DE 04-211

GRANITE STATE ELECTRIC COMPANY

Petition for Approval of Retail Rate Adjustments

Order Approving Petition

O R D E R N O. 24,416

December 29, 2004

APPEARANCES: Colin Owyang, Esquire and Gallagher, Callahan & Gartrell, P.A. by Seth W. Shortlidge, Esquire for Granite State Electric Company and Donald M. Kreis, Esquire of the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On November 15, 2004, Granite State Electric Company (GSEC) filed a petition with the New Hampshire Public Utilities Commission (Commission) seeking an adjustment, effective on January 1, 2005, of certain of the GSEC retail rate components. At issue are GSEC's Stranded Cost Charge, Transition Service adjustment factor, Default Service adjustment factor and Transmission Service Charge and the conservation and Load Management (C&LM) factor. The Commission approved the applicable adjustment mechanisms in 1998 in connection with its approval of the settlement agreement, under which GSEC was restructured pursuant to RSA Chapter 374-F. *See Granite State Electric Co*., 83 NH PUC 532 (1998). GSEC proposes to implement the revised rates on a service-rendered basis.

The Commission issued an Order of Notice on November 30, 2004, which was published in the *Union Leader* on December 3, 2004. The Order of Notice scheduled a hearing for December 17, 2004 and established a deadline for intervention petitions. The Commission received a timely petition from Constellation Energy Commodities Group, Inc. (Constellation), which provides Transition Service to GSEC at the wholesale level, to which there was no objection. At the December 3, 2004 hearing the Commission took evidence from two GSEC witnesses. On December 23, 2004, GSEC provided responses to certain record requests made during the hearing, one of which was further revised on December 27, 2004.

II. POSITIONS OF THE PETITIONER AND STAFF

A. Granite State Electric Company

GSEC noted that its Stranded Cost Charge consists of two components. One component is the Contract Termination Charge (CTC) through which GSEC recovers from its retail customers payments to GSEC affiliate New England Power Company (NEP). These payments compensate NEP for stranded costs associated with restructuring GSEC and opening its service territory to retail competition. *See* RSA 374-F:2, IV (defining "stranded costs" as certain costs that vertically integrated electric utilities reasonably expected to recover from customers prior to restructuring). The other component is an adjustment factor, which can be positive or negative and which reflects an annual reconciliation of GSEC's actual CTC expenses with GSEC's actual receipts via the Stranded Cost charge. GSEC uses this adjustment mechanism to conduct a separate reconciliation, and calculate a separate Stranded Cost Charge, for each rate class.

As noted by GSEC, the CTC is itself reconciled annually in a separate Commission proceeding. *See Granite State Electric Co*., Order No. 24,354 issued on July 16, 2004 (approving settlement agreement resolving 2001, 2002 and 2003 CTC reconciliations). The 2004 CTC reconciliation has been docketed as DE 04-225 and remains pending; in the instant filing GSEC assumes for purposes of calculating the applicable adjustment factors that its CTC adjustment will be approved. Based on its calculations, GSEC proposes a Stranded Cost charge of 0.60¢ per kilowatt-hour (kWh), an increase of 0.03¢ per kWh over the average

Stranded Cost charge of 0.57¢ per kWh currently in effect and a decrease in the adjustment factor of 0.092¢ per kWh for Rate V (limited commercial space heating) customers and an increase of 0.001¢ per kWh for Rate M (outdoor lighting) customers. For all other rate classes, there is no adjustment factor.

Transition Service is "electricity supply that is available to existing retail customers prior to each customer's first choice of a competitive electricity supplier and to others, as deemed appropriate by the commission." RSA 374-F:2, V. The Commission has determined that GSEC should continue to offer Transition Service through April 30, 2006. *See Granite State Electric Co*., 87 NH PUC 302 (2002) (2002 Order).[1] Constellation has been GSEC's Transition Service provider since July 2002. As with the CTC, GSEC separately reconciles its Transition Service costs with Transition Service receipts and then calculates an adjustment factor. The costs consist of sums paid by GSEC to Constellation as well as the costs associated with a Fleet Bank letter of credit that secures GSEC's payments to Constellation.[2]

GSEC's reconciliation with respect to Transition Service is somewhat complicated by the fact that, prior to the Commission's 2002 decision to extend Transition

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[1] The Legislature has determined that Transition Service "should be available for at least one but not more than 5 years after competition has been certified to exist in at least 70 percent of the state pursuant to RSA 38:36, for customers who have not yet chosen a competitive electricity supplier." RSA 374-F:3, V(b). The Commission made the relevant certification on May 1, 2001, which is the date on which the service territory of the state's largest electric utility (Public Service Company of New Hampshire) was opened to retail competition.

[2] The letter-of-credit expense was the subject of considerable discussion at hearing and, on December 23, 2004, GSEC provided a response to a record request (Exhibit 3) posed at hearing in connection with this issue. According to the GSEC response, it would be possible to replace this expense with credit guarantees from its American parent company (National Grid USA) or its ultimate British parent company (National Grid Transco), but that it would be inappropriate to do so. According to GSEC, if it were to use its affiliate relationships to obtain the necessary credit guarantees associated with procuring Transition Service, it would place competitive suppliers at an inappropriate disadvantage because, in effect, GSEC and its regulated affiliates would be subsidizing this service. GSEC also points out that it earns no profit in connection with the provision of Transition Service and contends that in these circumstances it would be imprudent and unfair to require it and/or its affiliates to bear the cost of credit guarantees associated with the service. Finally, GSEC notes that the settlement agreement approved in Order No. 23,966 (May 8, 2002) specifically authorized GSEC to recover from customers both the administrative costs of providing Transition Service as well as costs associated with providing required credit assurances.

Service through April 2006, there were two classes of Transition Service and thus separate reconciliations for each.[3] Thus the instant reconciliation involves a "Transition Service 1" adjustment factor (related to Transition Service costs through a September 2002 reconciliation) and a separate reconciliation related to expenses incurred and revenue received following that 2002 reconciliation. GSEC's current Transition Service reconciliation also reflects the correction of an error as noted and approved in Order No. 24,288 (March 5, 2004). The net effect of these calculations, as proposed by GSEC, is a downward adjustment to Transition Service rates from the current rate of 0.151¢ per kWh to 0.04¢ per kWh. GSEC proposes to add this adjustment factor to the Transition Service rates as approved by the Commission pursuant to the mechanism established in Order No. 23,966.[4]

Default Service is "electricity supply that is available to retail customers who are otherwise without an electricity supplier and are ineligible for transition service." RSA 374-F:2, I-a. According to GSEC, it is currently serving six Default Service customers. The Commission approved GSEC's Default Service adjustment mechanism in *Granite State Electric Co*., 85 NH PUC 628 (2000), providing for an annual reconciliation and adjustment factor similar to the one used for Transition Service. The Default Service adjustment factor currently in effect is 0.006¢ per kWh. In its present filing, GSEC does not propose a Default Service adjustment factor

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[3] When the GSEC service territory was first opened to retail competition, there were two classes of Transition Service: one for customers then taking Transition Service (Transition Service I) and the other for new customers and customers returning to Transition Service after taking service from a competitive supplier (Transition Service 2). *See Granite State Electric Co.*, 87 NH PUC at 872 n.2. The Commission eliminated this distinction when it approved the extension of Transition Service in 2002. *Id*.

[4] The Commission approved Transition Service rates through April 2006 in Order No. 23,966 (subject to specified revisions on a quarterly basis) with the exception of customers taking service under Rate G-1 (the General Service time-of-use rate for certain large commercial customers). As to those customers, paragraph 11 of the settlement agreement approved in Order No. 23,966 provided for an adjustment for the period July 1, 2004 through April 30, 2006 to the rates approved in 2002 including quarterly adjustments. In compliance with that provision, GSEC filed on March 23, 2004 certain data relative to then-prevailing conditions in the forward market for electricity, suggesting that the applicable Transition Service rates for G-1 customers were not below those prevailing in the forward market. The Commission did not initiate a proceeding to consider new Transition Service prices for G-1 customers, a right expressly reserved to the Commission in the settlement approved by Order No. 23,966.

because the unrecovered balance is too small. Therefore, GSEC proposes carrying forward the unrecovered balance ($12,149 through October 2004) to the next reconciliation period.

GSEC proposes a uniform Transmission Service adjustment factor of 0.058¢ per kWh as well as a revision to the underlying Transmission Service charge. GSEC proposes an increase in the Transmission Service charge from 0.586¢ per kWh to 0.729¢ per kWh for residential customers taking service under Rate D, and from 0.578¢ per kWh for commercial customers taking G-1 service. Two rate classes, G-3 (large commercial general service) and V (limited commercial space heating) would see slight decreases in their Transmission Charge. According to the GSEC filing, the Transmission Service charge on average would increase from 0.599¢ per kWh to 0.665¢ per kWh, exclusive of the Transmission Service cost adjustment factor.

GSEC witness Carol A. Currier testified that GSEC takes wholesale transmission service under three separate tariffs approved by the Federal Energy Regulatory Commission (FERC): those of GSEC wholesale affiliate NEP, the New England Power Pool (NEPOOL) and ISO-New England (ISO-NE, the regional grid operator serving all of New England). According to Ms. Currier, the NEP tariff involves local transmission service (i.e., Local Network Service), the NEPOOL tariff covers the regional transmission grid and the ISO-NE tariff involves costs associated with administering the transmission system. Overall, Ms. Currier estimated that GSEC would incur $5,778,411 in recoverable transmission expenses in 2005, $755,399 more than the forecast applied a year ago to establish the Transmission Service rates that were applicable in 2004.

A question arose during the hearing about the allocation of transmission costs to the various rate classes. In response to a record request, GSEC filed a written statement (Exhibit

4) indicating that GSEC incurs the majority of its transmission costs based on its demand at the time of NEP's monthly transmission peak, referenced in the original GSEC filing as the "coincident peak." According to GSEC, since it can determine (via load sampling) the demand of each rate class at the time of the coincident peak, it can develop an allocator that represents each rate class's contribution to the coincident peak and the resulting transmission costs. Exhibit 4 indicates that the main cause of the increase in the Transmission Charge for residential Rate D customers is an increase in the coincident peak allocator. According to the attachment to Exhibit 4, the coincident peak allocator associated with Rate D increased by 15.27 percent, whereas the allocator for Rate D-10 increased by 9.87 percent, the allocator for Rate T (the residential Limited Total Electric Living rate) grew by 9.88 percent and the allocator for streetlighting customers grew by 2.33 percent. The allocators for the commercial rate classes decreased from between 14.19 percent for Rate G-3 to 5.56 percent for Rate G-1. In other words, with the exception of streetlighting, a greater share of overall GSEC transmission costs was allocated to residential customers. This, according to GSEC, accounts for why some residential customers would experience a slight rate increase under its proposal even though, on an aggregate basis, GSEC seeks a rate decrease of 0.001¢ per kWh.

Finally, GSEC requested authority to carry forward a balance of an estimated $7,826 for residential customers and an estimated $31,103 for commercial customers in its Conservation and Load Management (C&LM) account.[5] According to GSEC, the account reconciles sums recovered from customers for programs that antedated the 2002 advent of the Core Energy Efficiency Programs funded via the System Benefits Charge paid by all customers pursuant to RSA 374-F:3, VI. GSEC indicated that it would make a proposal as to the

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[5] At the hearing, Mr. McCabe stated that, as of November 2004, the C&LM balance were $6.050 for residential customers and $19,914 for commercial and industrial customers.

disposition of this balance at a future date, proposing in the interim to include a C&LM adjustment factor of zero in retail rates. Among the possibilities mentioned by GSEC witness Scott M. McCabe was transferring these small balances to the Systems Benefits Energy Efficiency Programs.

According to GSEC, its proposal would increase the total electric bill of a typical residential customer using 500 kWh of electricity per month by $0.44 per kWh, or 0.79 percent. This would bring the total bill of such a residential customer from $55.66 to $56.10 per month.

B. Staff

Staff did not file testimony or issue a statement at the hearing. However, at the hearing, Staff asked the GSEC witnesses a series of questions addressing the treatment of the remaining C&LM funds, GSEC's letter of credit, the assumptions used for the forecasts of kWh deliveries, differences in the over-and under-collections across allocators, and the allocation of labor time. Staff found GSEC's responses to Staff questions at the hearing and through record requests acceptable and supports GSEC's proposed retail rate adjustment. Staff also acknowledged GSEC's filing within the time frame required by the Commission in Order No. 24,257 issued on December 31, 2003.

III. COMMISSION ANALYSIS

RSA 378:7 vests us with the responsibility of determining whether a utility's rates to be charged retail customers in New Hampshire are just, reasonable and lawful. RSA 374-F:4, VIII(a) further authorizes us "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" as set forth in RSA 374-F:3. Among the RSA 374-F:3 principles that are relevant to this proceeding are the objectives of minimizing customer confusion arising out of restructuring, RSA 374-F:3, II, providing "clear price information on the cost components of generation, transmission, distribution, and any other ancillary charges," RSA 374-F:3, III, the pricing of Transition Service to encourage customers to choose a competitive energy supplier, RSA 374-F:3, V(b), maintaining Transition Service as separate and distinct from Default Service, *Id.*., allocating administrative costs of Default Service to Default Service customers, RSA 374-F:3, V(c), implementing restructuring in a manner that benefits all consumers equitably and does not benefit one customer class to the detriment of another, RSA 374-F:3, VI, and the recovery of stranded costs through "a nonbypassable, nondiscriminatory, appropriately structured charge that is fair to all customer classes, lawful, constitutional, limited in duration, consistent with the promotion of fully competitive markets and consistent with [the other RSA 374-F:3] principles," RSA 374-F:3, XII(d).

As noted by GSEC, most of the relevant policy determinations were made in 2002 when the Commission approved the adjustment mechanisms contained in GSEC's proposal as well as the extension of Transition Service through April 30, 2006. There has been no suggestion here that circumstances have changed in a manner that would lead us to revisit any of those prior determinations. With respect to the inclusion of costs associated with credit guarantees in the Transition Service adjustment mechanism, we agree with GSEC that we implicitly endorsed such an approach when we approved the 2002 settlement agreement in Order No. 23,966 that contained an explicit reference to such inclusion.

The allocation of transmission costs was explored at hearing and we find that GSEC's proposed allocators are just and reasonable as well as consistent with the RSA 374-F:3 policy principles. We agree with GSEC that, because the bulk of its transmission costs under FERC-approved tariffs are determined based on the NEP system coincident peak, it is appropriate to determine each rate class's share of the system load at the time of the peak and apportion transmission charges accordingly. This avoids benefiting one customer class at the expense of another in connection with GSEC's recovery of transmission costs.

The resulting rate changes are modest in scope and will, for commercial customers, actually decrease rates slightly. The record supports a determination that the proposed rates and adjustment factors are just, reasonable and lawful. Finally, we grant Constellation's petition to intervene.

Based upon the foregoing, it is hereby

ORDERED, Constellation's petition to intervene is GRANTED; and it is

FURTHER ORDERED, that the proposed retail rate adjustments and adjustment factors proposed by Granite State Electric Company are hereby APPROVED for service rendered on or after January 1, 2005; and it is

FURTHER ORDERED, that Granite State Electric Company submit a compliance tariff to the Commission on or before January 14, 2005.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of December, 2004.

Thomas B. Getz Chairman	Graham J. Morrison Commissioner	Michael D. Harrington Commissioner

Attested by:

Michelle A. Caraway
Assistant Executive Director