

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

December 17, 2008 - 10:48 a.m.
Concord, New Hampshire

NHPUC JAN16'09 AM11:14

RE: DE 08-011
GRANITE STATE ELECTRIC COMPANY d/b/a
NATIONAL GRID: Default Service Request
for Proposals for the Period February 1,
2009 through April 30, 2009 for the Large
Customer Group.

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison
Commissioner Clifton C. Below

Connie Fillion, Clerk

APPEARANCES: Reptg. Granite State Electric Company
d/b/a National Grid:
Marla B. Matthews, Esq.
(Gallagher, Callahan & Gartrell)

Reptg. Residential Ratepayers:
Kenneth E. Traum, Asst. Consumer Advocate
Office of Consumer Advocate

Reptg. PUC Staff:
Suzanne G. Amidon, Esq.

Court Reporter: Steven E. Patnaude, LCR No. 52

ORIGINAL

I N D E X

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WITNESS: JOHN D. WARSHAW

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P R O C E E D I N G S

CHAIRMAN GETZ: Okay. Good morning.

We'll open the hearing in docket DE 08-011. On December 15, 2008, Granite State Electric/National Grid filed proposed Default Service rates for the Large Customer Group for the period February 1, 2009 through April 30, 2009. Grid is also seeking approval of a Settlement Agreement among itself, the Office of Consumer Advocate, and Staff regarding the bids for compliance with the Electric Renewable Portfolio Standards. And, the Company is also seeking to amend a Settlement Agreement approved in Order 24,577 to allow it to meet its Default Service requirements going forward by soliciting bids for only energy and capacity. A secretarial letter was issued December 15 setting the hearing for this morning.

Can we take appearances please.

MS. MATTHEWS: Good morning. My name is Marla Matthews. I'm from Gallagher, Callahan & Gartrell, on behalf of National Grid. And, testifying today is John Warshaw. He's the Principal Analyst for Regulated Electric Load and Distributed Generation. Good morning.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

1 MR. TRAUM: Good morning, Mr. Chairman,
2 Commissioners. Representing the Office of Consumer
3 Advocate, Kenneth Traum.

4 CMSR. BELOW: Good morning.

5 CMSR. MORRISON: Good morning.

6 CHAIRMAN GETZ: Good morning.

7 MS. AMIDON: Good morning. It's good to
8 see you, Mr. Chairman. Suzanne Amidon, for Commission
9 Staff, and with me today is George McCluskey, who is a
10 Utility Analyst in the Electric Division.

11 CHAIRMAN GETZ: Okay. Good morning.
12 Anything we need to address before we hear from
13 Mr. Warshaw?

14 MS. MATTHEWS: We do have some exhibits
15 to mark for identification. One is the December 15th
16 Default Service filing, which has a confidential and a
17 non-confidential volume. We'd also like to mark the RPS
18 Settlement Agreement that you mentioned in the opening,
19 and the Motion to Amend the Settlement Agreement in DE
20 05-126.

21 CHAIRMAN GETZ: Okay. And, the next
22 available numbers, Connie? What are the exhibit numbers?

23 MS. FILLION: On the exhibits, 17 would
24 be the next number.

1 CHAIRMAN GETZ: Okay. We'll mark for
2 identification as "Exhibit 17", "18", and "19" the
3 exhibits as described by Ms. Matthews.

4 MS. MATTHEWS: So, confidential would be
5 "17"?

6 MS. FILLION: Are they both the same
7 number?

8 MS. MATTHEWS: No, I think we've done
9 them separate in the past.

10 (The documents, as described, were
11 herewith marked as **Exhibits 17, 18, 19,**
12 and **20** respectively, for
13 identification.)

14 CHAIRMAN GETZ: Please proceed. Well,
15 actually, Mr. Patnaude, please swear the witness.

16 (Whereupon **John D. Warshaw** was duly
17 sworn and cautioned by the Court
18 Reporter.)

19 **JOHN D. WARSHAW, SWORN**

20 **DIRECT EXAMINATION**

21 BY MS. MATTHEWS:

22 Q. Good morning, Mr. Warshaw.

23 A. Good morning.

24 Q. Would you please state your full name and business

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1 address for the record.

2 A. John D Warshaw, 55 Bearfoot Road, Northborough,
3 Massachusetts.

4 Q. And, what is your position with National Grid?

5 A. I am Principal Analyst in the Regulated Electric Load
6 and Distributed Generation.

7 Q. What are your duties and responsibilities in that
8 position?

9 A. Among my duties, I'm responsible for procuring the
10 Default Service for the New Hampshire Small and Large
11 Customer Groups. And, I also do the same procurement
12 for National Grid's distribution companies in Rhode
13 Island and Massachusetts. I also procure the Renewable
14 Energy Credits in all three states for our companies.

15 Q. I believe you have copies of Exhibit 17 through 20 in
16 front of you. Can you please describe these exhibits
17 for the record?

18 A. Well, 17 is the confidential filing we made for the
19 Large Customer Group Default Service rates; 18 is the
20 redacted public version. I hope I get this right. I
21 have 19 as the Motion to Amend -- I'm sorry, 19 is the
22 Settlement Agreement for RPS; and 20 is the Motion to
23 Amend a Settlement Agreement that was previously filed
24 for the end of Transition Service and the beginning of

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1 Default Service.

2 Q. Do Exhibits 17 and 18 contain confidential and
3 non-confidential versions of your testimony and
4 schedules?

5 A. Yes.

6 Q. Do you adopt the testimony and schedules as your own?

7 A. Yes.

8 Q. Would you please summarize your testimony for the
9 Commission.

10 A. Yes. On October 31st, National Grid went out to
11 procure --

12 CHAIRMAN GETZ: Yes, I'm not sure that
13 we have the Motion to Amend.

14 (Atty. Matthews distributing documents.)

15 CHAIRMAN GETZ: Thank you. Okay. Thank
16 you.

17 **BY THE WITNESS:**

18 A. On October 31st, National Grid issued an RFP to solicit
19 Default Service for its Granite State Large Customer
20 Group, and also at the same time for its Massachusetts
21 Industrial Customer Group. On December 3rd, we
22 received indicative bids, which we shared with the
23 Commission Staff. And, we also, on December 10th, we
24 received final binding bids, and on that day we

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1 accepted a binding bid for the Granite State Large
2 Customer Group.

3 BY MS. MATTHEWS:

4 Q. Did the Company solicit bids from suppliers that
5 contain pass-through and all-inclusive prices for
6 capacity costs?

7 A. Yes, we did.

8 Q. Can you explain why the Company selected a winning bid
9 that contained an all-inclusive price for capacity?

10 A. Yes. We compared the value that the suppliers put on
11 capacity against Granite State's estimate of capacity
12 costs for that same period. And, the value that the
13 suppliers provided in their bid was lower than our
14 estimate. So, as a result, we elected to go with their
15 all-inclusive bid.

16 Q. Are you aware that the Company filed a Motion to Amend
17 the Settlement Agreement approved in the Commission --
18 by the Commission in docket DE-126, in order to
19 eliminate the requirement that the Company continue to
20 solicit both all-inclusive and pass-through pricing?

21 A. Yes.

22 Q. And, what will the effect be on the RFP process if the
23 Commission approves the Motion to Amend the Settlement
24 Agreement?

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[WITNESS: Warshaw]

1 A. It would simplify the RFP process. The bidders would
2 only have to provide one set of values, instead of two
3 sets. And, we would not have to come up with an
4 estimate of the value of the capacity portion. And, it
5 would simplify the process.

6 Q. Did the Company recently enter into an RPS Settlement
7 Agreement with Commission Staff and the Office of
8 Consumer Advocate?

9 A. Yes.

10 Q. Is that the document we have marked as "Exhibit 19"?

11 A. Yes.

12 Q. Are you requesting that the Commission approve the
13 agreement as filed?

14 A. Yes.

15 Q. Would you briefly describe the Settlement Agreement.

16 A. Yes. The purpose of the Settlement Agreement is to
17 allow the Company to pursue meeting its RPS obligations
18 in New Hampshire. The way we -- the Settlement
19 Agreement, and we worked out the process, is that we
20 would initially seek, in our Default Service RFPs, seek
21 the suppliers to also provide us with a price to take
22 on that RPS obligation. In evaluating that price, we
23 would compare to our estimate of what the market price
24 is for that RPS obligation. If the price that the

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1 supplier was providing in their bid was equal to or
2 less than our market estimate, we would accept the bid.
3 If that estimate was much higher, and what we've seen
4 in the past is that they are -- it's been bidding close
5 to the ACP for meeting the RPS obligation, we would not
6 have the supplier take on that obligation, but instead
7 the Company would do a stand-alone RFP for the RECs,
8 for the obligation that we did not pass onto the
9 supplier. And, that RFP, we would work with Division
10 Staff, as far as the details and the results of the
11 bidding, before we would actually select winning
12 bidders to provide the Renewable Energy Credits.

13 Q. How will the cost of RPS compliance be collected from
14 customers?

15 A. The costs are collected through a RAS -- RPS adder that
16 we have included in the calculation of retail rates.
17 And, that RPS adder would be based on the market prices
18 that we receive for the various classes of renewable
19 requirements in the RPS in New Hampshire.

20 Q. Does the Company's Default Service procurement comply
21 with the Settlement Agreement?

22 A. Yes, it does.

23 Q. Can you explain how?

24 A. Yes. In the RFP that we issued on October 31st, we

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- 1 also asked for suppliers to provide us with their
2 compliance adder, if they took on the RPS obligation
3 with the Default Service obligation. That compliance
4 -- We compared their adder to our calculation of RPS.
5 And, it looked -- And, the adder that we received from
6 the winning bidder was very close to ACP, we elected
7 not to accept that adder. We felt that we could -- we
8 would be better off for the customer going out with a
9 stand-alone RFP in the future to receive those RECs.
- 10 Q. Has the Company purchased any RECs at this point?
- 11 A. We have not purchased any Renewable Energy Credits to
12 meet the New Hampshire RPS at this time.
- 13 Q. And, what is the current RPS adder based upon?
- 14 A. The current RPS adder is based upon the Alternative
15 Compliance Payment one would make if one did not have
16 Renewable Energy Credits to meet the obligation.
- 17 Q. And, are there incremental costs associated with the
18 Company meeting its RPS obligation?
- 19 A. There are some incremental costs required as a result
20 of running additional RFPs, managing the REC
21 requirements, managing the RPS obligation. But,
22 compared to the actual cost of meeting the RPS, I don't
23 have a calculation for that incremental cost, but it's
24 relatively -- it's small, compared to the actual cost

[WITNESS: Warshaw]

1 of meeting the RPS.

2 Q. Can you explain the loss factor issue that was
3 discussed in a previous hearing in this docket?

4 A. Yes. In our last Default Service docket and hearing,
5 it was noticed that the loss factor that the Company
6 uses to calculate retail rates had significantly
7 decreased from what we've seen historically. That was
8 pointed out to us and I had noticed at the same time.
9 We have asked our Meter Services folks to investigate
10 that issue. They have been investigating it. They
11 have not found any specific thing that could point out
12 that that loss factor is not an accurate -- is not an
13 accurate loss factor. So, they will continue to
14 monitor, investigate. But, at this time, we'll just
15 continue to use the loss factors as we've calculated.

16 Q. Are the proposed Default Service rates for the Large
17 Customer Group reflective of current market prices in
18 your opinion?

19 A. Yes, they are.

20 MS. MATTHEWS: I have no further
21 questions.

22 CHAIRMAN GETZ: Thank you. Mr. Traum.

23 MR. TRAUM: Thank you, sir.

24 **CROSS-EXAMINATION**

[WITNESS: Warshaw]

1 BY MR. TRAUM:

2 Q. Mr. Warshaw, the OCA is not going to be taking a
3 position specifically about the Large Customer Default
4 Service rate. My few questions are relating to the RPS
5 Settlement, Exhibit 19, and the Motion to Amend in
6 Exhibit 20. And, I hope that my questions are friendly
7 cross, because we are supportive of both of those.
8 Starting with the RPS Settlement, Exhibit 19. Could
9 you explain if the approach being taken here is
10 consistent with what National Grid does in other
11 jurisdictions?

12 A. It is the -- It is almost exactly the same approach
13 that we have taken to meet the Mass. RPS obligation and
14 the Rhode Island Renewable Energy Standard obligations.

15 Q. Thank you. And, with regards to the Motion to Amend,
16 why do you feel that this is the appropriate time to
17 roll capacity and energy together and just have one
18 bid?

19 A. The capacity market that was developed as part of a
20 settlement in New England has been operating for a
21 couple of years now, and has been operating
22 successfully. The appeals that had gone -- that have
23 gone from FERC and into the District Federal Court have
24 also been overturned. And, as a result, we feel that

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1 the market is such that it's mature. There's very,
2 very, very low chance of having anything happen that
3 would disrupt this market at this point.

4 Q. And, finally, will you -- is it fair to assume that, by
5 going to just the combined bid, that the administrative
6 costs will be lower for the Company, and thus result in
7 a slight savings to ratepayers?

8 A. Yes. There would be a slight saving, because there
9 would be less analysis required to develop the estimate
10 of capacity costs and also having to evaluate the
11 capacity values that the suppliers provided.

12 MR. TRAUM: Thank you. I have nothing
13 else.

14 CHAIRMAN GETZ: Thank you. Ms. Amidon.

15 MS. AMIDON: Thank you. Good morning.

16 WITNESS WARSHAW: Good morning.

17 BY MS. AMIDON:

18 Q. You mentioned the loss factor. And, if I recall
19 correctly, the last order of the Commission, which was
20 issued in September, and I don't have that order number
21 with me, required National Grid to report to Staff on
22 the results of its investigation into the reasons for
23 the loss factor declining over a period of time. And,
24 in addition, that same order, as I recall, required

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1 Staff to file a report with the Commission regarding
2 that subject by the end of the year. Is that your
3 recollection as well?

4 A. Yes.

5 Q. Is it true that the loss factor is still down, --

6 A. Yes.

7 Q. -- compared with the same time last year?

8 A. Yes.

9 Q. And, why is it taking so long to get to the bottom of
10 this issue and understanding the causes for the
11 declining loss factor?

12 A. A different -- Our Meter Services has been
13 investigating the loss factor issue. It's a fairly --
14 It's a very complicated analysis. And, they have been
15 looking at many multiple factors that could have caused
16 the loss factors to move the way they have. They have
17 not been able -- they have not identified any one cause
18 that would make the value suspect, other than the fact
19 that they have changed from, you know, from a year ago
20 to now.

21 Q. You said "they haven't identified any one cause". Have
22 they identified a number of causes?

23 A. They have not identified any cause, any one or multiple
24 causes that would have resulted in a loss factor -- in

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1 an inaccuracy in the loss factor.

2 MS. AMIDON: Mr. McCluskey is going to
3 follow up.

4 BY MR. McCLUSKEY:

5 Q. Mr. Warshaw, if the Company does conclude that the most
6 recent 12-month rolling average loss factor for the
7 Large Customers is correct, of the order of 2.3
8 percent, it would have -- the loss factor would have
9 fallen, the 12-month average loss factor would have
10 fallen from a level of 5 percent from March 2005.
11 That's almost a 3 percent drop in loss factor. If the
12 Company concludes that the current loss factor is
13 accurate, surely there must be -- the Company must be
14 able to determine what has caused the reduction in
15 losses on the Company's system?

16 A. I can't -- I don't have the information to be able to
17 make that judgment.

18 Q. So, presumably, the Company's report to Staff will
19 address any causes for the reduction in loss factor?

20 A. Again, I'm not -- I don't have the information to say
21 that that is what the Company's report will provide.
22 The report may say that they were unable to identify a
23 cause that would result in that. I just don't know.

24 MR. McCLUSKEY: Thank you.

[WITNESS: Warshaw]

1 BY MS. AMIDON:

2 Q. Is there any level of urgency or priority given to this
3 problem by the Company?

4 A. The Meter Services folks, from my understanding, have
5 been investigating this issue. I would say it's not
6 one of those "all hands, drop everything you're doing
7 and work on this one issue". Exactly what priority the
8 Meter Services folks have given it, in relationship to
9 other projects and activities, I don't have that
10 information.

11 BY MR. McCLUSKEY:

12 Q. Is the trend that we are seeing for New Hampshire also
13 being experienced in other jurisdictions for National
14 Grid companies?

15 A. No, I have not seen that.

16 BY MS. AMIDON:

17 Q. Okay. I want to turn to the RPS at this point. And,
18 in your testimony, I'm finding the page, Page 13, I
19 think. No, I'm wrong. Excuse me. It's at Page 9.
20 The first sentence says that "Granite State evaluates
21 the RPS", I'm at Line 13, "Granite State evaluates the
22 RPS compliance adders by comparing them to market
23 prices." Isn't it fair to say that there's no market
24 developed for any of the classes of RPS in New

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1 Hampshire at this point?

2 A. We have not gone out for an RFP. So, the market
3 information that I have is pretty slim. I have seen
4 that New Hampshire has approved a number of facilities
5 to meet the RPS requirements in the four different
6 classes that they have. I have not seen any broker
7 sheets at this time that have RPS -- New Hampshire RPS
8 values on it. But I would guess that, once we issue an
9 RFP, and possibly Unitil, I'm not sure, or other
10 distribution companies in New Hampshire begin to
11 procure, then the market will pick up.

12 Q. So, further down, at Line 15, you say that "Granite
13 State is using the Alternative Compliance Payment as a
14 proxy for the market price." Is that correct?

15 A. That's correct.

16 Q. And, you did bid, as you just said, testified earlier,
17 you did solicit for bids that included an RPS adder, is
18 that correct?

19 A. Yes.

20 Q. And, you say in your testimony that the "adder from the
21 winning bidder was slightly lower than the Alternative
22 Compliance Payments", and so you determined not to
23 accept that bid, is that correct?

24 A. Correct.

[WITNESS: Warshaw]

1 Q. And, are these Alternative -- is this "slightly lower
2 than" relative to any particular class? I understand
3 that you are required to get Class I, Class III, and
4 Class IV certificates for 2009. So, is that a
5 statement relative to any particular class?

6 A. No, it was the -- it was compared to the one RAS [RPS?]
7 adder that's a combination of the obligations for the
8 four classes for the 2008 RPS year.

9 Q. Okay. So, if you look at the confidential filing, and
10 I'm hoping not to refer to the confidential material,
11 but just by reference. If there is something that
12 comes up that is confidential, we can address that in
13 the transcript, because there's no one else from -- a
14 member of the public here today. But, on Page 69 of
15 the confidential information, there is an analysis of
16 both the Massachusetts and the New Hampshire RPS adder,
17 is that correct?

18 A. Yes.

19 Q. How did you derive, I'm going to the far -- that column
20 that says, on the left-hand side, it's the second
21 entry, "ACP Value". And, if you go to the right-hand
22 side, which is "New Hampshire RPS REC Cost", "2009",
23 and I guess it's a dollar per REC, you derived 32.01,
24 is that correct? \$32.01?

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1 A. Yes.

2 Q. Could you tell us how that is derived?

3 A. That is based on the sum of the ACP for each applicable
4 class, times the percentage, in the year, in 2008, and
5 we just simply added up, and that becomes the value for
6 the entire adder.

7 Q. You mean "2009", correct?

8 A. I mean "2009", yes. I apologize.

9 Q. So, let me -- And, so, explain what factor or what
10 number you would use to multiply for Class I?

11 A. Oh. If you go to Page 80 of our testimony, --

12 Q. Are we looking at the confidential or --

13 A. It should be the same Page 80. There's Exhibit --
14 Schedule JDW-5. And, it shows how we -- how I
15 developed the adder that we are using, which is 0.199
16 cents per kilowatt-hour. And, for the -- we'll start
17 with the Class I Renewable requirement, the estimated
18 ACP was \$60.08. We multiply that by the obligation,
19 which is 0.5 percent. And, that results in an
20 incremental cost of 30 cents, 30 -- \$0.3 per
21 megawatt-hour. And, we use the same calculation for
22 the other three classes. And, then, we sum up those
23 values to get a wholesale value of \$1.92, and then a
24 retail value of 0.199 cents per kilowatt-hour.

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1 Q. So, the ACP value on Page 69 of \$32.01 is -- that was
2 an aggregate? How was that calculated?

3 A. If you take the \$1.92, and divide it by the obligation
4 in 2009, which is 6 percent, you would get \$32.01.
5 And, that would be the average value of all of RECs
6 purchased for the various obligations in 2009.

7 Q. Okay. Thank you. Then, if we look at, I think, well,
8 going back, staying on that exhibit, what is -- there's
9 not much difference between the ACP value and Bidder
10 C's bid, is that correct?

11 A. Correct.

12 Q. And, how was it determined that this was not the best
13 deal that you might get for the Large Customer Group
14 for the cost of the RECs?

15 A. This was the value that the supplier bid.

16 Q. Right.

17 A. If the supplier took -- If the supplier was awarded
18 serving the Default Service, the Large Default Service
19 customers, that's the price that they would have
20 included, if we also asked them, had them take on the
21 obligation of meeting the RPS. If you go and you look
22 at the value of the next higher bidder, which was in
23 what is -- which was in our confidential filing, --

24 Q. It's on Page 69 still, is it not, of the confidential

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1 filing? Just to help you out.

2 A. Yes. I'm just trying to -- yes, that's the RPS. But
3 what we would do is we would look at the next higher --
4 highest bidder's price for Default Service, add to that
5 what they bid for RPS. And, that combined price was
6 still higher than the winning bidder's price with our
7 estimate for RPS. So, as a result, we assumed -- we
8 took the decision for what we felt has the lowest cost
9 to our customers.

10 MS. AMIDON: Yes, go ahead.

11 BY MR. McCLUSKEY:

12 Q. Yes. Ms. Amidon's question was how did you -- why did
13 you determine that the price shown for Bidder C, which
14 was the winning Default Service bidder on Page 69, the
15 price for RECs we're referring to, was not sufficiently
16 below the average purchase price, based on the ACPs,
17 which I don't think is a confidential number, the \$32,
18 how did you determine that you could get a better price
19 in the market, rather than just buying from the Default
20 Service supplier? That was the question.

21 A. Okay. Sorry. That's based on our experiences in
22 Massachusetts and Rhode Island that, at this point in
23 time, we're getting -- we are able to buy Renewable
24 Energy Credits significantly lower than what the ACP

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1 price is. And, we did not want to send a market signal
2 to suppliers at this time that we were willing to pay
3 the ACP or very close to the ACP for New Hampshire
4 RECs.

5 Q. Your belief that you could get it at a lower price in a
6 separate solicitation, is that supported by the other
7 REC bids that you received from Default Service
8 bidders, as shown in this table?

9 A. No, that's supported based on our experience in running
10 REC RFPs in Massachusetts, for Massachusetts and Rhode
11 Island REC obligations.

12 Q. Okay.

13 A. We feel that that's -- that, by having a competitive
14 solicitation, we would -- we believe that we would get
15 the lowest cost and probably cost significantly lower
16 than ACP.

17 Q. Okay.

18 A. There's no guarantee. But, since we have not run a
19 solicitation yet, we don't really have a good feel for
20 the market. Once we've run a solicitation or two, we
21 would have a better feel for how the market is working,
22 and we'd probably start to see bid sheets from brokers
23 with RPS -- New Hampshire RPS pricing in it, just like
24 we see bid sheets from brokers that have Mass. and

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1 Rhode Island RPS pricing for those RECs to meet the
2 Mass. and Rhode Island RPS and RAS obligations.

3 MR. McCLUSKEY: Uh-huh. Thank you.

4 BY MS. AMIDON:

5 Q. In your testimony, you say that "Granite State plans to
6 issue an RFP in the future for the acquisition of
7 RECs." When do you plan to issue this RFP?

8 A. During this winter, sometime over the next two months.
9 We just haven't come down yet. There's a little work
10 that we have to do to get an RFP forward.

11 Q. And, what would you be -- what would you be soliciting
12 for? In other words, would you be soliciting for half
13 of 2009? Would you be soliciting for non G-1, as well
14 as the Large Customer Group? Would you be soliciting
15 separately for each classes?

16 A. We would -- We would aggregate all of the obligation
17 into one, but we would be soliciting by separate class.
18 We would be soliciting 100 percent -- up to 100 percent
19 of the 2008 obligation. We would also solicit
20 50 percent of the 2009 obligation that has not yet
21 settled in the ISO marketplace. And, depending upon
22 when we issue that, January, February, we may be
23 seeking 100 percent of the January obligation that has
24 settled in the ISO marketplace.

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1 Q. Okay. And, finally, I just wanted to review the final
2 prices. And, I believe, at Schedule 7, you have the
3 bill impacts. I was right on that one. And, I'm just
4 going to take the first page, which is Page 84 of the
5 public filing as an example. If we look at Columns 1,
6 that's identified as Number 1 and Number 2, there is a
7 change in the Default Service component of the rate,
8 correct?

9 A. Yes.

10 Q. And, the overall bill impact for the -- in the first
11 instance on this chart is a reduction in overall bill
12 impact of 16.4 percent?

13 A. Yes.

14 Q. And, in your testimony, you say that the overall bill
15 reductions for the classes in the Large Customer Group
16 vary from a reduction of 15.3 percent, I think, to
17 17.5 percent?

18 A. Right, because there's various classes.

19 Q. Right.

20 A. Like -- Yes, it did range that way.

21 Q. So, if you look at the Default Service component only,
22 can you tell us what the reduction was in that roughly,
23 the component of the bill?

24 A. I don't know if I -- I'm trying to remember if I

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[WITNESS: Warshaw]

1 calculated it. I was looking at maybe 20 percent, but
2 I didn't --

3 Q. Yes. Subject to check, we were going to say "would you
4 believe 20 percent?"

5 A. Yes, I was going to say "I remember 20 percent", yes.

6 MS. AMIDON: Okay. All right. And,
7 that concludes our questioning. Thank you very much.

8 CMSR. BELOW: Yes.

9 BY CMSR. BELOW:

10 Q. Mr. Warshaw, in Massachusetts and Rhode Island, you
11 indicated that the Company follows a similar procedure
12 to what's proposed in the Settlement Agreement for the
13 procurement of RECs, is that correct?

14 A. Yes, it's similar, but not exactly the same.

15 Q. Could you characterize how it's similar and how it
16 maybe differs?

17 A. In Massachusetts, there's less consultation with the
18 DPU. We pretty much do this, a lot of this on our own
19 in the review period for RECs, happens more when we do
20 the annual reconciliation. Here we would be more
21 involved with Staff, as far as the decisions that we
22 make to purchase RECs.

23 Q. Do you solicit them as an adder, as an optional adder,
24 as part of your Default Service procurement?

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[WITNESS: Warshaw]

1 A. Yes.

2 Q. With the option of going to a separate RFP?

3 A. Yes. And, we've done -- And, in the past, it's been --
4 we've had both. And, right now, we have a number of
5 contracts for Default Service in Massachusetts, some of
6 which are providing RECs and some of which aren't, for
7 exactly the same service.

8 Q. And, when you procure them as part of Default Service,
9 would it be to match that load that's being delivered
10 or the requirements that arise from the load that's
11 being delivered as part of the Default Service?

12 A. Yes. The advantage of doing that through Default
13 Service is that we would get exactly the number of RECs
14 that we need to meet that obligation.

15 Q. So, does the Company have any experience with procuring
16 RECs on a bilateral basis, where you purchase them
17 directly through a broker or through a source that
18 produces RECs, or do you always -- have you always done
19 it through RFPs?

20 A. Our preference is to do it through RFPs, so that we
21 have a competitive and open process. And, that we are
22 able to get a number of bids and evaluate which bids
23 provide the lowest cost to our customers. But we have
24 purchased RECs from offers that we have received from

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[WITNESS: Warshaw]

1 brokers and also from individual suppliers. We have
2 also participated in auctions performed by both the
3 Mass. Technology Collaborative and also the MWRA for
4 the RECs that they have in their accounts.

5 Q. Where you've actually bid for RECs, --

6 A. Yes.

7 Q. -- as opposed to soliciting the RECs?

8 A. Yes, we have participated in those auctions.

9 Q. Would this Settlement preclude that approach to
10 procuring RECs?

11 A. I don't think it would preclude it. But, before we
12 would undertake such an activity, we would definitely
13 consult with Staff.

14 Q. Well, looking on Page 4 of Exhibit 19, just looking at
15 5, Paragraph 5, which is sort of where you go to if you
16 haven't purchased them as part of Default Service, it
17 would seem to indicate that you would do it through
18 separate, independent RFPs approximately twice a year
19 to meet any RPS requirements that have not been met
20 through Default Service. So, it would seem that,
21 unless you got an exception to the Settlement
22 Agreement, that that would be the only way to procure
23 those that you haven't gotten as part of the Default
24 Service RFP. Would you agree?

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[WITNESS: Warshaw]

1 A. I agree with that. But I would assume -- I would hope
2 that if, at the time that we receive an unsolicited bid
3 that looks like a really great price, and meets all the
4 requirements, we would want to talk to the Staff to see
5 if they felt it was also a good -- a prudent thing to
6 enter into.

7 Q. So, you think it's possible that there may be times
8 when a bilateral arrangement or you bidding in an
9 auction of RECs might procure a lower price than an RFP
10 might?

11 A. It might.

12 Q. Do you -- What is your understanding as to what the
13 Settlement Agreement provides for, in terms of the term
14 that you would procure the RECs? Could you procure
15 RECs for several years out in the future or does the
16 Settlement Agreement limit that in any way?

17 A. The term that we would procure RECs for would only be
18 for meeting the obligation for going forward-looking,
19 that we've already -- that we have contributed Default
20 Service obligation for.

21 Q. So, --

22 A. And not past that. And, for the future, we would only
23 be looking to procure 50 percent of that obligation,
24 with the idea that that would prevent us from over

[WITNESS: Warshaw]

1 buying, and also allow us to do some dollar cost
2 averaging to get pricing at multiple points in time.

3 Q. So, the Settlement Agreement would appear to preclude
4 multiyear, longer term REC purchases, including ones
5 that might be part of a purchased power agreement,
6 would you agree with that?

7 A. When you say a "purchased power agreement", are you
8 talking about a purchased power agreement for Default
9 Service or purchased power agreement from a generator?

10 Q. Well, I don't know if you're familiar with the
11 provision of the New Hampshire statute, but both are
12 allowed as possibilities, obviously, with Commission
13 approval, and, obviously, understanding the current
14 order concerning the procurement of Default Service
15 would not accommodate multiyear purchased power
16 agreements. But, aside from that, there's a provision
17 in the New Hampshire RPS statute that would provide
18 that you could or, by law, there's the possibility of
19 procuring multiyear -- do a purchased power agreement
20 with or without the power or a multiyear agreement for
21 RECs with or without the power purchased? Are you --

22 A. Yes, I'm familiar with that. But, because the market
23 is so early, we would not be considering doing
24 multiyear REC contracts at this time.

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[WITNESS: Warshaw]

1 Q. Okay. When did the decline in the load factor first
2 come to your -- loss factor, not "load factor", I'm
3 sorry, the decline in the loss factor come to your
4 attention?

5 A. I noticed that when I was preparing the basic service
6 information -- RFP and in the filing back in September
7 of this year.

8 Q. Does that represent the difference between what you
9 procure at wholesale, at those meter points where it
10 comes onto your system, and what's metered and
11 delivered to your customers at retail?

12 A. Yes.

13 Q. And, so, that's primarily losses through the
14 distribution system, but perhaps some elements of the
15 transmission system as well?

16 A. Yes.

17 CMSR. BELOW: Okay. That's all.

18 BY CHAIRMAN GETZ:

19 Q. I'll just, excuse me, follow up on the issue raised by
20 Commissioner Below on Exhibit 19, in the Settlement
21 Agreement. And, I guess I'm taking your answer,
22 Mr. Warshaw, is that, by the language, it appears, on
23 Page 4, Section 5, that issuing RFPs would be the
24 exclusive manner of procuring RECs. But you're hopeful

[WITNESS: Warshaw]

1 that an agreement can be reached, well, presumably with
2 Staff and the OCA, as the other signatories to this
3 Settlement Agreement, for an alternative means of
4 procuring RECs, if it makes sense under the
5 circumstances? Is that a fair summary of your
6 position?

7 A. Yes. If we get an offer that provides significant
8 savings to our customers, we would look to chat to see
9 if we can enter into that agreement. We would not just
10 say "no" right off the top.

11 CHAIRMAN GETZ: Okay. Well, I guess,
12 then what I'd like to do is hear from OCA and Staff, if
13 they share that view of the language. And, I guess we'd
14 need to consider whether there should be some more
15 language or a mechanism for departure. But we'll let the
16 parties address that after we finish with Mr. Warshaw's
17 examination.

18 Is there any redirect, Ms. Matthews?

19 MS. MATTHEWS: No.

20 CHAIRMAN GETZ: Okay. Anything further
21 for the witness?

22 (No verbal response)

23 CHAIRMAN GETZ: Hearing nothing, then
24 you're excused. Thank you. Let's just take care of

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1 housekeeping. Is there any objection to striking the
2 identifications and admitting the exhibits into evidence?

3 (No verbal response)

4 CHAIRMAN GETZ: Hearing no objection,
5 they're admitted into evidence. Let's go to this issue of
6 the Settlement Agreement on the RPS. Starting with you,
7 Mr. Traum. Do you have -- I mean, what is the OCA's
8 understanding of the agreement?

9 MR. TRAUM: Okay. I think you and
10 Commissioner Below have raised a legitimate issue here.
11 And, I certainly think that the OCA would be flexible, in
12 terms of either amending the Settlement now or in the
13 future, so that the Company could, after consultation with
14 Staff and the OCA, enter into either short or long-term,
15 longer term bilateral contracts, as long as it can be
16 shown to benefit ratepayers.

17 CHAIRMAN GETZ: Ms. Amidon or
18 Mr. McCluskey?

19 MR. McCLUSKEY: My initial reaction to
20 the question is that certainly Staff entered into the
21 Settlement Agreement assuming that the Company would be
22 using solicitations, rather than individual negotiations
23 with specific REC suppliers. And, the reason for that is
24 that, if there were a supplier of RECs out there willing

1 to provide RECs at a lower price, then they could
2 participate in the Company's solicitation and offer such
3 lower price, and presumably be the winning bidder for
4 those RECs. It's not clear to me why a -- why going the
5 solicitation route would somehow miss low cost
6 opportunities. The solicitation would be available to all
7 potential suppliers of RECs. And, so, presumably, the
8 customers would get the lowest available price through
9 that solicitation.

10 I say that, I think that's the
11 justification for Staff supporting the solicitation
12 proposal. If the Company came to us and said that "we
13 think there's an offer out there that's better than what
14 we got in the solicitation", then, certainly, Staff would
15 not be opposed to that, although it tends to undermine the
16 fairness of solicitations. Everyone else goes through a
17 bidding process, and some other supplier can come through
18 the side door and offer a separate deal. That seems to
19 undermine the solicitation process, and would encourage
20 individual deals.

21 So, my initial response, Mr. Chairman,
22 is that I think the language in the Settlement Agreement
23 is the best deal for New Hampshire customers. But I will
24 -- I will certainly consider that further after the

1 hearing. And, if I'm allowed to respond separately, if I
2 conclude otherwise.

3 CHAIRMAN GETZ: Well, I think we have
4 some timing issues. Whether we should -- Whether we need
5 to or should approve the Settlement Agreement as filed,
6 which would mean in the normal course of the order that's
7 going to come out in the next several days, or should it
8 be done as a later phase, because it sounds like an RFP is
9 being developed now, which I guess could always be
10 developed regardless of a settlement or not. But, then,
11 it gets back to the Settlement Agreement itself, whether
12 it's -- it sounds like, Mr. McCluskey, from your position,
13 it was intended to be exclusive. And, to the extent there
14 was a request from the Company to depart, then we'd be in
15 the position of -- I assume we run into timing issues
16 there, if they made a good case, if both parties or all
17 three parties and both of the other parties, Staff and OCA
18 agreed, then we'd have to have a filing and a hearing.
19 And, I guess I'm just concerned about, without a mechanism
20 stated in advance, that we would be running into timing
21 problems that would undermine the effect.

22 But does the Company have anything
23 additional on this issue?

24 MR. WARSHAW: The only thing I'd have to

1 say is, the vast majority of the RECs that we have
2 purchased in Mass. and Rhode Island have been through the
3 RFP process. The only reason I said, you know, in Mass.,
4 we have participated in auctions, probably would not
5 participate in an auction for New Hampshire. But there
6 are those odd times when, for whatever reason, a supplier
7 would come with a *de minimus* amount of RECs and say "Look,
8 I have 100 RECs. I really want to sell them." You know,
9 it's at the end of the trading period. You know, I can
10 get \$10 or \$15, you know, below the market price for that
11 group of RECs, you know, I think it's to the advantage of
12 our customers to be able to take that. But those -- those
13 offers have been very far apart and very few.

14 I get calls on a regular basis from
15 brokers. And, my response to brokers have usually been in
16 the past "We have an RFP coming up, and that's how we will
17 solicit." But there have, again, these one -- odd times
18 that someone will come and provide an unsolicited offer
19 that it's almost like too good to not take to the
20 advantage of our customers.

21 CHAIRMAN GETZ: Well, why don't we do
22 this then. Well, let me ask this question. Would there
23 be any objection from the parties or from the Bench if we
24 considered the Settlement Agreement as filed for the

1 purposes of the Default Service order that we're going to
2 issue. And, to the extent the parties want to propose an
3 amendment to the Settlement Agreement in how to deal with
4 exceptions, then that the parties will file such an
5 amendment.

6 (Chairman and Commissioners
7 conferring.)

8 CMSR. BELOW: Well, what I'm wondering
9 is, if it might make sense to have a little flexibility to
10 provide some percentage, if you will, of the forecasted
11 REC requirement on the order of 10 to 25 percent, where
12 the Company would have some discretion to do that on a
13 bilateral basis or through bidding at an auction or just
14 alternative means of procurement. And, if it was kept to
15 a relatively small portion of the total, there would be a
16 chance over time to see if there are those opportunities.
17 And, if that, you know, should be adjusted without over
18 exposure to perhaps bad decisions. But it does seem that
19 there's -- different people have different ways of doing
20 business for various reasons, including the producers of
21 RECs. And, I was just wondering if some flexibility built
22 in might provide the opportunity to take advantage of
23 those situations, should they come up, to the benefit of
24 ratepayers?

1 CHAIRMAN GETZ: And, I guess, for
2 purposes of this hearing, I think that that's more an
3 issue of ask the parties to take that into consideration,
4 to see if there's a -- some mechanism or some other
5 thoughts about how to refine the proposal that's before
6 us.

7 MS. AMIDON: I'm sorry, Mr. Chairman,
8 for this order?

9 CHAIRMAN GETZ: No, this would have to
10 be past the issuance of this order. We're not asking you
11 to do this within the next nine hours.

12 MS. AMIDON: Would the Commission then
13 be considering the restructuring -- strike that -- the
14 Settlement Agreement in this order or defer consideration
15 until such time as that's addressed?

16 CHAIRMAN GETZ: Well, we're going to
17 take that part under advisement to talk through in
18 deliberations. I think there's a couple of ways to go to
19 incorporate the possibilities here. I'm not taking it,
20 though, that there is real urgency that this Settlement
21 Agreement needs to be approved in the order that's going
22 to be issued within the next couple of days. Is that
23 correct?

24 MS. AMIDON: Well, not speaking for the

1 Company, I think, if the Company plans to go forward with
2 an RFP in a couple of months, probably they would at least
3 want the Commission to allow them to go forward with the
4 RFP to solicit RECs on that basis.

5 CHAIRMAN GETZ: Well, I guess I would
6 have taken it that there's nothing prohibiting the Company
7 from issuing an RFP for --

8 MS. AMIDON: Okay.

9 CHAIRMAN GETZ: -- RECs in the absence
10 of a settlement agreement. Is there any concern about
11 that issue?

12 MS. AMIDON: If that's -- you know, I
13 just wanted that clear for the record. Thank you. You
14 addressed my issue.

15 CHAIRMAN GETZ: Mr. McCluskey.

16 MR. McCLUSKEY: Mr. Chairman, your
17 suggestion that the parties get together and discuss the
18 wording of a potential amendment I think is a good one.
19 And, hopefully, the Company and the OCA will sit down with
20 Staff and do that. And, we will take the Commissioner's
21 suggestions as well, regarding the portion of the REC
22 obligation that will be subject to the amendment.

23 CHAIRMAN GETZ: And, we won't be asking
24 for a final position on this issue. But, I mean, if there

1 is something that the parties want to, you know, put in
2 writing quickly that either it's imperative that we make a
3 decision on this Settlement Agreement as part of the order
4 on default rates or there's some other thoughts of a, you
5 know, a summary nature that you want to get to us within
6 the next 24 hours, certainly do that. And, I expect that
7 you'll be talking as soon as we leave the room.

8 So, are there any other issues? Let's,
9 I guess, in terms of opportunity for closing, Mr. Traum?

10 MR. TRAUM: Thank you, sir. As I had
11 stated when I was doing my cross, the OCA's not taking a
12 position with regards to the actual Default Service rates
13 for the Large Customers. And, as far as the Motion to
14 Amend the agreement with regards to capacity and energy to
15 make it one RFP, we continue to support that. That's all
16 I have.

17 CHAIRMAN GETZ: Thank you. Ms. Amidon.

18 MS. AMIDON: Thank you, Mr. Chairman.
19 The Staff has investigated the filing, and we have
20 determined that the Company followed the solicitation and
21 bid evaluation process that was approved by the Commission
22 in the Settlement Agreement in Docket Number 05-064. And,
23 we believe that the resulting rates are market-based, and
24 we recommend that the Commission approve the petition.

1 In addition, we support the Motion to
2 Amend to allow National Grid, in the future, to solicit
3 for only energy and capacity all-inclusive bids. And, we
4 will say that we do support the Settlement Agreement, but
5 are willing to discuss with the OCA and with National Grid
6 any amendments or refinements that can reflect the
7 concerns of the Commission and the opportunity for
8 purchases outside the RFP process.

9 CHAIRMAN GETZ: Thank you.
10 Ms. Matthews.

11 MS. MATTHEWS: National Grid
12 respectfully requests that the Commission approve the
13 proposed Default Service rates no later than
14 December 19th, so the rates can become effective for usage
15 on and after February 1st.

16 We also respectfully request that the
17 Commission approve the Motion to Amend the Settlement
18 Agreement. And, we do ask that the Commission approve the
19 RPS Settlement Agreement, so that we can go forward with
20 the RPS process. However, we certainly are willing to
21 work with the Staff and the OCA to look into the issues
22 that you raised. Thank you.

23 CHAIRMAN GETZ: Okay. All right. Then,
24 we will close this hearing and take the matter under

1 advisement. Thank you, everyone.

2 (Whereupon the hearing ended at 11:49
3 a.m.)

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