

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 11-221

GRANITE STATE ELECTRIC COMPANY D/B/A NATIONAL GRID

Request to Increase Storm Recovery Adjustment Factor

Order Allowing Increase to Storm Recovery Adjustment Factor

ORDER NO. 25,307

December 28, 2011

Appearances: McLane, Graf, Raulerson & Middleton, P.A. by Steven V. Camerino, 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 HISTORY

On September 30, 2011, Granite State Electric Company d/b/a National Grid (National Grid or Company) filed testimony and schedules, including proposed tariff pages, in support of a request to adjust its Storm Recovery Adjustment (SRA) Factor pursuant to the SRA provision in the Company's tariff. The Company's filing requested a temporary increase to the SRA Factor from the current rate of \$0.00040 per kilowatt hour (kWh) to \$0.00223 per kWh for a period of five years from January 1, 2012 through December 31, 2016. Effective with service rendered on and after January 1, 2017, the Company proposed that the SRA Factor be reduced to \$0.00127 per kWh. National Grid said that the temporary increase through December 31, 2016 is intended to recover sufficient revenues to eliminate the existing Storm Fund deficit over a five-year period while the permanent increase in the SRA Factor is intended to address the fact that the level of funding for the Storm Fund currently included in base rates is insufficient to cover the ongoing costs of periodic events qualifying for reimbursement from the Storm Fund. For residential

customers using 500 kWh of electricity per month, the change would increase overall bills by 1.4% for service rendered on and after January 1, 2012.

The Commission issued Order No. 25,276 on October 7, 2011 suspending the tariff and scheduling a prehearing conference for October 24, 2011. No party moved to intervene in the proceeding. Following the prehearing conference, National Grid and Staff held a technical session. On October 27, 2011, Staff filed a report of the technical session and a proposed procedural schedule. The Commission approved the procedural schedule by a secretarial letter issued on November 3, 2011. On November 10, 2011, Staff filed a memorandum recommending that the Commission approve National Grid's request. The hearing was held on December 6, 2011.

II. POSITIONS OF THE PARTIES AND STAFF

A. National Grid

In prefiled testimony, the Company explained that the purpose of the Storm Fund is to smooth out the cost impact to customers of major storm events that cause damage to the Company's electrical system. National Grid said that its base rates currently include an annual collection of \$120,000, which is credited to the Storm Fund at \$10,000 per month, pursuant to a settlement agreement approved by the Commission in Docket No. DG 06-107. *See*, Order No. 24,777 (July 12, 2007) 92 NH PUC 279, 291. The costs of major storms—those causing 30 concurrent troubles (interruption events occurring on primary and secondary lines) with 15% of customers interrupted or 45 concurrent troubles—may be charged against the Storm Fund. The Company said that the settlement agreement approved by Order No. 24,577 included a provision that allows National Grid to request an increase in the funding level for the Storm Fund if there is a significant negative balance.

National Grid said that, as a result of the deficit balance in the Storm Fund resulting from the December 2008 Ice Storm, the Commission granted it authority to implement the SRA Factor in Order No. 25,125 (June 30, 2010) in Docket No. DE 10-096. According to the Company, the SRA tariff provision is the mechanism by which the Company is authorized to assess customers to fund the Storm Fund beyond the level provided for in base rates. In Order No. 25,125, the Commission authorized National Grid to collect an additional \$30,000 per month, or \$360,000 annually, beginning July 1, 2010 on a temporary basis to provide additional funding to the Storm Fund to address the negative balance resulting from the December 2008 Ice Storm.

National Grid testified that as a result of the Commission's audit of the December 2008 Ice Storm costs in Docket No. DE 10-096, the Company and Staff agreed that \$1,762,372 would be charged to the Storm Fund, and referred to a Staff letter dated May 20, 2011 that was filed in that prior proceeding. The Company said it had taken the final costs of the December 2008 Ice Storm into account in developing the proposal to increase the SRA Factor in the instant filing.

In addition to the costs associated with restoring power and repairing electrical system damage caused by the December 2008 Ice Storm, the Company testified that it incurred \$1.7 million in operation and maintenance (O&M) costs associated with the February 2010 Wind Storm and \$1.8 million in costs associated with the March 2011 Ice Storm. According to the Company, if it does not receive incremental revenue above the amount in base rates, and if the \$30,000 monthly increment currently reflected in the SRA Factor remains in effect, it would be 12 years before the Storm Fund would reach a break-even level, assuming that no additional major storms occurred.

At hearing, the Company testified that two storms had occurred since March 2011 that qualified as major storms, the August 2011 tropical storm and the October 2011 snow storm, but

that the costs associated with these storms are not part of the instant filing. National Grid estimated the combined costs associated with these two additional major storms exceed \$2.18 million, thus increasing the overall Storm Fund deficit to more than \$6.8 million. The Company explained that the deficit position of the Storm Fund results also presents additional costs for customers because the cumulative balance of the fund, whether in a surplus or deficit position, accrues interest at the customer deposit rate, currently 3.25%. National Grid testified that because the Storm Fund is in a deficit position, interest is accrued on behalf of the Company, thus increasing the fund's deficit position.

To address the existing deficit and to increase the overall Storm Fund balance, the Company prepared a two-part proposal for the SRA Factor. The first part would be a temporary annual increase of \$540,000, effective January 1, 2012, to the existing SRA factor rate to reduce the \$4.6 million deficit balance in the Storm Fund to zero in approximately five years (\$900,000 per year). For the second part of the proposal, also effective January 1, 2012, the Company proposed a permanent increase in the SRA Factor to collect \$1.3 million on an annual basis to provide a more reasonable level of funding for future qualifying storm events. The incremental increase of \$1.3 million would address the Company's concern that the \$120,000 base rate allowance is insufficient to cover the costs of major storms based on the costs of recent major storms eligible for reimbursement from the Storm Fund. The Company said that the proposed funding level is equal to the average costs incurred to address damage over the prior five years from storms affecting the Company's service area.

The Company said that it expects that the Commission will audit the costs of the February 2010 and March 2011 major storms. In the interim, National Grid requested that the Commission approve the change in rates pending completion of the audit on a reconcilable basis.

National Grid testified that customers would benefit from its proposed two part adjustment to the SRA Factor because the reduction in the deficit balance of the Storm Fund would reduce carrying costs to customers by beginning to bring the Storm Fund out of its deficit position. Further, the rate adjustment would be consistent with the overall purpose of the Storm Fund which is to smooth out the rate over time and avoid a larger increase in rates that would result from immediate recovery of costs incurred in repairing damage to the Company's electrical system. Finally, the Company said that recovery should begin immediately so that customers who benefited from the costs of repair pay for those benefits, thus avoiding intergenerational inequities.

At hearing, National Grid said that it had reviewed Staff's recommendation and agreed that any amount recovered through the SRA Factor for the February 2010 and March 2011 major storms should be subject to reconciliation based on the outcome of Staff's audit. The Company also agreed to submit annual reports to the Commission provided that those reports could be filed by April 1 of each year instead of July 1 as suggested by Staff. Finally, National Grid agreed with the principle that the base rate recovery for the Storm Fund should be reviewed in its next base rate case.

In conclusion, National Grid said that its proposal is in the interest of customers because it balances the need to restore the viability of the Storm Fund with an effort to limit the carrying costs paid by customers on the deficit balance. The Company requested that the Commission approve its filing and the agreement with Staff regarding the final amount to be recovered for costs incurred in connection with repairing damage to its electric system caused by the December 2008 Ice Storm.

B. Commission Staff

In its recommendation, Staff stated that it had reviewed the filing and agreed that National Grid has experienced significant costs for the December 2008 Ice Storm, the February 2010 storm and the March 2011 storm. Staff opined that beginning the recovery of the existing \$4.6 million deficit in the Storm Fund would benefit customers because customers pay interest on the deficit balance in the Storm Fund. Staff also noted that the costs associated with the August 2011 tropical storm and the October 2011 snow storm likely added to the deficit in the Storm Fund. Staff concluded that an increase to the SRA factor at this time is reasonable and necessary in light of the damage to National Grid's electric system caused by recent storms, the large deficit balance, and the possibility of additional damaging storms in 2011 and 2012.

Staff recommended that the Commission grant National Grid's request to increase the SRA Factor on a temporary basis effective January 1, 2012 to reduce the \$4.6 million Storm Fund deficit, and also to increase the SRA Factor an additional \$1.3 million on an annual basis to allow the Company to recover on-going storm costs. Staff recommended that the Commission condition its approval by: (1) requiring the Company's recovery of the February 2010 storm and March 2011 storm costs be reconciled to reflect Staff's audit of the costs associated with these storms; (2) requiring National Grid to make an annual filing on July 1 of each year to report on the Storm Fund balance and to report on the effectiveness of recovering on-going storm costs; and (3) requiring a review of the Storm Fund and the performance of the SRA Factor in National Grid's next base rate case. Staff said it agreed that annual filings on April 1 of each year, as requested by National Grid, would be acceptable.

III. COMMISSION ANALYSIS

We have reviewed National Grid's filing and considered Staff's recommendation to allow the Company to implement a two-part adjustment to its SRA Factor. The first part is to annually increase the SRA Factor by \$540,000 for a period of five years to eliminate the existing \$4.6 million deficit in the Storm Fund resulting in annual collections of \$900,000; and the second part is to increase the SRA Factor to collect an additional \$1.3 million on an annual basis, which would more accurately reflect the costs of major storms experienced by the Company in the past five years. These two adjustments would increase the current SRA Factor from \$0.00040 per kWh to \$0.00223 per kWh effective January 1, 2012. Given that the Storm Fund is in a significant negative position, and that one of the purposes of the Storm Fund is to smooth the rate impact to customers of the costs of major storm events, we find this adjustment to be consistent with the settlement agreement we approved by Order No. 24,577.

We have reviewed the rate impacts associated with the increase in customer contributions and note that the overall rate impacts are increases that range from 1.3% to 1.8%. For residential customers using 672 kWh per month (the average use of residential customers over the past 12 months), the bill would increase by \$1.23 per month. While the approval of the filing results in rate increases, we find that the proposed SRA Factor rate is just and reasonable and in the public interest, especially in light of the fact that, as the negative balance in the Storm Fund is reduced, the amount of interest to be paid by customers on the deficit balance similarly diminishes. Insofar as the amounts claimed for the February 2010 and March 2011 storms will be subject to reconciliation following Staff's audit, we will allow the rates to go into effect for January 1, 2012. We also will require National Grid to file an annual report on April 1 on the status of the Storm Fund. Given the long-term problem caused by the unexpected frequency and

severity of storms that have been experienced in the past five years, we intend to review the level of Storm Fund contribution in National Grid's next rate case. Finally, we accept Staff and the Company's agreement in Docket No. DE 10-096 as represented by Staff's letter of May 20, 2011 and will close that docket.

Based upon the foregoing, it is hereby

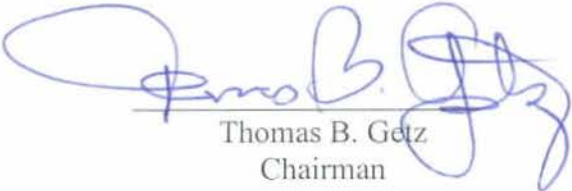
ORDERED, that the petition by Granite State Electric Company d/b/a National Grid to implement a two-part adjustment to the Storm Adjustment Factor is hereby GRANTED; and it is

FURTHER ORDERED, that National Grid shall file a report on the status of the Storm Fund on April 1 of each year; and it is

FURTHER ORDERED, that the Commission accepts Staff's May 20, 2011 report of the agreement between Staff and National Grid on the amount of costs associated with the December 2008 Ice Storm that the Company can recover through the SRA Factor approved in Docket No. DE 10-196; and it is

FURTHER ORDERED, that National Grid shall file tariffs conforming with this Order within 30 days of the date hereof pursuant to Puc 1603.05.

By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of December, 2011.




Thomas B. Getz
Chairman



Amy L. Ignatius
Commissioner

Attested by:



Kimberly Nolin Smith
Assistant Secretary