

**DE 01-241
DE 02-214
DE 03-228**

GRANITE STATE ELECTRIC COMPANY

Reconciliations of Contract Termination Charge for 2001, 2002 and 2003

Order Nisi Approving Settlement Agreement

ORDER NO. 24,354

July 16, 2004

The petitioner, Granite State Electric Company (GSEC), has filed with the New Hampshire Public Utilities Commission (Commission) proposed reconciliations of the company's Contract Termination Charge (CTC) for 2001, 2002 and 2003. The 2001 reconciliation was filed on November 30, 2001 in Docket No. DE 01-241, the 2002 reconciliation on November 26, 2002 in Docket No. DE 02-214 and the 2003 reconciliation on November 26, 2003 in Docket No. DE 03-228. Pursuant to the Restructuring Settlement Agreement approved by the Commission in 1998, *see Granite State Electric Co.*, 83 NH PUC 532 (1998), the GSEC service territory was opened to retail competition among energy providers pursuant to RSA 374-F and GSEC customers began paying the CTC to compensate GSEC affiliate New England Power Company (NEP) for certain stranded costs – specifically, costs arising out of the early termination of GSEC's contract to purchase wholesale power from NEP. The 1998 restructuring order established the initial CTC and directed that annual reconciliations be filed thereafter. The Commission approved the 1999 and 2000 CTC reconciliations in *Granite State Electric Company*, 87 NH PUC 466 (2002).

On July 1, 2004 GSEC submitted a Settlement Agreement it had entered into with the Office of Consumer Advocate (OCA) and the Staff of the Commission resolving all issues

with respect to the 2001, 2002 and 2003 reconciliations. The Settlement Agreement represents a compromise on two outstanding issues: (1) the question of whether NEP and GSEC must credit customers with GSEC's share of the market value of NEP's interest in the Millstone III Nuclear Generation Station in Connecticut, as opposed to the smaller sum that constitutes the actual sale price obtained in 1999, and (2) whether GSEC is entitled to recover from New Hampshire customers any of the acquisition premiums associated with two merger transactions: the 1999 acquisition by National Grid Group, PLC of the parent company of both GSEC and NEP and the subsequent acquisition of Eastern Utilities Associates, Niagara Mohawk Holdings, Inc. and the Lattice Group plc. When the Commission approved the initial merger in 1999, it did not resolve the issue of whether GSEC could recover any acquisition premium by crediting GSEC (as opposed to customers) with any so-called "synergy savings" resulting from merger-related efficiency gains. *See New England Electric System*, 84 NH PUC 502, 512-14 (1999).

Under the terms of the Settlement Agreement, there would be no adjustment to reflect the market value of the Millstone III interest and GSEC agreed that its distribution rates will include no allowance for merger-related synergy savings or for the amortization of GSEC's share of the acquisition premium or transaction costs associated with the National Grid Group merger. The latter provision includes one exception: Should the Commission review GSEC's distribution rates between the effective date of the Settlement Agreement and December 31, 2019 based on a complaint or Commission-initiated investigation, GSEC reserves the right to seek recovery of merger-related synergy savings subject to GSEC carrying the burden of proving the existence of such savings.

The GSEC CTC for calendar year 2001 was 0.53 cents per kilowatt-hour. In successive rate adjustment proceedings before the Commission, the CTC was modified to 0.68 cents for 2002, 0.66 cents for 2003 and 0.57 cents for 2004. Although these proceedings left open the possibility of adjustments to the CTC based on the reconciliation conducted in this proceeding, the Settlement Agreement results in a determination that no adjustment is necessary.

It is our determination that the Settlement Agreement, which is the product of extensive discovery and negotiations pursuant to the informal dispute resolution process of the approved restructuring settlement, is consistent with the public interest. Accordingly, all issues presented by the 2001, 2002 and 2003 CTC reconciliation reports are resolved and no further adjustments to the respective CTC charges for calendar years 2001, 2002 and 2003 are warranted.

Based upon the foregoing, it is hereby

ORDERED NISI, that subject to the effective date below, the Settlement Agreement described herein is approved; and it is

FURTHER ORDERED, that the Petitioner shall cause a copy of this Order Nisi to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than July 26, 2004, and to be documented by affidavit filed with this office on or before August 10, 2004; and it is

FURTHER ORDERED, that all persons interested in responding to this petition be notified that they may submit their comments or file a written request for a hearing on this matter before the Commission no later than August 2, 2004; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than August 9, 2004; and it is

FURTHER ORDERED, that this Order Nisi shall be effective August 16, 2004, unless the Petitioner fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that the Petitioner shall file a compliance tariff with the Commission on or before August 16, 2004, in accordance with N.H. Admin. Rules Puc 1603.02(b).

By order of the Public Utilities Commission of New Hampshire this sixteenth day of July, 2004.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary