

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 10-307

GRANITE STATE ELECTRIC COMPANY d/b/a NATIONAL GRID

Petition for Approval of 2011 Retail Rate Adjustments

Order Approving Rate Adjustments

ORDER NO. 25,183

December 22, 2010

Appearances: Sarah B. Knowlton, Esq. for Granite State Electric Company d/b/a National Grid; and Lynn Fabrizio, Esq. on behalf of the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL BACKGROUND

On November 19, 2010, 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 its stranded cost and transmission service charges for effect on January 1, 2011. Based on National Grid's calculations, the aggregate impact of the proposed rates for a typical residential customer using 500 kilowatt hours (kWh) per month would be a decrease of \$1.17 per month, or an overall decrease of 1.75 percent on a monthly bill.

National Grid proposes to decrease its average stranded cost charge from 0.070 cents per kWh in 2010 to 0.020 cents per kWh for 2011. 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 territory. The Commission approved the applicable recovery mechanism for stranded costs in *Granite State*

Electric Co., Order No. 23,041, 83 NH PUC 532 (Oct. 7, 1998). On December 1, 2010, National Grid filed NEP's reconciliation of the costs and revenues under its CTC formula for the period October 1, 2009 through September 30, 2010. The report supports a decrease in the CTC from its current 2010 rate of 0.070 cents per kWh to 0.020 cents per kWh for 2011. This decrease is 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 incorporate a separate transmission factor 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 1.577 cents per kWh for 2011, a decrease of 0.056 cents per kWh from the current 2010 rate of 1.633 cents per kWh.

In support of its petition, National Grid filed the testimonies and related exhibits of Scott M. McCabe, Principal Analyst for the Electric Pricing Group, Regulation and Pricing - Electricity Distribution and Generation, and James L. Loschiavo, Lead Analyst in 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.*, Order No. 23,041 (Oct. 7, 1998) and subsequent, related Commission orders.

On November 29, 2010, the Commission issued an order of notice scheduling a hearing in the present docket for December 13, 2010. A hearing was held as scheduled.

II. POSITIONS OF THE PARTIES

A. National Grid

1. Stranded Cost Charge

According to National Grid's November 19, 2010 filing, its proposed stranded cost charge consists of two components: (1) a uniform per kWh 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 proposes to decrease the uniform stranded cost charge it currently assesses from 0.070 cents per kWh (excluding rate class-specific adjustment factors) to 0.020 cents per kWh (excluding rate class-specific adjustment factors) for the period beginning January 1, 2011, for usage on and after that date. The stranded cost charges applicable to the various rate classes were included in Schedule SMM-1 attached to Mr. McCabe's prefiled testimony (Exh. 1 at 19).

In addition, National Grid noted that, on December 1, 2010, it filed with the Commission NEP's report on the reconciliation of CTCs assessed to National Grid.¹ In that report, NEP reconciled the costs and revenues under its CTC formula during the period from October 1, 2009, through September 30, 2010. This reconciliation results in the change to the CTC rate

¹ That filing was subsequently assigned Docket No. DE 10-315.

incorporated in National Grid's proposal to adjust its stranded cost charge, as filed on November 19, 2010.

Finally, National Grid testified that, consistent with prior practice, Staff will examine the CTC in more detail in Docket No. DE 10-315, and, in the event that an adjustment is required, National Grid will reflect the adjustment in its CTC Reconciliation Account and CTC filings for 2012.

2. Transmission Service Cost Adjustment

National Grid's proposal is intended to recover transmission-related expenses pursuant to the transmission service cost adjustment (TSCA) provision in its tariff. National Grid testified that base transmission rates are established annually based on a forecast of transmission costs incurred by the Company to provide transmission service to its retail delivery service customers. 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 to cover the cost of providing transmission over regionally networked 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 (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.

Under the TSCA provision, the Company is permitted to recover costs billed to it by ISO New England and NEP. The TSCA permits full reconciliation of transmission revenue and expenses, including adjustments for any over- or under-recovery of transmission costs from prior years. The 2010 reconciliation reflects actual transmission revenue for the period October 2009 through September 2010, and actual transmission expenses for the period October 2009 through August 2010, plus estimated expenses for September 2010.

According to National Grid's filing, the proposed average transmission service charge of 1.577 cents per kWh incorporates two components: 1) a transmission service adjustment factor, and 2) a transmission service rate that varies by class. Specifically, the transmission service adjustment factor is a credit of (0.019) cents per kWh, which reflects the forecasted over-recovery of transmission expenses for 2010. The average transmission service rate for all classes of 1.596 cents per kWh represents the forecasted rate calculation of transmission expenses for 2011. According to National Grid, the proposed decrease results primarily from a net decrease in NEP Local Network Service (LNS)² charges due to adjustments that lowered NEP's transmission revenue requirement and, consequently, Granite State's LNS-related transmission costs. The decrease is partially offset by an increase in the actual RNS rates effective June 1, 2010, and an estimated additional RNS rate increase effective June 1, 2011, based on the PTF transmission plant investment forecasted to go "in-service" in 2011 across New England and related charges assessed by ISO New England. The PTF expenses are incorporated into the overall RNS charges, which, in turn, are reflected in charges to National Grid.

² Local Network Service (LNS) charges cover the cost of FERC jurisdictional transmission facilities owned by NEP that are not PTF facilities.

National Grid testified that its reconciliation for transmission service charges through December 2010 shows an over recovery of \$180,517. National Grid proposes a uniform transmission service adjustment factor of (0.019) cents per kWh. This factor was calculated by dividing the projected over recovery of \$180,517 in transmission expenses as of December 2010 by the forecasted 908,572,517 kilowatt-hour deliveries for calendar year 2011. The transmission adjustment factor would go into effect on January 1, 2011 with the other proposed adjustments.

National Grid testified that its 2011 transmission expenses are estimated to be approximately \$14.5 million, a net decrease of \$109,649 from the forecasted transmission expenses for 2010. This forecast of transmission expense yields an average rate of 1.596 cents per kWh, compared to the currently effective average rate of 1.621 cents per kWh. National Grid proposes to implement the new rate on January 1, 2011. The transmission charges applicable to the various rate classes were included in Schedule SMM-1 attached to Mr. McCabe's prefiled testimony (Exh. 1 at 19).

3. Bill Impact for Residential Customers

National Grid testified that the total bill impact of the rates proposed in its filing will be a decrease of \$1.17, or approximately 1.75 percent, from \$67.00 to \$65.83 for a typical residential customer using 500 kWh per month, calculated as follows:

	<u>\$/kWh</u>	<u>\$ Amount</u>
Customer Charge		\$4.35
Distribution Charge		
1st 250 kWh	0.01852	\$4.63
Excess of 250 kWh	0.04486	\$11.22
Transmission Charge	0.01628	\$8.14
Stranded Cost Charge	0.00020	\$0.10
System Benefits Charge	0.00330	\$1.65
Electricity Consumption Tax	0.00055	\$0.28
Default Service Charge	0.07091	<u>\$35.46</u>

TOTAL BILL

\$65.83

For customers using 669 kWh per month – the average residential customer usage for National Grid customers over the past six months – bills would decrease from \$90.36 to \$88.80 per month, a decrease of \$1.56, or 1.73 percent. National Grid requested that the Commission approve its petition as filed in time for the company to prepare bills for usage occurring on and after January 1, 2011.

B. Commission Staff

At the hearing, Staff noted that Granite State's proposed CTC in this docket is subject to further review and analysis to be conducted in a separate docket, Docket No. DE 10-315. When Staff asked National Grid how it would reflect any adjustment resulting from that docket, the Company indicated that it would reflect any adjustments in its CTC Reconciliation filings for 2012.

With respect to the proposed transmission service rates and related rate adjustments, Staff asked the Company to explain the \$797,911 decrease in Non-PTF charges and related revenue requirement. The Company witness explained that the \$72.2 million estimated 2011 Non-PTF revenue requirement represents an increase of \$5.4 million above actual revenue requirement for the 12 months ending August 31, 2010, due to forecasted capital additions for 2011, but that the 2011 estimated revenue requirement is actually \$23.9 million less than the 2010 estimate. According to the Company, the decrease in estimated revenue requirement is due to 2009 year-end adjustments made to NEP's revenue requirement calculation, including a change in the Company's method of tax accounting for routine repair maintenance costs and an adjustment to NEP's long-term debt rate, as set forth in Mr. Loschiavo's pre-filed testimony. Specifically,

National Grid is now deducting rather than capitalizing and depreciating certain routine repair maintenance costs; and the transmission debt rate has been reset at 0 percent following the December 31, 2009 termination of the CTC settlement provision under which finance savings due to the divestiture of generation assets were passed back as a credit to CTC customers.

Staff also inquired about the increase in ISO charges for PTF. The Company explained that increased investment in transmission infrastructure in the New England region resulted in a higher RNS rate charged by ISO-NE as of June 1, 2011. Those charges are based on forecasted costs and are reconciled annually. Staff concluded by recommending approval of the proposed transmission service charge of 1.577 cents per kWh and the proposed stranded cost charge of 0.020 cents per kWh, subject to review of the company's reconciliation reports in Docket No. DE 10-315.

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(d).

The underlying policy determinations relevant to this proceeding were made in *Granite State Electric Co.*, Order No. 23,041 (Oct. 7, 1998), 83 NH PUC 532, approving the rate adjustment mechanisms reflected in National Grid's current proposal. Nonetheless, the various component charges warrant some discussion here.

First, we address the proposed stranded cost charge. National Grid proposes to decrease the stranded cost charge from 0.070 cents per kWh to 0.020 cents per kWh for 2011. A separate docket, Docket No. DE 10-315, will 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 2012. We conditionally approve the proposed stranded cost charge, subject to the review to be undertaken in DE 10-315.

The proposed transmission service charge of 1.577 cents per kWh incorporates two components. Specifically, the transmission service adjustment factor credit of (0.019) cents per kWh reflects the forecasted over-recovery of transmission expenses for 2010, while the transmission service rate of 1.596 cents per kWh represents the forecasted rate calculation of transmission expenses for 2011. According to National Grid, the proposed decrease results primarily from a net decrease in NEP LNS charges due to adjustments that lowered NEP's transmission revenue requirement and, consequently, Granite State's LNS-related transmission costs. The decrease is partially offset by an increase in the actual RNS rates effective June 1, 2010, and an estimated additional RNS rate increase effective June 1, 2011, based on the PTF transmission plant investment forecasted to go "in-service" in 2011 across New England and related charges assessed by ISO New England. The 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.*, Order No. 23,041 (Oct. 7, 1998), 83 NH PUC 532. Accordingly, we approve National Grid's request to decrease the average transmission service rate to 1.577 cents per kWh as of January 1, 2011. We also approve National Grid's request to change the transmission service adjustment factors for the various rate classes, as proposed in its November 19, 2010 filing.


Based upon the foregoing, it is hereby

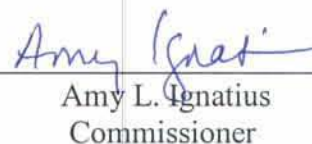
ORDERED, that the retail rate adjustments and adjustment factors National Grid proposes in its filing of November 19, 2010, are hereby APPROVED effective January 1, 2011; and it is

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.

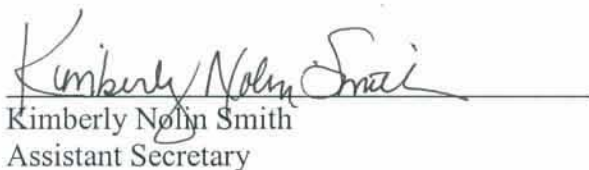
By order of the Public Utilities Commission of New Hampshire this twenty-second day of December 2010.


Thomas B. Getz
Chairman


Clinton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Kimberly Nolin Smith
Assistant Secretary