compliance filing for the energy efficiency portion of the SBC, at which time a rate increase is expected. GSEC also requests that it be authorized to refund to customers an over-collection of the Gross Receipts Franchise Tax.

GSEC requests that the rate changes become effective for a period of one year commencing on January 1, 2002. It suggests that the aggregate effect of the proposed adjustments, which would include changes to the SBC that are anticipated later, would amount to an increase of $0.15 per month or 0.27% to a typical 500 kilowatt-hour residential customer.

Based on the filing, the Commission issued an Order of Notice scheduling a hearing for December 19, 2001. A hearing was held at which there were no intervenors.

2. POSITIONS OF THE PARTIES AND STAFF

A. GSEC

GSEC presented witnesses Theresa Burns and Anne Rodrigues who testified respectively concerning the reconciliation and adjustment provisions, and estimated transmission and ISO expenses of the Company. Ms. Burns explained that the stranded cost charge collects the Contract Termination Charge that New England Power charges to GSEC. The Stranded Cost charge consists of a base rate and an adjustment factor. The adjustment factor collects the over or under collection from each specific rate class for the prior year's stranded cost. The Company proposes to increase the current $0.00530 per kWh charge by approximately 27% to an average of $0.00679 per kWh.

Next, Ms. Burns explained that, while the Company is not seeking any change to its base transition service charge, it is attempting to recover an under collection of $831,774 (schedule TMB-6) in a transition service adjustment factor charge of $0.00130 per kWh. This is actually a decrease in the currently effective adjustment factor of $0.00215 per kWh. The Company also acknowledged that Transition Service as it is currently structured is expected to end on June 30, 2002. The Company asserted that it plans to petition the Commission in early January to extend transition service.

Ms. Burns then explained that any Transition Service 2 expense that is under or over-collected in the Transition Service Charge is collected or credited through the non-bypassable Electric Service Factor Charge. For the period October 2000 through September 2001, there was an under-collection of $2,984,324. In order to collect the proper amount, GSEC adds to that under-recovery the expected interest during the recovery period and divides the total by the Company's 2002 forecast kWh sales. This method results in an adjustment factor of $0.00384 per kWh, which the Company seeks to impose as of January 1, 2002.

Ms. Burns discussed the default service adjustment factor and explained that this adjustment factor only recovers administrative costs associated with default service. She stated that the Company, to date, has accumulated only $27,698 in expenses for the period October 1999 through September 2001. Accordingly, GSEC requests that it be authorized to carry the balance forward into the 2003 reconciliation. The Company stated that no interest would be accumulated on the balance and that it would expect greater administrative charges only when it had customers on default service.

In discussing the Systems Benefit Charge (SBC), Ms. Burns stated that GSEC collected $19,849 more than it paid out in benefits and administrative costs for the period October 2000 through September 2001. The Company noted that if refunded over a six-month period, the refund factor would be $0.005 per kWh. Since the refund factor is insignificant, the Company proposes to apply the over-collection to future costs. Ms. Burns also explained that currently GSEC=s SBC only covers the cost of its Interim Low Income Program and that, in its upcoming compliance filing for the energy efficiency portion of the SBC, the rate is expected to increase even where the Conservation and Load Management Charge is to be eliminated.

The next reconciliation charge discussed by GSEC was the gross receipts franchise tax over-collection which it proposes to credit through the electric service adjustment. The testimony reflects that GSEC collected the 1% franchise tax on stranded cost revenue and transmission revenue, both revenue items the Company has interpreted not to be subject to the Franchise Tax. The Company asserts, however, that it was concerned that a tax audit would interpret stranded cost and transmission revenue to be subject to the franchise tax and so continued to collect the tax. The Company now believes that a refund of the over-collection is appropriate because it believes the Company's Business Profits Tax would be lowered such that the Company would be made whole on a net, state tax position. Thus, the Company proposes to credit interest on those funds once the reconciliation period in which those funds were collected is over.

Ms. Burns' schedule TMB-23 is a spreadsheet showing the proposed interest on the over-collections. It illustrates that the extra taxes collected in January 1999 would not start to accrue interest until January 2001. The Company asserts in justifying its position that, if stranded costs and transmission costs are over-collected, no interest would accrue. For this reason, it contends that interest should only accrue to the tax over-collection for the period beyond the normal reconciliation and recovery period for stranded cost and transmission funds.

The Company proposes to credit the franchise tax over-collection reconciliation in the month of June 2002. GSEC argues this proposal is advantageous in that interest would continue to accrue until June and crediting the franchise tax over-recovery of the electric service reconciliation helps mitigate the under-collection of transition service 2.

Finally, both Ms. Rodrigues and Ms. Burns provided testimony on the transmission service charge. The charge is comprised of a transmission service rate and a transmission service cost adjustment reconciliation factor. The Company over-collected $701,833 from the period October 2000 to September 2001 resulting in an adjustment credit of $0.00086 per kWh.

The Company is also requesting to change its Agoing forward@ transmission rates based on a forecast of transmission costs. Ms. Rodriques testified that she forecasts the Company=s 2002 transmission costs to be approximately $5.5 million. In forecasting the costs, the Company estimates NEP charges will be approximately $2.3 million, NEPOOL charges about $3.1 million, and ISO-NE charges approximately $76,000. GSEC asserts that the NEP costs were forecast using NEP's actual expenses for the 12 months ending September 2000 and making any known adjustments. NEPOOL rates were estimated by adding expected cost changes and new service costs to the current rates. The ISO-NE charges were estimated by multiplying the actual charges to GSEC for the 12-month period through September 2001 by the percentage increase in the ISO-NE 2002 budget over the previous year's budget.

These transmission costs are allocated across the rate classes by contribution to coincident peak. For the allocation, the Company sums the monthly coincident peaks in order to calculate the average contribution over the year. The Company asserts that using this method allows the costs to be spread among the rate classes more than if it used the annual peak data. The allocation of transmission costs yields an average rate across the classes of $0.00681 per kWh. This is a decrease of 1.1 mils from the 2001 transmission rate. Accordingly, the Company shows that the average transmission service charge is $0.00595 per kWh after the adjustment credit is applied.

In response to a question from the bench, the Company indicated that the instant docket was not the last opportunity for the Commission to consider the issue of potential adjustments to stranded costs as noted in Order No. 23,353 (November 29, 1999).

B. <u>Staff</u>

Staff presented no testimony or witnesses in response to GSEC's request. At the hearing, however, Staff cross-examined the Company witnesses regarding the methodologies of its reconciliation. At the close of the hearing, Staff indicated that this filing was the Company=s third annual reconciliation adjustment and it appeared that the Company=s methodologies in determining charges have remained consistent. While Staff generally agreed with the proposed reconciliation, Staff did recommend that the Company pay interest charges on its over-collection of the franchise tax for the full duration of the over-collection and return that amount to ratepayers. Additionally, Staff recommended that the SBC over-collection be used to offset the default administrative charge under-collection.

3. COMMISSION ANALYSIS

In reviewing this filing, as with any other request for a rate increase, this Commission must find the proposed charges to be just and reasonable. In the past, we have found GSEC's request for retail rate adjustments associated with the restructuring agreement to be reasonable. *See* 85 NH PUC 56 (2000), Order No. 23,399; 85 NH PUC 869 (2000), Order No. 23,612 (December 28, 2000); and Order No. 23,650 (March 8, 2001).

In the last order of this type, Order No. 23,650, the Commission was concerned about the significant increase in the transmission charges for 2001. We note that the transmission charges still appear to be unpredictable given the $900,000 under-collection in 2000 and a $700,000 over-collection in 2001.

We are, however, optimistic that the current forecast provides more justification than in past petitions. Schedule TMB-15, page 3 categorizes transmission expenses in an easily understandable manner and Ms. Rodrigues= testimony clearly describes how the 2002 costs were forecast. Accordingly, we will approve the average rate for transmission costs of $0.00681 per kWh, which is a decrease from the currently effective average transmission rate of $0.00792 per kWh. We will also approve the transmission service adjustment credit of $0.00086 per kWh for calendar year 2002 resulting in an average transmission service charge of $0.00595 per kWh, a decrease of $0.00316 per kWh over last year=s rate.

We are concerned that the base rate in the Stranded Cost charge is increasing. The base rate attempts to collect the contract termination charge (CTC) that New England Power Company (NEP) assesses GSEC. Currently, the base rate for stranded costs is $0.00530 per kWh with a requested increase to $0.00679 per kWh. This is a proposed increase of 27%. Only through an analysis of the 2001 CTC in Docket No. DE 01-241 will we fully recognize whether the base rate is reasonable. Accordingly, as we have done in the past with this particular restructuring charge, this Commission will allow the stranded cost charge to go into effect subject to reconciliation based upon the outcome of the 2001 CTC docket. We, therefore, will allow recovery of the average stranded cost charge of $0.00679 per kWh subject to our investigations in Docket Nos. DE 01-241 and DE 00-277. In Order No. 23,835 (November 2, 2001), this Commission approved a decrease in GSEC=s base transition service charge from $0.06462 per kWh to $0.04741 per kWh. Here, the Company also seeks a change in the transition service cost adjustment provision. We will approve the adjustment of last year=s under collection and allow the transition service adjustment factor of $0.00130 per kWh for a total transition service charge of $0.04871 per kWh, a decrease of $0.00085 per kWh over last year=s charge.

We do, however, note that, if the Company is using only Transition Service 1 2002 forecast sales (635,798,037 kWh from schedule TMB 9) in the service adjustment calculation, the adjustment factor is higher than necessary to collect the under-recovery, as all transition service customers pay the adjustment factor. We expect that, if total 2002 forecast sales (809,442,000 from schedule TMB 12, p.1) are used, the adjustment factor would be $0.00102 per kWh as opposed to $0.00130 per kWh. Using the higher adjustment factor ostensibly provides the Company with an approximate overcollection of $226,642. However, allowing the higher adjustment factor lessens the Transition Service 2 under-collection and thus any interest that must be paid on that under-collection. Therefore, we agree with the methodology employed by the Company.

The Company adjusts its Transition Service 2 over/under-recoveries through the electric service adjustment provision. The Company is proposing a uniform electric service adjustment factor of $0.00384 per kWh, as there was an under-collection of $2,984,324 for the period October 2000 through September 2001. This charge is an increase of $0.00249 over the 2001 rate of $0.00135 per kWh.

We recognize the electric service adjustment calculation includes an over-collection of the gross receipts franchise tax as seen in schedule TMB-10 column(c), equaling $371,890. The Company states that it is proposing to credit the over-collection of the franchise tax, with interest through May 2001, to the electric service reconciliation in June 2001 (Burns Testimony, p. 37). The Company further explains that, with interest, the franchise tax credit by itself would be $0.00048 per kWh and the electric service adjustment factor would need to be increased to $0.00433 per kWh (Burns testimony p. 38). The Company notes that it would rather reconcile the franchise tax over-collection as proposed since consolidation avoids undue complexities in customer bills, and it helps mitigate the under-collection of Transition Service 2 revenues.

Staff raised no concern with the proposed consolidation of the two adjustments but did question Ms. Burns concerning the implementation of the interest on the over-collection balance.

Staff argued that the Company should be required to pay its customers interest on GSEC=s known tax over-collection from the time that the Company began to collect the funds and was not turning those funds over to the State of New Hampshire, *i.e.,* July 1998. *See*, schedule TMBB23. The Company indicated, on cross-examination, the difference in interest was just under $42,000, bringing any creditable amount to $413,291.

We accept the Company=s proposal to return the franchise tax over-collection to the customers by consolidating it in the electric service adjustment. We also accept Staff=s position regarding interest. The funds collected by GSEC and held were neither stranded costs nor transmission costs; they were collected as tax revenues. In this instance, they were over-collected. Thus, the Company should be required to pay its customers interest on the over-collection from the time that the Company began to collect the funds. We, therefore, approve the electric service adjustment only where the Company uses the refund amount of $413,291 in place of the $371,890. The Company is thus required to recalculate the electric service adjustment charge.

Staff also recommended that we offset the default service under-collection with the Systems Benefit Charge (SBC) over-collection. We see no reason to do this. The Company=s argument for keeping the accounts separate was persuasive. The SBC is not considered revenue to the Company, as any collection would be for the administrative costs associated with default service. Since the default service administrative costs total only $27,698 and there does not seem to be the likelihood in the near future for the costs to rise significantly, we will approve GSEC=s request to carry the balance forward (without interest accrual) until next year=s reconciliation.

The final item for our consideration is the SBC. The Systems Benefit Charge reconciliation reflects an over-collection of $19,849 (schedule TMB-20). The Company proposes to carry the refund factor of $0.005 per kWh into next year=s reconciliation. Thus, the Company is proposing no change to its $0.00014 per kWh portion of the SBC for its interim low-income program at this time. However, the Company is proposing to add $0.00018 per kWh to the SBC for the energy efficiency portion. The Company acknowledges that while its compliance filing on energy efficiency has not been approved, it is proposing to implement the charge on January 1, 2002, bringing its total SBC to $0.00194 per kWh. GSEC further states that it will eliminate its Conservation and Load Management (CL&M) Charges averaging $0.00110 per kWh if the Commission allows it to put in place the $0.00194 per kWh SBC.

We are aware that GSEC filed a letter on December 21, 2001, with our Executive Director, indicating that the Company intends to continue to offer its existing C&LM Programs during the interim period prior to the Commission's approval of GSEC's Utility Specific Core Energy Efficiency Filing. Accordingly, we will not approve the change in the SBC rate until we determine an appropriate outcome in the energy efficiency filing. We will, however, allow the Company to defer its over-recovery for reconciliation in the 2003 filing.

Based upon the foregoing, it is hereby

ORDERED, Granite State Electric Company's Transmission Charge, Transition Service Charge, System Benefits Charge, SBC Refund Adjustment, Stranded Cost Charge, and Electric Service Adjustment are approved as discussed herein; and it is

FURTHER ORDERED, that GSEC will submit to this Commission its overall reconciliation figure including the mandated changes by January 4, 2002.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of December, 2001.

Thomas B. Getz Chairman	Susan S. Geiger Commissioner	Nancy Brockway Commissioner

Attested by:

Kimberly Nolin Smith
Assistant Secretary