

DE 08-011

GRANITE STATE ELECTRIC COMPANY

Petition for Approval of Proposed Default Service Rates for the Large and Small Customer Group for the Period beginning May 1, 2008

Order Following Hearing

ORDER NO. 24,836

March 21, 2008

APPEARANCES: Alexandra E. Blackmore, Esq. on behalf of Granite State Electric Company d/b/a National Grid; Meredith Hatfield, Esq. with the Office of Consumer Advocate on behalf of residential ratepayers; and Suzanne G. Amidon, Esq. on behalf of Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On February 1, 2008, Granite State Electric Company d/b/a National Grid (National Grid) filed a letter notifying the Commission of its intent to issue a Request for Proposals (RFP) to procure default service for the period May 1, 2008 through July 31, 2008 for its medium and large commercial and industrial customers (Large Customer Group) and for the period May 1, 2008 through October 31, 2008 for its residential and small commercial customer group (Small Customer Group). National Grid indicated that the filing would be made pursuant to a Settlement Agreement approved by the Commission in Docket No. DE 05-126, *Petition for Approval of Post-Transition Default Service Proposal*, 91 NH PUC 6 (Order No. 24,577) January 13, 2006. On March 6, 2008, the Office of Consumer Advocate (OCA) filed a letter with the Commission indicating that it would participate in Docket No. DE 08-011 on behalf of residential ratepayers consistent with RSA 363:28.

On March 6, 2008, the Commission issued an Order of Notice scheduling a hearing on National Grid's default service filing for March 19, 2008.

On March 17, 2008, National Grid filed its petition for the provision of default service for all customers for the period beginning May 1, 2008. In support of its petition, National Grid filed the testimony of John D. Warshaw and Scott M. McCabe with related exhibits and schedules. The company selected Constellation Energy Commodities Group (Constellation) as the winning supplier for both the Large and Small Customer Groups.

With the petition, National Grid filed a Motion for Confidential Treatment. In its Motion, National Grid requested confidential treatment by the Commission with respect to the Transaction Confirmation between National Grid and Constellation. The company also requested confidential treatment for the indicative bid summary provided to Staff on March 5, 2008 and corrected on March 6, 2008, the RFP bid evaluation and its analysis comparing changes in electric and gas futures costs to changes in procurement costs, and the calculation of commodity costs at the retail customer meter. National Grid states that the information is confidential, commercial, or financial information which is exempt from public disclosure pursuant to RSA 91-A. National Grid also asserts that disclosure of such information could adversely affect the business position of the parties in the future. National Grid asserted that the Commission had previously recognized the confidentiality of such information in past orders related to default service procurement.

II. POSITIONS OF THE PARTIES AND STAFF

A. National Grid

National Grid testified that it conducted the default service solicitation process in accordance with applicable New Hampshire rules and regulations and the terms of a Settlement Agreement approved by the Commission in Docket No DE. 05-126, Granite State Electric Company, 91 NH PUC 6 (Order No. 24,577) January 13, 2006. National Grid stated that, on

February 15, 2008, it issued an RFP to approximately twenty-five potential suppliers soliciting default service power supplies for both the Large Customer Group for the period May 1, 2008 through July 31, 2008 and for the Small Customer Group for the period May 1, 2008 through October 31, 2008. National Grid explained that it distributed the RFP to all members of the New England Power Pool Markets Committee and posted the RFP on its energy supply website. As a result, National Grid asserts that the RFP had wide distribution throughout the New England energy supply marketplace. The RFP requested fixed pricing for each month of service on an as-delivered energy basis, and allowed prices to vary from month to month across the service period.

National Grid stated that it received indicative proposals on March 5, 2008 and provided a confidential summary of the proposals to Commission Staff and the OCA for purposes of reviewing the implied cost of capacity consistent with the terms of the Settlement Agreement. The company received final proposals on March 12, 2008. National Grid then evaluated the bids received and selected the two suppliers 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 National Grid's qualitative criteria.

According to the company, on March 13, 2008, National Grid entered into the Transaction Confirmation with Constellation Energy Commodities Group, the winning bidder for both the Large Customer Group for the period May 1, 2008 through July 31, 2008 and the Small Customer Group for the period May 1, 2008 through October 31, 2008. National Grid explained that a copy of the Constellation Master Power Agreement was filed with the Commission on March 20, 2006 in connection with a prior default service procurement filing.

National Grid said that its public filing included a copy of the Transaction Confirmation between National Grid and Constellation, with confidential sections redacted.

National Grid testified that it evaluated the implied costs of capacity by comparing the indicative energy only and energy-and-capacity bids with its own internal evaluation of the costs of capacity and reviewed the implied costs of capacity in the indicative bids. As a result of this analysis, National Grid decided the market risks to its Large and Small Customer would be reduced by the selection of a bid that provides a fixed all-inclusive energy-and-capacity cost.

For both the Small Customer and Large Customer Group, National Grid said it calculated the base default service rate by multiplying the commodity cost at the wholesale level (\$ per MWh) by the applicable loss factor and then dividing the results by ten. The applicable loss factors are included in the RFP summary in Schedule JDW-2.

National Grid calculated the monthly base default service rates for the Small Customer Group as follows:

Month	May	June	July	August	September	October
Per kWh	\$0.1555	\$0.11107	\$0.11999	\$0.12154	\$0.11211	\$0.11263

According to the company, the weighted average of the base default service rates for the Small Customer group is \$0.11422 per kilowatt hour. This compares to the weighted average base default service rate of \$0.09284 per kilowatt hour for the period November 2007 through April 2008, an increase of 23%. The following adjustments to the weighted average base default service rate produce a total average default service rate for the Small Customer Group of \$0.11655 per kilowatt hour for the period May 2008 through October 2008, compared to the current rate of \$0.09161 per kilowatt hour.

Base Default Service Rate	\$0.11422 per kWh
Default Service Adjustment Factor	\$0.00009 per kWh
Cost Reclassification Adjustment Factor	\$0.00116 per kWh
<u>Renewable Portfolio Standard Adder</u>	<u>\$0.00108 per kWh</u>
Total Default Service Rate	\$0.11655 per kWh

National Grid stated that these rates amount to an increase of 17.3% for residential customers using 500 kWhs per month, or an increase in the monthly bill from \$72.11 to \$84.58.

The company said that for residential customers using 677 kWhs per month, which is the average monthly usage of residential customers for the 2007 calendar year, the bills would increase 17.2% or from \$98.39 per month to \$115.27 per month. For other customers in the Small Customer Group, increases range from 16.3T to 22.3%.

For the Large Customer Group, National Grid stated that the monthly base default service rates are as follows:

Month	May	June	July
Per kWh	\$0.10614	\$0.11267	\$0.12151

National Grid indicated that the simple average of these rates is \$0.11344 per kilowatt hour, as compared with the current average rate of \$0.09304 per kilowatt hour for the period February 2008 through April 2008. The following adjustments to the base default service rates per kWh produce total default service rates for the Large Customer Group equal to:

	May	June	July
Base Retail Rate	\$0.10614	\$0.11267	\$0.12151
2008 Default Service Adjustment Factor	\$0.00009	\$0.00009	\$0.00009
Default Service Cost Reclassification Factor	\$0.00032	\$0.00032	\$0.00032
<u>Renewable Portfolio Standard Adder</u>	<u>\$0.00108</u>	<u>\$0.00108</u>	<u>\$0.00108</u>
Total Default Service Rate	\$0.10763	\$0.11416	\$0.12300

National Grid stated that these rates produce total bill increases for Large Customers ranging from 17.4 to 20.5%.

National Grid explained that the default service reconciliation in this filing was prepared in the same manner as the default service reconciliations filed with the Commission in 2007 in Docket No. DE 07-012, the docket designated for National Grid's default service filings. The company said that the calculation was based on the use of accrual accounting methodology such that monthly revenues are based on accrued revenues derived from the amount utilized by customers each month. The proposed default service adjustment factor of \$0.00009 per kWh was calculated by taking the under-collection of \$63,119 shown on Schedule SMM-3, accruing interest on the balance during the recovery period assuming monthly refund amounts, and dividing the balance (including interest) by an estimate of the kWh deliveries attributable to default service customers for the period from May 2008 through April 2009. The company intends the default service adjustment to take effect on May 1, 2008, with the proposed change in default service energy rates.

As explained by National Grid, the default service cost reclassification adjustment factor added to the base default service rates is designed to recover in default service rates all of the administrative costs, including bad debt and working capital, associated with the procurement of default service. The company calculated a proposed default service cost reclassification adjustment factor of \$0.00116 for the Small Customer Group for the period beginning May 1, 2008 and ending April 30, 2009 and \$0.00032 for the Large Customer Group for the period beginning May 1, 2008 and ending July 31, 2008. National Grid proposes that the default service cost reclassification adjustment factor take effect on May 1, 2008 with the other rate changes.

National Grid explained how it complied with the requirements of the Electric Renewable Portfolio Standard (RPS) statute, RSA 362-F. National Grid said that RSA 362-F requires the company, for the calendar year 2008, to purchase Renewable Energy Certificates (RECs) in an amount equivalent to 4% of its total MWh sales. Specifically, the company must purchase Class III (eligible biomass) RECs in an amount equal to 3.5% of its total 2008 MWh sales, and Class IV (small hydro) RECs in an amount equal to 0.5% of its total 2008 MWh sales. The company noted that if it could not purchase the requisite number of RECs, National Grid would have to pay the Alternative Compliance Payment (ACP) to the Renewable Energy Fund.¹ The company calculated, for each month from the period beginning May and ending October 2008, the total MWh it expected to purchase at wholesale. The company multiplied the resulting sum of MWhs by \$28.00, the ACP amount for Classes III and IV, to derive the REC cost at wholesale, adjusted that amount by the loss factor and then converted the cost at wholesale to a per kWh adder. The result, as explained by National Grid, is a uniform RPS adder of \$0.00108 per kWh. The company pointed out that the Commission had approved the calculation of the adder in a prior default service solicitation filing in Docket No. DE 07-012, Granite State Electric Company, Order No. 23,787 (September 21, 2007).

National Grid concluded by requesting that the Commission approve its petition and its Motion for Confidential Treatment.

B. The Office of Consumer Advocate

The OCA requested clarification of the number of man-hours associated with the wholesale procurement of default service for New Hampshire customers. National Grid explained that 543 man-hours in energy supply procurement was directly assigned to New Hampshire and was collected through default service rates. National Grid added that the total

¹ For detailed information, see N.H. RSA Chap. 362-F, Electric Renewable Portfolio Standard.

man-hours associated with New Hampshire default service procurement is 670, with the hours in excess of 543 accounted for by legal and regulatory personnel. The OCA made a record request for the data underlying the 670 man-hours.

The OCA also requested that the company explain the calculation of the default service adder, and the company offered the explanation it provided in its testimony for the record. Finally, the OCA said it had no objection to the petition.

C. Staff

Staff cross-examined National Grid about man-hours associated with wholesale power procurement. Staff noted that, in response to Staff data request 1-4 (d) and (e) (Supplemental) (Exhibit 4), National Grid stated that there are about 10,000 man-hours associated with energy supply procurement for New England electric utilities, including 1,364 hours of non-productive time such as holidays, vacations and sick time. Of the 10,000 hours, National Grid said that 2,021 were directly charged to individual utility companies other than Granite State Electric Company. Staff inquired about the collection of labor costs associated with unproductive hours, and pointed out that such costs are typically recovered through the overhead percentage applied to unit labor costs. Staff asked whether that is the case for Granite State, and if not, how those costs are recovered. The company agreed to take this question as a record request and to respond accordingly.

In addition, Staff noted that there were approximately 4,600 man-hours associated with energy supply procurement that is apparently unrelated to default service and not recovered through default service rates of any National Grid utilities. Staff asked how the labor costs associated with those hours were recovered. Because National Grid did not have that information, the Commission issued a record request for the company's answer.

Staff agreed that National Grid complied with the solicitation process approved by the Commission in Order No. 24,577 (January 13, 2006) and that National Grid employed appropriate evaluation criteria in its selection of Constellation for the three-month power supply for the Large Customer Group and for the six-month power supply for the Small Customer Group. Staff also testified that National Grid's selection of an all inclusive energy-and-capacity bid was based on a reasonable analysis of the implied cost of capacity. Staff opined that the bid process produced reasonable and market-based power prices.

In conclusion, Staff recommended that the Commission approve National Grid's petition.

III. COMMISSION ANALYSIS

A. Confidentiality

First, we address National Grid's Motion for Confidential Treatment. The materials which National Grid seeks to protect contain: a brief discussion of the selection of the winning bidder; a bidder key that identifies the suppliers who participated in the RFP; the comparative energy and capacity prices received from the bidders, including the estimated total cost according to the evaluation loads provided with the RFP; a ranking of the transactions offered by each bidder in terms of financial security, including consideration of reasonable extension of credit to National Grid and the creditworthiness of the supplier and the credit assurance offered; the information provided by each bidder in the proposal submission forms; and, a redlined version of the negotiated PSA.

National Grid asserts that this information should be protected from public disclosure because it is confidential, commercial, or financial information. National Grid contends that the information provided by bidders was offered under the express understanding that such information would be maintained as confidential and that suppliers would be reluctant to

participate in future solicitations by National Grid if their confidential bid information is disclosed. National Grid argues that the disclosure of the fully negotiated Transaction Confirmation will reveal its negotiating posture to other potential power suppliers and claims that its customers would be harmed by National Grid's diminished negotiating position. National Grid also asserted that the indicative bids shared with Staff and the OCA by email on March 5 and 6, 2008, are confidential.

The New Hampshire Right-to-Know law provides each citizen the right to inspect public records in the possession of the Commission. RSA 91-A:4, I. Section IV, however, exempts from disclosure certain "confidential, commercial, or financial information." In order to rule on the Motion, we have made an *in camera* review of the material which National Grid asserts is confidential.

Inasmuch as disclosure in this instance could negatively affect customers, we do not find the public's interest in review of the financial, commercially sensitive information sufficient to outweigh the need for National Grid and its bidders to maintain confidentiality of such information. *Union Leader Corp. v. New Hampshire Housing Finance Authority*, 142 N.H. 540 (1997). We will, therefore, grant protective treatment to the information redacted from National Grid's public filing. Consistent with past practice, the protective treatment provisions of this Order are subject to the on-going authority of the Commission, on its own motion or on the motion of Staff, any party or other member of the public, to reconsider this protective order in light of RSA 91-A, should circumstances so warrant. In granting the Motion, we note that the Settlement Agreement approved by Commission Order No. 24,577 contemplated that any discussion of the indicative bid evaluation would be confidential,² and we accord confidential treatment of the information exchanged with Staff and the OCA which occurred on or about

² See Order No. 24,577 (January 13, 2006) slip op. at 9.

March 6, 2008, and any subsequent discussion of information for which protection is requested by the company's Motion.

B. Default Service

Regarding National Grid's analysis of the bids and its selection of the winning bidders for default service supply for its Large Customer and Small Customer Groups beginning May 1, 2008, we find that National Grid complied with the procedures approved by Order No. 24,577. We are satisfied that National Grid met all procedural requirements consistent with prior orders of this Commission. We are likewise satisfied that the participation of multiple bidders in the process is indicative of a competitive bid and, consequently, that the result is consistent with the requirement of RSA 374-F:3, V(c) that Default Service "be procured through the competitive market."

We find that National Grid's evaluation of the bids and its selection of Constellation as its default service supplier for both the Large Customer and Small Customer Groups is reasonable. We approve this petition and we will allow the power supply and capacity costs to be included in the company's rates beginning May 1, 2008.

Based upon the foregoing, it is hereby

ORDERED, that the Power Supply Agreement between Constellation Energy Commodities Group. and Granite State Electric Company d/b/a National Grid for three months default service power supply for National Grid's Large Customer Group beginning May 1, 2008 and for the for six months default service supply for National Grid's Small Customer Group beginning May 1, 2008 is hereby APPROVED;

FURTHER ORDERED, that National Grid file conforming tariffs within 30 days of the date of this Order pursuant to N.H. Admin. Rules Puc 1606.02.

By order of the Public Utilities Commission of New Hampshire this twenty-first day of
March, 2008.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary