STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 11-107

GRANITE STATE ELECTRIC COMPANY d/b/a NATIONAL GRID

Fiscal Year 2011 Reliability Enhancement and Vegetation Management Plan Results and Reconciliation

Order Following Hearing

O R D E R N O. 25,245

June 30, 2011

Appearances: McLane, Graf, Raulerson & Middleton by Sarah B. Knowlton, Esq., on behalf of Granite State Electric Company d/b/a National Grid; and Suzanne G. Amidon, Esq., on behalf of Commission Staff.

I. PROCEDURAL BACKGROUND

On May 13, 2011, Granite State Electric Company d/b/a National Grid (National Grid or Company) filed a report on actual expenditures and reconciliation of the budget associated with its reliability enhancement plan (REP) and vegetation management plan (VMP) for the Company's fiscal year (FY) 2011 (April 1, 2010 through March 31, 2011). The filing was made pursuant to the terms of a settlement agreement approved in Docket No. DG 06-107 regarding the National Grid/KeySpan Corporation merger. *See* Order No. 24,777 (July 12, 2007) 92 NH PUC 279.

Pursuant to the settlement agreement, the filing included: (1) a report on the actual spending on operation and maintenance (O&M) activities and capital projects for FY 2011, including an explanation of the differences between the actual amounts and the budgeted amounts reviewed by Staff; (2) a request to refund to customers the amount of $758,113 (plus interest) which is the amount of expense below the base O&M amount of $1,360,000 allowed by the settlement agreement plus reimbursements from FairPoint Communications for its share of vegetation management expenses; and (3) an incremental revenue requirement of $102,941 associated with REP capital investment of $610,835.

On June 2, 2011, the Commission issued Order No. 25,228 suspending the tariff and scheduling a hearing for June 17, 2011. On June 16, 2011, National Grid made a revised filing reporting that it had inadvertently omitted from its original filing the costs of a fourth recloser that was placed into service during the year. The effect of the revised filing was an increase to O&M costs associated with the REP program of $3,893, with a resulting decrease in the refund from $758,113 to $754,284, and an increase to capital expenditures of $86,391 resulting in an incremental increase to revenue requirements of $15,947 above the $102,941 requested in the original filing.

II. POSITIONS OF THE PARTIES

A. National Grid

As part of the settlement agreement, National Grid committed to implement an REP and VMP that would achieve the reliability performance levels that existed prior to 2005, by 2013. The REP and VMP are premised on the idea that specified levels of annual spending on capital and O&M activities are necessary to maintain the safety and reliability of the Company's electric distribution system.

According to the Company, the settlement agreement assumes that a base amount of $1,360,000 will be spent on O&M activities associated with the REP and VMP during each fiscal year of the Company's five-year rate plan established in the settlement agreement, and that the Company will establish a proposed budget for REP capital investments for each fiscal year following discussions with Staff. To the extent the Company spends less than the agreed-upon base O&M budget on REP and VMP O&M activities for the given fiscal year, the difference would be credited to customers either through a refund commencing on July 1 following the end of the fiscal year, or credited to the next year's REP and VMP O&M budget, at the Commission's discretion. The Company explained that, notwithstanding the base O&M amount of $1,360,000, the settlement agreement allowed National Grid to implement and collect the revenue requirement with alternative plans that exceed the base O&M amount assuming that the associated spending is just and reasonable.

In its original filing, National Grid said that the Company and the Staff had agreed on a budget of $1,552,000 for the Company's FY 2011 plan, which was submitted to Staff on February 12, 2010. The Company said that the actual O&M expense and capital investment associated with REP/VMP activities deviated from the budget. Consequently, the Company seeks to refund to ratepayers $758,113 in actual O&M expense, which consists of $114,015 under-spending for REP and VMP O&M for FY 2011, plus $644,098 in credits for vegetation management reimbursements from FairPoint Communications. National Grid also requested an incremental REP capital investment allowance of $102,941, representing the revenue requirement associated with $610,835 of capital investment in FY 2011, all for effect for service rendered on and after July 1, 2011.

National Grid explained that actual O&M spending was lower than forecast due to lower-than-expected bid prices for cycle pruning. National Grid noted, however, that cycle pruning police detail expenses and hazard tree removal exceeded the anticipated spending level. The

Company said that it also experienced lower than anticipated demand for certain VMP activities, specifically spot tree trimming, trouble and restoration calls, and interim trimming. According to the Company, the reliability metrics in FY 2011 were slightly above (*i.e.*, worse than) the metrics of FY 2010, but still below the peak that occurred in 2006, and the multi-year trend in performance since 2005 shows improvement.

National Grid calculated the annual rate adjustment as follows: the REP capital investment allowance revenue requirement of $102,941 translates into a percentage increase of 0.50 percent to base distribution rates; and the net incremental O&M refund to customers of $776,559, including interest, translates into a proposed REP/VMP adjustment factor credit of ($0.00083) per kilowatt hour (kWh). For typical residential customers using 500 kWh per month in default service, the total bill impact of the proposed July 1, 2011 rate as compared with current rate is a bill decrease of $0.95 per month, or 1.5 percent, from $63.77 to $62.82. For residential customers with usage of 681 kWh, which is the average monthly usage over the 12 months ending April 2011, total bills would decrease by $1.28 per month or 1.5 percent, from $87.65 to $86.37. For other customers, decreases range from 1.4 percent to 2.2 percent. The Company said its REP/VMP expenditures were reasonable and prudent because the expenditures were made for the programs that are specifically referenced in the settlement agreement and requested that the Commission approve the reconciliation and resulting rates.

National Grid acknowledged that when it met with Staff in February 2011, the Company's goal was to install four reclosers in FY 2011 at an estimated cost of $206,000 and that at the time of that meeting it had installed two reclosers for a total reported cost of $112,856. The Company's May 13 filing stated that four reclosers were installed at a cost of $250,270, in excess of the amount budgeted for that activity, but overall the REP capital expenditures for FY 2011 remained under budget.

The June 16 revised filing reported that the costs of the fourth recloser had actually been omitted from its original filing and sought additional recovery of the associated capital investment of $86,291, along with related O&M expenses of $3,829. This revision resulted in the Company no longer being under budget overall for its FY 2011 REP capital expenditures. In its June 16 testimony, National Grid said that with the additional costs requested in its revised filing, monthly bill decreases would be reduced by $0.01 as compared to the bill decreases anticipated by the May 13 filing. For example, the revised filing would result in a bill decrease for a residential customer using 500 kWh per month of $0.94 per month instead of $0.95 cents per month as requested in the initial filing. Similarly, overall decreases in rates would change as a result of the June 16 filing. Instead of decreases ranging from 1.4 percent to 2.2 percent for customer classes other than residential customers (May 13 filing), decreases from the June 16 filing would range from 1.3 percent to 2.1 percent.

National Grid said that omission of the fourth recloser from the initial filing was an oversight due in part to using a blanket work order as opposed to an itemized work order for the recloser installed on the 11L1 feeder. In addition, while the Company provided estimated costs for the installation of reclosers, some estimates were exceeded based on the individual characteristics of each work location. The Company agreed that it needed to do a better job in estimating the cost of reclosers. On June 23, 2011, the Company filed Exhibit 6, which provided detail regarding the work and costs associated with the individual reclosers installed during FY 2011.

B. Commission Staff

Staff filed a recommendation with the Commission on June 29, 2011. Staff said it reviewed the initial filing, the June 16 revised filing, and Exhibit 6, which was provided post hearing. Staff said while it appreciated the additional detail presented in Exhibit 6, it would have been more useful to Staff and the Commission had National Grid provided the information prior to the hearing. Staff accepted the fact that National Grid may need to alter its plans regarding the specific locations of recloser installations and to respond to reliability problems being experienced on its system. Staff also stated that it understood the errors that resulted from using a blanket work order instead of a specific work order in connection with the 11L1 feeder installation.

Staff nonetheless expressed its frustration in learning of such details and significant variances from budgeted amounts at the eleventh hour. Staff specifically noted that similar problems occurred in Docket No. DE 10-140 where the Commission emphasized the need for the Company’s communication with Staff regarding changes to REP/VMP activities that may occur for whatever reason during the program year. Staff posited that the issues related to reporting and communication were not intentional but are associated with National Grid’s internal recordkeeping. According to Staff, the Company must take greater care when assembling its information for Staff review. Regardless of the problems noted by Staff, Staff said at this time it is not recommending any changes to the rate adjustment process.

Based on its analysis, Staff recommended that the Commission approve National Grid’s adjustment to rates as reported in the Company’s original filing dated May 13, 2011. Staff recommended that the additional capital investment of $84,291 and the associated $3,829 in

O&M expense related to the fourth recloser placed in service in FY 2011 be brought forward for consideration as part of the FY 2012 REP/VMP review. This proposal would allow Staff additional time to review all of the relevant information that was introduced so late in the process in the instant docket. In addition, Staff suggested that it would be useful for Staff to meet with National Grid to thoroughly review the FY 2011 results together with the FY 2012 budgeted information.

III. COMMISSION ANALYSIS

We note Staff's frustration regarding timeliness of details regarding variances from budget. We expect the Company to provide reasonable notice and detailed information to Staff when actual work and/or costs deviate from the budgeted plan.

Because of the inability to fully review the fourth recloser data, we will consider the report and rates associated with the May 13, 2011 filing, deferring consideration of the additional capital investment of $84,291 and the associated $3,829 in O&M expense related to the fourth recloser placed in service in FY 2011 as part of the FY 2012 plan. In doing so, we are not denying National Grid recovery for those costs but are allowing additional time for a thorough review and recommendation by Staff.

Based on the evidence presented, subject to our deferral of the costs associated with the fourth recloser, we conclude that the activities performed by the Company during FY 2011 are consistent with goals and parameters of the reliability enhancement and vegetation management programs. We find the associated rate impacts to be just and reasonable and in the public interest. Therefore, we will grant the petition filed on May 13, 2011 and allow the Company to commence recovery and reconciliation of the costs through rates effective with service rendered on and after July 1, 2011.

Based upon the foregoing, it is hereby

ORDERED, that the May 13, 2011 Fiscal Year 2011 reliability enhancement plan and vegetation management plan report and reconciliation filing of Granite State Electric Company d/b/a National Grid is hereby APPROVED; and it is

FURTHER ORDERED, that the request for recovery of the FY 2011 REP/VMP capital expenditures and operation and maintenance costs in rates effective with service rendered on and after July 1, 2011 is hereby APPROVED; and it is

FURTHER ORDERED, that consideration of the additional costs for which National Grid sought recovery in its June 16 filing is deferred until the FY 2012 REP/VMP reconciliation process; and it is

FURTHER ORDERED, that National Grid shall file tariff pages conforming with this Order pursuant to Puc Part 1603 within 30 days hereof.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of June, 2011.

Thomas B. Getz Chairman	Clifton C. Below Commissioner	Amy L. Ignatius Commissioner

Attested by:

Lori A. Davis
Assistant Secretary