

DIRECT TESTIMONY
OF
JOHN D. WARSHAW

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1 **I. Introduction**

2 Q. Please state your name and business address.

3 A. My name is John D. Warshaw, and my business address is 55 Bearfoot Road,
4 Northborough, Massachusetts 01532.

5
6 Q. Please state your position.

7 A. I am a Principal Analyst in Regulated Electric Load and Distributed Generation – New
8 England for National Grid USA Service Company, Inc. I conduct power procurement
9 and energy supply related activities for National Grid’s New England operating
10 companies, including Granite State Electric Company d/b/a National Grid (“Granite
11 State”). These activities include the procurement of power for Default Service for
12 Granite State.

13
14 Q. Will you describe your educational background and training?

15 A. I graduated from the State University of New York Maritime College in 1977 with a
16 Bachelor of Science in Nuclear Science. I received a Masters in Business Administration
17 from Northeastern University in 1986. In 1992, I earned a Masters of Arts in Energy and
18 Environmental Management from Boston University.

19
20 Q. What is your professional background?

21 A. In May 2000, I joined the National Grid USA Service Company as a Principal Analyst in
22 Energy Supply – New England. In my position I have conducted a number of
23 solicitations for wholesale power to meet the needs of National Grid USA’s New

1 England distribution companies. I also administer both short-term and long-term power
2 purchase agreements for National Grid USA's New England distribution companies.
3 Prior to my employment at National Grid USA, I was employed at COM/Energy (now
4 NSTAR) from 1992 to 2000. From 1992 to 1997, I was a Rate Analyst in Regulatory
5 Affairs at COM/Energy responsible for supporting state and federal rate filings. In 1997,
6 I transferred to COM/Electric to work in Power Supply Administration.
7

8 **II. Purpose of Testimony**

9 Q. What is the purpose of your testimony?

10 A. The purpose of my testimony is to request approval of the Default Service rates for the
11 Large and Medium Commercial and Industrial Customer Group ("Large Customer
12 Group"¹) resulting from Granite State's recent procurement of Default Service power
13 supply. To support this request, I will describe the process used by Granite State to
14 procure Default Service for the Large Customer Group for the three-month period
15 February 1, 2009 through April 30, 2009. My testimony presents National Grid's
16 proposed Default Service rates, including rate adjustments, for usage on and after
17 February 1, 2009, in accordance with the Default Service Adjustment Provision and
18 Default Service Cost Reclassification Adjustment Provision of the Company's tariff, and
19 the Settlement Agreement in Docket No. DE 05-126, approved by the Commission in
20 Order No. 24,577 (January 13, 2006) ("Settlement Agreement"). Finally, my testimony
21 will describe how the Company proposes to meet the Renewable Portfolio Standard
22 obligation.

¹ Customers taking service under General Long-Hour Service Rate G-2 or General Service Time-Of-Use Rate G-1 of

1
2 **III. Bidding Process**

3 Q. Why does Granite State need to procure Default Service for the Large Customer Group
4 for the period beginning February 1, 2009?

5 A. Granite State's currently effective Default Service supply contract for the Large
6 Customer Group expires on January 31, 2009. Therefore, to assure that Default Service
7 will continue to be available to these customers, Granite State requires a new Default
8 Service supply arrangement beginning February 1, 2009.

9
10 Q. Please describe the process Granite State used to procure its Default Service supply.

11 A. Granite State conducted the procurement of Default Service supply in accordance with
12 applicable New Hampshire rules and regulations including Granite State Electric
13 Company's Second Amended Restructuring Settlement Agreement ("Restructuring
14 Settlement"), RSA 374-F ("New Hampshire Act"), and the terms of the Settlement
15 Agreement approved by the Commission pursuant to Order No. 24,577² issued on
16 January 13, 2006 in Docket No. DE 05-126 (the "Order"). Granite State and its retail
17 electric distribution affiliates in Massachusetts, Massachusetts Electric Company and
18 Nantucket Electric Company (together "Mass. Electric"), (all three companies together
19 "National Grid"), issued a joint request for proposals ("RFP") for certain power supply
20 services (including Granite State's Default Service) from suppliers. The RFP sought a

the Company's Retail Delivery Tariff.

² The Order granted Granite State's August 1, 2005 Petition for Post-Transition Service Default Service Proposal as amended by the Post-Transition Service Default Service Proposal Settlement Agreement filed with the Commission on November 18, 2005 ("Settlement Agreement"). Granite State's original proposal filed August 1, 2005 and the subsequent Settlement Agreement will together be referred to as the "Settlement Agreement" throughout my testimony.

1 supply for Granite State's Default Service, and a portion of Mass. Electric's Basic
2 Service supply. This is consistent with the process approved by the Commission in the
3 Order. This process is also consistent with past procurements.³
4

5 Q. Could you describe the nature of the RFP that National Grid issued?

6 A. On October 31, 2008, National Grid issued an RFP to over twenty-five potential
7 suppliers soliciting power supplies for the period February 1, 2009 through April 30,
8 2009. National Grid also distributed the RFP to all members of the NEPOOL Markets
9 Committee and posted the RFP on its energy supply website. As a result, the RFP had
10 wide distribution throughout the New England energy supply marketplace. The RFP
11 requested fixed pricing for each month of service on an as-delivered energy basis. Prices
12 could vary by month and by service – that is, the prices did not have to be uniform across
13 the entire service period or between Granite State and Mass. Electric. A copy of the RFP
14 is provided as Schedule JDW-1.
15

³ See Order No. 24,163, at 7 (April 25, 2003), Order No. 24,412 at 9 (December 22, 2004), Order No. 24,539 at 9 (October 31, 2005), Order No. 24,609 at 10 (March 28, 2006), Order No. 24,637 at 10 (June 22, 2006), Order No. 24,675 at 10 (September 29, 2006), Order No. 24,715 at 8 (December 15, 2006), Order No. 24,736 at 10 (March 26, 2007), Order No. 24,764 at 9 (June 22, 2007), Order No. 24,787 at 11 (September 21, 2007), Order No. 24,810 at 10-11 (December 17, 2007), Order No. 24,836 at 11-12 (March 21, 2008), Order No. 24,862 at 9-10 (June 20, 2008) and Order No. 24,902 at 12-13 (September 29, 2008).

1 **IV. Results of Bidding**

2 Q. Did Granite State receive responses to the RFP?

3 A. Yes. Indicative proposals were received on December 3, 2008 and a confidential
4 summary of the proposals was shared with Commission Staff soon after. Final proposals
5 were received on December 10, 2008. None of the bidders made their provision of
6 Granite State's Default Service contingent upon the provision of any other service. A
7 summary of the RFP process and bid evaluation is included in Schedule JDW-2.

8
9 Q. How do the current futures prices for electricity and natural gas compare to the futures
10 prices at the time of the May 9, 2008 and August 8, 2008 RFPs?

11 A. The futures market prices for electricity and natural gas at the time of the May 9, 2008
12 and August 8, 2008 procurements as well as current futures market prices are shown in
13 Schedule JDW-3.

14
15 Q. Did Granite State select any of those proposals?

16 A. Yes. Granite State evaluated the bids received and selected the supplier that (i) provided
17 a bid that was conforming to the RFP, (ii) had the lowest price, (iii) met the credit
18 requirements described in the RFP, and (iv) passed our qualitative evaluation. On
19 December 10, 2008, Granite State entered into a wholesale Transaction Confirmation
20 with PSEG Energy Resources & Trade LLC. ("PSEG-ERT"), the winning bidder for the
21 Large Customer Group block, to provide Default Service to the Large Customer Group
22 for the three-month period February 1, 2009 through April 30, 2009. Together, a
23 Transaction Agreement and a Master Power Agreement provide the terms for the

1 purchase of Default Service from a supplier. A copy of the PSEG-ERT Master Power
2 Agreement was filed with the Commission on September 22, 2008 in Docket No. DE 08-
3 011. The Transaction Confirmation between Granite State and PSEG-ERT, with certain
4 confidential sections redacted, is attached hereto as Schedule JDW-4.

5
6 **V. Renewable Portfolio Standard**

7 Q. What is the Renewable Portfolio Standard ("RPS") obligation for 2009?

8 A. As specified in the RPS law⁴, the RPS obligation for calendar year 2009 is a minimum of
9 six percent (6%) of Granite State's Default Service load, of which at least one-half
10 percent (0.5%) can come from Class I New Renewable Energy Resources, at least four
11 and one-half percent (4.5%) can come from Class III Existing Renewable Energy
12 Resources and at least one percent (1.0%) can come from Class IV Existing Renewable
13 Energy Resources.

14
15 Q. How does Granite State expect to satisfy its RPS obligations consistent with the RPS
16 rules as promulgated by the Commission?

17 A. On December 9, 2008, Granite State entered into a settlement agreement with
18 Commission Staff and the Office of Consumer Advocate, intended to resolve all issues
19 associated with the process by which Granite State shall comply with the requirements of
20 the RPS law and PUC 2500 rules ("RPS Settlement"). The RPS Settlement was also filed
21 for the Commission's consideration in this docket on December 9, 2008. Granite State is
22 respectfully requesting that the Commission approve the RPS Settlement as filed.

4 N.H. RSA 362-F.

1 Q. Is Granite State's current Default Service procurement consistent with the terms of the
2 RPS Settlement?

3 A. Yes. As described in Section II, 2 of the RPS Settlement on page 3, Granite State
4 requested that Default Service suppliers provide a RPS compliance adder to take on the
5 RPS obligation for the Large Customer Group in the RFP. If accepted, the winning
6 supplier would be required to provide Granite State with sufficient RECs to meet the RPS
7 requirements associated with the load it would be serving. If not accepted, Granite State
8 would seek to purchase RPS RECs at a lower cost through a separate solicitation using a
9 process similar to the one used for procuring Default Service, and as set forth in the RPS
10 Settlement.

11
12 Q. What were the criteria Granite State used to evaluate the RPS compliance adders?

13 A. Granite State evaluates the RPS compliance adders by comparing them to market prices.
14 At this time, Granite State is unaware of any market data for New Hampshire RPS RECs.
15 As a result, Granite State used the ACPs for the various classes as a proxy for market
16 prices. While the RPS compliance adder from the winning bidder was slightly lower than
17 the ACPs, we believe that Granite State could get lower costs by purchasing RECs in the
18 wholesale marketplace once that market develops. Granite State plans to issue an RFP in
19 the future for the acquisition of RECs. If Granite State is unable to purchase sufficient
20 RECs to meet its NH RPS obligations, it will then, consistent with the RPS rules, make
21 ACPs to the Renewable Energy Fund.

1 Q. Is Granite State proposing any changes to the current RPS Adder at this time?

2 A. No. Granite State is including in its Default Service rates an RPS Adder of 0.199 ¢/kWh
3 in 2009 for the Large Customer Group. Granite State has proposed to use this RPS Adder
4 until such time as the Company is able to contract for RECs. The Company has not yet
5 contracted for RECs.

6
7 Q. How did Granite State calculate the RPS Adder?

8 A. As shown in Schedule JDW-5, Granite State calculated the wholesale RPS costs on a per
9 MWh basis. The Company then converted the wholesale RPS costs to a retail cost by
10 multiplying the calculated costs by the average Granite State loss factor and then dividing
11 by ten in order to convert from a \$/MWh wholesale cost to a ¢/kWh rate for retail use.

12
13 Q. What costs did Granite State use to develop its RPS Adder?

14 A. As a proxy for actual RPS costs, the RPS Adder is based on the Alternative Compliance
15 Payment ("ACP") rates for the Class I, III and IV obligations.

16
17 Q. What happens if Granite State's actual RPS compliance costs are different from that used
18 in calculating the RPS Adder?

19 A. As previously described in the Company's September 22, 2008 Default Service filing in
20 Docket No. DE 08-011, Granite State will reconcile its costs to comply with the RPS law
21 with the revenue received from customers from the RPS Adder. RPS law compliance
22 costs will be included in the Default Service reconciliation which is filed as part of the
23 Default Service filing to be made in March 2009. Since the RPS Adder will be added to

1 rates for Default Service, the revenue associated with the charge will inherently be
2 included in revenue associated with Default Service. The Company will add a column to
3 its reconciliations for Default Service to identify the costs incurred that are associated
4 with purchasing RECs and any ACPs ultimately made. This will ensure that revenue
5 billed relating to the RPS Adder is matched against costs incurred to comply with the
6 RPS law. If the actual costs to procure RECs are less than or greater than those used to
7 develop the RPS Adder, any over or under collection will be included as part of the
8 annual reconciliation.

9
10 **VI. Proposed Default Service Rates**

11 Q. Please summarize the commodity cost at the retail meter based on Granite State's
12 expected procurement cost and used to develop the proposed retail rates.

13 A.. Granite State estimates the procurement costs for Default Service at the retail customer
14 meter for each month to be as set forth in Schedule JDW-6.

15 The simple average of the commodity costs for the Large Customer Group is 8.121¢ per
16 kWh compared to the simple average Default Service costs of 10.251¢ per kWh for the
17 period November 2008 through January 2009. The commodity costs at the retail
18 customer meter (¢ per kWh) were calculated by multiplying the commodity costs at the
19 wholesale level (\$ per MWh) by the applicable loss factor and then dividing the results
20 by ten. The applicable loss factors can be found in the RFP summary in Schedule JDW-
21 2.

1 Q. What are the Default Service rates that the Company is proposing for the Large Customer
2 Group?

3 A. As presented in Schedule JDW-6, the Company is proposing monthly Default Service
4 rates for the Large Customer Group based on the three monthly contract prices contained
5 in the supply agreement with the winning Default Service supplier for the Large
6 Customer Group. These base rates are adjusted by the currently effective Default Service
7 Cost Reclassification Adjustment Factor to recover administrative costs associated with
8 Default Service in accordance with Second Revised Page 93 of its tariff. On line (3)
9 these rates are further adjusted by the currently effective Default Service Adjustment
10 Factor in accordance with the Second Revised Page 87 of the Company's tariff. Finally,
11 on line (4) these rates are adjusted by the currently effective RPS Adder. As displayed
12 on line (5), the proposed base Default Service rates for the Large Customer Group are
13 9.125¢ per kilowatt-hour, 8.014¢ per kilowatt-hour, and 7.943¢ per kilowatt-hour for the
14 months of February 2009 through April 2009.
15

16 Q. How will Granite State reconcile any difference in costs associated with Default Service?

17 A. To the extent that the actual cost of procuring Default Service varies from the amounts
18 billed to customers for the service, Granite State will continue to reconcile the difference
19 through a reconciliation mechanism pursuant to Granite State's Default Service
20 Adjustment Provision contained in its currently effective tariff on Second Revised Page
21 87.
22

1 Q. How and when is the Company proposing that these rate changes be implemented?

2 A. Consistent with the Commission's rules on the implementation of rate changes, the
3 Company is proposing that these Default Service rates become effective for usage on and
4 after February 1, 2009.
5

6 Q. Has the Company determined the impact of these rate changes on customer bills?

7 A. Yes. The Company has provided typical bill impacts in Schedule JDW-7. For customers
8 in the Large Customer Group, the bill impacts when going from the currently approved
9 January 2009 rate to the proposed February 2009 rate are decreases ranging from 15.3%
10 to 17.5%.
11

12 Q. Has the Company prepared a revised Summary of Rates tariff page reflecting the
13 proposed rates?

14 A. No. The Company has already submitted a revised Summary of Rates tariff page
15 reflecting proposed rates for January 1, 2009 in Docket No. DE 08-149. Upon receiving
16 orders in Docket No. DE 08-149 and in this proceeding, the Company will file a revised
17 Summary of Rates tariff page, reflecting the appropriate approved rates.
18

19 Q. Has the Company included the most recent quarterly report of migration information
20 based on monthly migration by customer class and load, as required by the Commission's
21 Order No. 24,715 in Docket No. DE 06-115?

22 A. The quarterly report of customer migration information for the third quarter of calendar
23 year 2008 is included as Schedule JDW-8.

VII. Conclusion

Q. When will Granite State issue the next RFP for Default Service?

A. Both the Large Customer Group rates proposed in this filing and the current Small Customer Group rates expire on April 30, 2009. Per the terms of the Settlement Agreement, Granite State will issue an RFP for both customer groups in February 2009. For purposes of notice to the Commission, the following table illustrates National Grid's proposed timeline for the next two RFPs:

RFP	February 2009 RFP	May 2009 RFP
RFP Issued	February 13, 2009	May 08, 2009
Indicative Bids Due	March 4, 2009	June 03, 2009
Final Bids Due	March 11, 2009	June 10, 2009
Contract Execution	March 11, 2009	June 10, 2009
Default Service Filing to Commission	March 16, 2009	June 15, 2009
Commission Order Needed	March 23, 2009	June 22, 2009
Service Begins	May 1, 2009	August 1, 2009

Q. Does this conclude your testimony?

A. Yes. It does.