

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

June 17, 2009 - 1:36 p.m.
Concord, New Hampshire

RE: DE 09-010

NHPUC JUL20'09 AM 8:15

GRANITE STATE ELECTRIC CO. d/b/a
NATIONAL GRID: Default Service Rates
for the period beginning August 1, 2009
through October 31, 2009 for the
Large Customer Group.

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

Sandy Deno, Clerk

APPEARANCES: Reptg. Granite State Electric Co. d/b/a
National Grid:
Marla B. Matthews, Esq. (Gallagher...)
Stacey Donnelly, Esq.

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

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

ORIGINAL

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I N D E X

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PAGE NO.

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WITNESS: JOHN D. WARSHAW

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Direct examination by Ms. Matthews

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Cross-examination by Ms. Amidon

8, 12

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Cross-examination by Mr. McCluskey

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Interrogatories by Chairman Getz

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E X H I B I T S

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EXHIBIT NO.

D E S C R I P T I O N

PAGE NO.

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7

Non-confidential Default Service
filing for the period beginning
August 1, 2009 (06-15-09)

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CONFIDENTIAL version of the
Default Service filing for the
period beginning August 1, 2009
(06-15-09)

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Direct Testimony of George R.
McCluskey, including attachments
(06-04-09)

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CLOSING STATEMENTS BY:

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Ms. Matthews

15

23

Ms. Amidon

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1 P R O C E E D I N G S

2 CHAIRMAN GETZ: Okay. Good afternoon.
3 We'll open the hearing in docket DE 09-010. On June 15,
4 2009, Granite State Electric Company, doing business as
5 National Grid, filed proposed Default Service rates for
6 its Large Customer Group for the period August 1 through
7 October 31, 2009. A secretarial letter was issued on
8 June 15 setting the hearing for this afternoon.

9 Can we take appearance please.

10 MS. MATTHEWS: Good afternoon, Mr.
11 Chairman, members of the Commission. My name is Marla
12 Matthews. I am here from Gallagher, Callahan & Gartrell,
13 on behalf of National Grid. I have with me John Warshaw,
14 the Principal Analyst in Electric Supply - New England for
15 National Grid; Kristin Mahnke, who is an analyst; and
16 Stacey Donnelly, regulatory counsel.

17 CHAIRMAN GETZ: Good afternoon.

18 CMSR. MORRISON: Good afternoon.

19 CMSR. BELOW: Good afternoon.

20 CHAIRMAN GETZ: Hi. Suzanne Amidon, for
21 Commission Staff. And, with me today is George McCluskey,
22 who is an Analyst with the Electric Division.

23 CHAIRMAN GETZ: Good afternoon.

24 CMSR. MORRISON: Good afternoon.

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1 CMSR. BELOW: Good afternoon.

2 CHAIRMAN GETZ: We have some procedural
3 matters to attend to, before we hear from Mr. Warshaw?

4 MS. MATTHEWS: I do. A couple of
5 exhibits to mark. One is the non-confidential Default
6 Service filing, which I believe has been identified as
7 "Exhibit 7", and then the confidential version is
8 currently "Exhibit 8".

9 CHAIRMAN GETZ: Okay. The exhibits will
10 be marked for identification as described by Ms. Matthews.

11 (The documents, as described, were
12 herewith marked as Exhibit 7 and
13 Exhibit 8, respectively, for
14 identification.)

15 CHAIRMAN GETZ: But I assume these --
16 are these identical to what --

17 MS. MATTHEWS: They were extra. I
18 wasn't sure if you had a copy with you. So, --

19 CMSR. BELOW: We have them.

20 MS. MATTHEWS: Okay. I always do that
21 wrong. I can never remember if you have them with you or
22 not.

23 CHAIRMAN GETZ: Thank you. Are you
24 ready to proceed?

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1 MS. MATTHEWS: Yes.

2 (Whereupon John D. Warshaw was duly
3 sworn and cautioned by the Court
4 Reporter.)

5 MS. MATTHEWS: Thank you.

6 JOHN D. WARSHAW, SWORN

7 DIRECT EXAMINATION

8 BY MS. MATTHEWS:

9 Q. Mr. Warshaw, would you please state your full name and
10 business address for the record.

11 A. John D. Warshaw, National Grid, 25 Research Drive,
12 Westborough, Massachusetts.

13 Q. And, what is your position in National Grid?

14 A. I am an Analyst in the Electric Supply Group.

15 Q. What are your duties and responsibilities in that
16 position?

17 A. Among my duties -- Among them I am responsible for
18 procuring Default Service for National Grid's
19 distribution companies in New Hampshire, and also in
20 Massachusetts and Rhode Island. And, I also do the
21 procurements for renewable resources in the three
22 states.

23 Q. I believe you have copies of Exhibits 7 and 8 in front
24 of you?

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- 1 A. Yes, I do.
- 2 Q. Do Exhibits 7 and 8 contain non-confidential and
3 confidential versions of your testimony and schedules?
- 4 A. Yes, they do.
- 5 Q. Do you have any corrections to your testimony?
- 6 A. None that I'm aware of.
- 7 Q. Do you adopt the testimony and schedules as your own?
- 8 A. Yes.
- 9 Q. I understand that there was a change made to the Master
10 Power Agreement with Hess to implement a change in
11 Granite State's Risk Management policy, is that
12 correct?
- 13 A. Yes.
- 14 Q. Can you describe the change that was made?
- 15 A. Yes. Prior to -- let's see. Previously, when we had
16 signed a Master Power Agreement, these arrangements
17 were done prior to the merger with KeySpan. And, we
18 had limited credit folks. So, when we calculated the
19 amount of security that suppliers would need to
20 provide, or at least the risk that they would have if
21 they contracted with us for an agreement, we would look
22 at the pricing that we've locked in with the contract,
23 and then look at the historic volatility of the energy
24 markets, and use that as a basis to calculate how much

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1 more prices can go in the marketplace if -- above the
2 prices we've locked in with the contracts, if, for some
3 reason, the supplier failed to perform and we had to
4 replace the contract with another supplier. And, this
5 was usually a fairly large number that we would then
6 require suppliers to either have credit from -- credit
7 from us available to cover that or, if they were an
8 unrated entity, provide a letter of credit or some
9 other form of security to guarantee that, if, for some
10 reason, they didn't perform, we would be able to
11 replace their contract with another contract and use
12 those monies to ensure that customers would not be
13 harmed by that failure.

14 Now that we have merged with KeySpan,
15 and we have a number of businesses, including we
16 provide natural gas in New England and New York, we
17 also have the responsibility for a number of generating
18 plants on Long Island, there is a much deeper ability
19 in the Company to look at credit and to monitor credit.
20 So, we moved to more of an industry standard, which
21 would be to monitor credit on a day-to-day basis, and
22 it's called "mark-to-market".

23 So, going forward, our contracts are
24 utilizing a mark-to-market approach. That way, if the

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1 market price of the underlying energy costs in the
2 contracts are different from the prices that are locked
3 in in the bid, we would then require suppliers to
4 provide some form of security. Whether it would be the
5 amount of unsecured credit that the Company has allowed
6 them to have based on their credit ratings, or they
7 would have to provide like a letter of credit or some
8 other form of security. And, this is something that
9 would vary daily and based upon how much is left of the
10 contract for them to serve. So that, again, our
11 customers would not be harmed, if, for some reason,
12 that supplier failed to perform and we had to replace
13 that supplier with a different supplier.

14 Q. Was the change a company-wide change or specific to
15 Granite State Electric?

16 A. No, the change was company-wide.

17 MS. MATTHEWS: I have nothing further.

18 CHAIRMAN GETZ: Ms. Amidon.

19 MS. AMIDON: Thank you.

20 CROSS-EXAMINATION

21 BY MS. AMIDON:

22 Q. Just following up on that briefly, what is your
23 expectation on how this new Risk Management policy will
24 affect the pricing for Default Service customers?

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1 A. We expect that this pricing would result in basically
2 lower costs to our customers. In the past, there has
3 been times when we have informed suppliers of the
4 amount of credit that they're required to provide, they
5 would have to factor that into their bid to cover a
6 letter of credit. And, in this marketplace, with the
7 way credit markets are, that has gotten, for some
8 suppliers, fairly expensive.

9 Q. Okay. And, there was a term that you used in your
10 testimony on -- it's Bates stamp Page 8, and I asked
11 you about this before the hearing, an "FRS contract".
12 Could you just tell us what that is.

13 A. Oh, I apologize. "FRS" means a "Full Requirement
14 Service". That's similar -- That's sort of one of the
15 newer buzz words in the industry for a load-following
16 contract that provides all services, energy, capacity,
17 ancillary services.

18 Q. You said that this new credit requirement was more
19 consistent with utility practice or the practice in the
20 market, did I understand you correctly?

21 A. Yes. It's moving to more industry-wide, yes.

22 Q. And, just to wrap up this discussion, although I think
23 Mr. McCluskey has a question, do you think it's
24 affected the number of bidders who responded to your

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1 RFP? Do you think it influenced that in any way?

2 A. I don't -- I think it didn't influence them in one way
3 or the other, other than I think we had a -- I feel we
4 had a very good response in this RFP. So, as far as
5 having, I don't think -- it was not a negative impact.

6 MS. AMIDON: Okay. With your
7 permission, Mr. McCluskey, go ahead.

8 MR. McCLUSKEY: Just one question on the
9 credit issue.

10 BY MR. McCLUSKEY:

11 Q. The Company requires suppliers to provide credit, a
12 letter of credit, in some instances, to cover for the
13 risk that the supplier defaults, and the Company has to
14 go out and buy power at the higher price. Is that
15 essentially what you're saying?

16 A. At a -- yes.

17 Q. So, how does that result in a cost to the supplier?
18 I'm interested in how a supplier responds to that by
19 potentially increasing the bid price.

20 A. Yes.

21 Q. But what's the cost to the supplier in providing that
22 letter of credit, for example?

23 A. The cost is, actually, they pay the bank a certain fee
24 for that letter of credit, and that fee is usually

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1 based upon the size of the letter of credit.

2 Q. And, is it that fee that they try to recoup through the
3 higher bid price?

4 A. Yes.

5 Q. You distinguished between suppliers that are rated and
6 those that are not. I think you indicated that
7 suppliers that are not rated, you may require them to
8 offer a letter of credit. What happens in the case of
9 a rated supplier?

10 A. With suppliers that are unrated, they are required to
11 provide a letter of credit or other -- or some other
12 collateral up front at the start of the contract.

13 Q. Yes.

14 A. And, then, depending upon mark-to-market, they may have
15 to provide additional collateral on top of that. For
16 companies that are rated, we look at how much of the --
17 how much we have already contracted with them --

18 Q. Uh-huh.

19 A. -- and what that exposure is, and what this -- what
20 this contract would add as far as incremental exposure.
21 And, as an example, if the Company is willing to give a
22 supplier a \$20 million letter of credit, and they have
23 used up, let's say, 19 million of that with other
24 contracts, and the contract that is currently -- they

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1 are now executing is like \$2 million, --

2 Q. Uh-huh.

3 A. -- we would then require them to provide just
4 \$1 million of letter of credit, so that the outstanding
5 obligation would be 21 million. Their \$20 million line
6 of credit that we would allow them is -- would be
7 21 million, less 20 -- would be 20 million, the
8 obligation is 21 million, so they would provide a
9 \$1 million letter of credit.

10 Q. So, the rated companies would also have to provide a
11 line of credit, too?

12 A. Yes, they would. If -- Depending upon other
13 transactions that they have with the Company, yes.

14 MR. McCLUSKEY: I see. Okay. Thank
15 you.

16 BY MS. AMIDON:

17 Q. And, Mr. Warshaw, with respect to what you solicited in
18 this solicitation, as I understand it you solicit for
19 all-inclusive energy and capacity prices at fixed
20 prices, is that correct?

21 A. Yes.

22 Q. And, who was the winning bidder?

23 A. It was Hess.

24 Q. Okay. Thank you. I just have one other area I want to

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1 ask about, which is the Renewable Energy Certificates.
2 And, on Page 205 of Exhibit 7, if you go down to the
3 category at the bottom, Section 5, "Calculation of
4 Renewable Portfolio Standard Adder". At the (4) below
5 that, which says "Sum of Class III and Class IV
6 Incremental Costs", shouldn't that be "Sum of Class I,
7 III, and IV"?

8 A. Yes, it should be.

9 Q. Okay. Thank you. And, I noticed in this -- that this
10 exhibit presents the calculation of the Renewable
11 Portfolio Standard Adder that the Company uses. And,
12 that the calculation was based on the Alternative
13 Compliance Payments, is that correct?

14 A. Yes.

15 Q. Could you tell us what your experience has been in --
16 with respect to market prices for these categories of
17 RECs?

18 A. We're finding that the market price for the Class III
19 and Class IV RECs are almost approaching the ACP rate.
20 And, as a result, we have not locked -- have not
21 contracted for RECs at that rate. Because we are
22 hoping, or as the market develops and more suppliers
23 get approved for -- by New Hampshire, that the size of
24 the market would increase and possibly the price would

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1 decrease.

2 MS. AMIDON: Okay. That's all we have.

3 Thank you.

4 CHAIRMAN GETZ: Thank you.

5 BY CHAIRMAN GETZ:

6 Q. Mr. Warshaw, just one area, I want to see if my
7 understanding of the Risk Management policy change is
8 accurate. Would it be fair to say that the previous
9 practice was to require in advance of a contract a
10 security? So, you would make a judgment in advance of
11 the contract about risk, and require some form of
12 security in some amount. But what you're proposing to
13 do is to change the policy, because you now have a
14 better ability to track volatility over time and have a
15 mechanism that, to the extent that the contracted rate
16 departs from market rates, if there's greater
17 volatility, that you can require security as needed
18 from the counterparty? Is that --

19 A. Yes, that's correct.

20 CHAIRMAN GETZ: Okay. Okay, anything
21 further?

22 MS. MATTHEWS: Nothing further.

23 MS. AMIDON: Mr. Chairman, I neglected
24 to ask that Staff's testimony, which was essentially a

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1 report on the Lead/Lag Study that was filed on June 4th,
2 be marked for identification as "Exhibit 9".

3 CHAIRMAN GETZ: Okay. So marked.

4 (The document, as described, was
5 herewith marked as Exhibit 9 for
6 identification.)

7 MS. AMIDON: Thank you.

8 CHAIRMAN GETZ: Okay. Then, it appears
9 there's nothing further for the witness. Thank you,
10 Mr. Warshaw.

11 Is there any objection to striking the
12 identifications and admitting the exhibits into evidence?

13 (No verbal response)

14 CHAIRMAN GETZ: Hearing no objection,
15 they will be admitted into evidence. Closing statements?

16 MS. MATTHEWS: The Company respectfully
17 requests that the Commission approve the proposed Default
18 Service rate for the Large Customer Group no later than
19 Monday, June 22nd, so the rates can become effective for
20 usage on and after August 1st.

21 CHAIRMAN GETZ: Thank you. Ms. Amidon.

22 MS. AMIDON: I just wanted to, in my
23 closing, I just want to point out for the record that the
24 Company in its testimony did address Staff's comments on

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1 the Lead/Lag Study. However, at this point, we've agreed
2 with the Company to attempt to resolve this issue through
3 a settlement or partial settlement in the next four weeks
4 or so, and to litigate any remaining issues in the next
5 Default Service hearing. So, that is just procedural
6 information for you at this point.

7 However, with respect to the filing, the
8 Company -- I mean, the Staff investigated the filing. We
9 believe that the Company followed the solicitation and bid
10 evaluation process approved by the Commission. And, we
11 believe that the resulting rates are market-based, and,
12 therefore, the Commission should approve the petition.

13 CHAIRMAN GETZ: Okay. Anything further?

14 (No verbal response)

15 CHAIRMAN GETZ: Hearing nothing, then
16 thank you very much. I will close the hearing and take
17 the matter under advisement.

18 (Whereupon the hearing ended at 1:53
19 p.m.)

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