

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 08-149

GRANITE STATE ELECTRIC COMPANY d/b/a NATIONAL GRID

Petition for Approval of 2009 Retail Rate Adjustments

Order Approving Rate Adjustments

ORDER NO. 24,928

December 30, 2008

Appearances: Alexandra E. Blackmore, Esq. for Granite State Electric Company d/b/a National Grid; Meredith A. Hatfield, Esq. of the Office of Consumer Advocate on behalf of residential ratepayers; and Lynn Fabrizio, Esq. on behalf of the Staff of the Public Utilities Commission.

I. PROCEDURAL BACKGROUND

On November 20, 2008, Granite State Electric Company d/b/a National Grid (National Grid or the Company) filed a request for approval of certain retail rate adjustments to the Company's stranded cost and transmission service charges for effect on January 1, 2009 on a service rendered basis. Based on National Grid's calculation, the aggregate impact of the proposed rates for a typical residential customer using 500 kilowatt hours (kWh) per month would be an increase of \$2.83 per month, or a monthly bill increase of 3.64 percent.

National Grid proposes to decrease its stranded cost charge from 0.050 cents per kWh in 2008 to negative 0.010 cents per kWh (a credit) for 2009. The stranded cost charge permits National Grid to recover Contract Termination Charges (CTC) billed to it by its affiliate, New England Power Company (NEP), in connection with the termination of NEP's all-requirements power contracts with National Grid upon the advent of retail competition in National Grid's service territory. The Commission approved the applicable recovery mechanism for stranded

costs in *Granite State Electric Co.*, 83 NH PUC 532 (October 7, 1998). On November 26, 2008, National Grid filed NEP's reconciliation of the costs and revenues under its CTC formula for the period October 1, 2007 through September 30, 2008. The report supports a decrease in the CTC from its current 2008 rate of 0.050 cents per kWh to negative 0.010 cents per kWh for 2009, as reflected in National Grid's proposed stranded cost charge. The stranded cost charge also includes class-specific adjustment factors to reflect class-specific reconciliations, where necessary.

National Grid's proposed transmission service charge is intended to recover costs the Company incurs in providing transmission service to its customers. Transmission service rates are implemented through separate transmission factors for each rate class. The transmission factors are designed to recover estimated transmission expenses during the upcoming calendar year, adjusted for over- or under-recoveries that occurred in the prior reconciliation period. National Grid estimates that total transmission expenses will result in an average transmission charge of 1.573 cents per kWh for 2009, an increase of 0.594 cents per kWh over the current 2008 rate of 0.979 cents per kWh.

In support of its petition, National Grid filed the testimonies and related exhibits of Scott M. McCabe, Principal Analyst for New England Regulation and Pricing, and Pamela A. Viapiano, Vice President of Transmission Finance. The proposed retail rate adjustments were filed pursuant to the Company's Amended Restructuring Settlement Agreement (Settlement Agreement) as approved by the Commission in *Granite State Electric Co.*, 83 NH PUC 532 (1998) and subsequent, related Commission orders.

On November 25, 2008, the Commission issued an order of notice scheduling a hearing for December 16, 2008. On December 4, 2008, the OCA notified the Commission that it would

be participating in the docket on behalf of residential ratepayers consistent with RSA 363:28.

The hearing was held as scheduled.

II. POSITIONS OF THE PARTIES

A. National Grid

1. Stranded Cost Charge

According to National Grid's November 20, 2008 filing, its proposed stranded cost charge consists of two components: (1) a uniform per kilowatt-hour charge it collects from all customers, reflecting the CTC assessed by NEP; and (2) rate class-specific adjustment factors reflecting the reconciliation of any excess or deficiency in stranded cost recovery from each rate class in the prior year. National Grid noted in its filing that the proposed adjustments comply with its tariff, which provides for adjustments to the stranded cost charge as a result of any changes in the CTC assessed by NEP, as well as the rate class-specific reconciliation described above.

National Grid's filing proposed to decrease the uniform stranded cost charge it currently assesses from 0.050 cents per kWh (excluding rate class-specific adjustment factors) to (0.010) cents per kWh (excluding rate class-specific adjustment factors) for the period beginning January 1, 2009, for usage on and after that date. In addition, National Grid noted that, on November 26, 2008, it filed with the Commission NEP's report on the reconciliation of CTCs assessed to National Grid. In that report, NEP reconciled the costs and revenues under its CTC formula during the period from October 1, 2007 through September 30, 2008. This reconciliation results in the change to the CTC rate incorporated in National Grid's proposal, as filed on November 20, 2008. Finally, National Grid testified that, consistent with prior practice, there will be an opportunity for Staff to examine the CTC in more detail over the next several weeks, and that, in

the event an adjustment is required, National Grid will reflect the adjustment in its CTC Reconciliation Account and CTC filings for 2010.

2. Transmission Service Cost Adjustment Rates

National Grid's proposal is intended to recover transmission-related expenses pursuant to the transmission service cost adjustment (TCA) provision of its tariff. National Grid testified that it obtains transmission service for its customers as part of the retail delivery service it provides. To obtain transmission service, the Company contracts with entities authorized by the Federal Energy Regulatory Commission (FERC) to provide transmission service in New England, such as NEP and ISO New England. NEP and ISO New England assess transmission service charges to National Grid pursuant to the ISO New England Transmission, Markets and Services Tariff (ISO/RTO Tariff). Section II of the ISO/RTO Tariff provides access to New England's 69 kilovolt or greater regionally networked transmission facilities (more commonly known as Pool Transmission Facilities (PTF) or bulk transmission facilities), which serve as New England's electric transmission "highway." The service provided over these facilities is referred to as Regional Network Service or RNS. The ISO New England RNS rate recovers RNS costs on a regionalized basis and is determined annually, based on an aggregation of the transmission revenue requirements of each transmission owner in New England, calculated in accordance with a FERC-approved formula.

The TCA permits full reconciliation of transmission revenue and expenses, including adjustments for any over- or under-recovery of transmission costs from prior years. The 2008 reconciliation reflects actual transmission revenue for the period October 2007 through September 2008, and actual transmission expenses for the period October 2007 through August 2008, plus estimated expenses for September 2008. This year's reconciliation also includes the

projected reconciliation of transmission service revenues and expenses for October 2008 through December 2008.

National Grid testified that its reconciliation of transmission service charges through December 2008 indicates an under-recovery of approximately \$2 million. For the most part, this under-recovery is caused by higher than expected ISO charges related to PTF. Such charges are reflected in RNS rates, and the applicable RNS rates, effective June 1, 2008, were higher than anticipated in the Company's 2008 forecast.

National Grid proposed a uniform transmission service adjustment factor related to the reconciliation of 0.212 cents per kWh. This factor was calculated by dividing the projected under-recovery of \$1,983,018 in transmission expenses as of December 2008 by the forecasted 933,213,576 kilowatt-hour deliveries for calendar year 2009. This factor would go into effect on January 1, 2009 with the other proposed adjustments.

National Grid testified that its 2009 transmission expenses are estimated to total approximately \$12.7 million, an increase of approximately \$4.0 million from 2008 levels. This forecast of transmission expense yields an average "base" transmission service rate of 1.361 cents per kWh, compared to the currently effective average rate of 0.957 cents per kWh. National Grid proposed to implement the new class specific "base" transmission service rates effective January 1, 2009.

3. Bill Impact for Residential Customers

National Grid testified that the total bill impact of the rates proposed in its filing will be an increase of \$2.83, or 3.64 percent, from \$77.75 to \$80.58 for a typical residential customer using 500 kWh per month, broken down as follows:

	\$/kWh	\$ Amount
Customer Charge		\$4.31
Distribution Charge		
1st 250 kWh	0.01663	\$4.16
Excess of 250 kWh	0.04266	\$10.67
Transmission Charge	0.01679	\$8.40
Stranded Cost Charge	(0.00010)	(\$0.05)
System Benefits Charge	0.00330	\$1.65
Electricity Consumption Tax	0.00055	\$0.28
Default Service Charge	0.10232	\$51.16
TOTAL BILL		\$80.58

For customers using 661 kWh per month - the average residential customer usage for National Grid customers over the past six months - rates would increase from \$103.46 to \$107.19 per month.

B. Office of Consumer Advocate

The OCA inquired as to whether National Grid had used the same methodology that it used in last year's filing. National Grid noted that this year's proposed transmission charge reconciliation includes an additional three months of projected revenue and expense – *i.e.*, through December 2008. National Grid noted that it expects a significant under-recovery during this three-month period due to the fact that the actual RNS rates effective June 1, 2008 were higher than anticipated in its 2008 forecast. The RNS rates and PTF charges are increasing due to the high level of investment in transmission facilities throughout New England. In response to an inquiry from the OCA, the Company confirmed that the costs underlying the proposed transmission charges fall under FERC jurisdiction. The OCA also inquired about the projected 2009 monthly PTF kW load and National Grid's efforts to reduce that load. National Grid

agreed to file a detailed response to the OCA's question after the hearing. The OCA concluded by supporting National Grid's petition as filed.

C. Commission Staff

At the hearing, Staff noted that Granite State's proposed CTC in this docket is subject to further in-depth review over the next several weeks and that the Commission had opened a separate docket, Docket No. DE 08-155, for purposes of incorporating additional information pertaining to that review. Staff asked National Grid how the Company would reflect an adjustment in the CTC reconciliation account in the event an adjustment is required pursuant to further review. The Company indicated that it would reflect any adjustments in its CTC reconciliation filings for 2010.

With respect to the proposed transmission service rates and related adjustment rates, Staff asked National Grid to explain the reason for the approximate \$4.0 million increase in transmission expenses from 2008 to 2009. National Grid responded that the increase is caused primarily by the estimated \$1.3 billion increase in PTF capital additions expected to enter into service in 2009. The Company summarized the list of planned PTF capital expenditures in New England, indicating that the list was revised by the transmission owners this year in an effort to improve the ability to forecast the impact of capital investment on RNS rates. In prior years, forecasts had been based on figures reported in ISO New England's most recently approved regional system plan. This year, the revised estimates are intended to include the most up-to-date project cost forecasts, to reflect when projects are placed into service and to capture any PTF capital expenditures not included in the ISO New England regional system plan.

The majority of the transmission service increase is attributable to charges assessed by ISO New England for scheduled additions to PTF expenses. These additions are incorporated

into overall RNS charges, which, in turn, are reflected in charges to National Grid. The Company explained that total 2009 PTF-related RNS charges are calculated by multiplying the total estimated \$1.3 billion of PTF capital expenditures by transmission owners in New England times a 2008 PTF revenue requirements rate of 18.05 percent. This revenue requirement is converted to a PTF rate per kW-year based on actual 2007 ISO network kW load. This new rate is then added to the existing RNS rate to determine the combined PTF-related RNS rate. The combined rate is then applied, effective each June, to National Grid's PTF kW load.

Continuing with its responses to Staff inquiries, the Company indicated that, of the \$1.3 billion in total capital expenditures planned throughout New England in 2009, approximately \$156.2 million pertain to National Grid-affiliated companies. The Company also provided aggregate National Grid-related estimated capital expenditures for the years 2010 through 2013. The Company further explained that a major project recently approved by FERC in November 2008 was the New England East-West Solution (NEEWS) project, a joint project of Northeast Utilities Service Company and National Grid USA. FERC's approval of the project included an 11.64 percent return on equity (ROE) and an opportunity to earn an additional 125 basis point incentive adder over and above the 11.64 percent ROE, provided certain performance milestones are achieved. In addition, FERC allowed the utilities to include 100 percent of construction-work-in-progress in rate base and to recover 100 percent of prudently incurred costs if, for some reason, the NEEWS project is abandoned due to factors beyond the developers' control. More detailed information related to planned PTF capital additions was provided at the hearing.

Finally, in response to Staff's inquiry, National Grid explained how it had calculated the overall average transmission rate of 1.573 cents per kWh. Specifically, the transmission service adjustment factor of 0.212 cents per kWh recovers the forecasted under-recovery of past

transmission expenses through December 31, 2008, while the average transmission service rate of 1.361 cents per kWh reflects forecasted transmission expenses for 2009.

Based on the Company's testimony and Staff's review of the November 20, 2008 filing, Staff recommended approval of the proposed average transmission service charge of 1.573 cents per kWh, noting that the major driver of the charge, which falls within FERC's jurisdiction, is the significant amount of transmission investment currently taking place in the New England region, and the resulting revenue requirements – reflecting incentive adders granted by FERC – of the region's transmission owners. Staff also recommended that the Commission approve the proposed stranded cost charge of (0.010) cents per kWh, subject to the in-depth review of the Company's reconciliation reports to be conducted in Docket No. DE 08-155.

III. COMMISSION ANALYSIS

RSA 378:7 vests the Commission with the responsibility to determine whether rates charged to retail utility customers in New Hampshire are just, reasonable and lawful. RSA 374-F:4,VIII(a) further authorizes the Commission 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” set forth in RSA 374-F. Among the principles relevant to this proceeding are the objectives of providing “clear price information on the cost components of generation, transmission, distribution and any other ancillary charges” pursuant to RSA 374-F:3,III, and recovery of stranded costs through “a nonbypassable, nondiscriminatory, appropriately structured charge that is fair to all customer classes, lawful, constitutional, limited in duration, [and] consistent with the promotion of fully competitive markets” pursuant to RSA 374-F:3,XII.

The underlying policy determinations relevant to this proceeding were made in *Granite State Electric Co.*, 83 NH PUC 532 (1998) *et seq.*, approving the rate adjustment mechanisms reflected in National Grid's proposal. However, the various component charges warrant discussion here.

First, we address the proposed stranded cost charge. National Grid proposes to decrease the stranded cost charge from 0.050 cents per kWh to (0.010) cents per kWh for 2009. We note that the Commission has opened a separate docket, Docket No. DE 08-155, to allow Staff adequate time to conduct an in-depth review of the proposed stranded cost charge. In the event an adjustment is required, the Company will reflect the adjustment in its CTC Reconciliation Account and incorporate it into its CTC filings for 2010. We conditionally approve the proposed stranded cost charge, subject to the review to be undertaken in DE 08-155.

The proposed average transmission service charge of 1.573 cents per kWh incorporates two components. Specifically, the transmission service adjustment factor related to the reconciliation of 0.212 cents per kWh reflects the forecasted under-recovery of transmission expenses for 2008, while the average transmission service rate of 1.361 cents per kWh represents the forecasted rate calculation of transmission expenses for 2009. The majority of the proposed increase is attributable to charges assessed by ISO New England for scheduled PTF capital additions. The additional PTF expenses are incorporated into the overall RNS charges, which, in turn, are reflected in charges to National Grid.

The transmission service costs in question are derived from FERC-approved tariffs and subject to FERC jurisdiction. Those costs are then applied in accordance with the rate mechanism approved in *Granite State Electric Co.*, 83 NH PUC 532 (1998). Accordingly, we approve National Grid's request to increase the average transmission service rate to 1.573 cents

per kWh as of January 1, 2009. We also approve National Grid's request to change the transmission service adjustment factors for the various rate classes, as proposed in its November 20, 2008 filing.

Based upon the foregoing, it is hereby

ORDERED, that the retail rate adjustments and adjustment factors National Grid proposed in its filing of November 20, 2008, are hereby **APPROVED** effective January 1, 2009 on a service rendered basis; and it is

FURTHER ORDERED, that National Grid file appropriate tariff changes that conform with this order within 30 days hereof pursuant to N.H. Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of December 2008.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Debra A. Howland
Executive Director