STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: June 29, 2011
AT (OFFICE): NHPUC

SEM

FROM: Steven E. Mullen, Assistant Director – Electric Division

SUBJECT: DE 11-107, Granite State Electric Company, Inc. d/b/a National Grid Fiscal Year 2011 Reliability Enhancement Plan and Vegetation Management Plan Report and Reconciliation Filing

Staff Recommendation

TO: Commissioners
Debra A. Howland, Executive Director

On May 13, 2011, Granite State Electric Company, Inc. d/b/a National Grid (National Grid) filed the results of its reliability enhancement plan (REP) and vegetation management plan (VMP) for fiscal year (FY) 2011 (April 1, 2010 to March 31, 2011). The filing was made pursuant to the terms of a settlement agreement approved by the Commission in Docket No. DG 06-107 regarding the National Grid plc/KeySpan Corporation merger. *See* Order No. 24,777 (July 12, 2007) 92 NH PUC 279. National Grid also filed supporting testimony and exhibits and proposed tariff pages.

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

Pursuant to the settlement agreement, on an annual basis National Grid provides Staff a proposed O&M budget that assumes REP and VMP O&M spending for each FY will approximate the base plan O&M of $1,360,000 or an alternative budget that exceeds the base O&M amount for Staff's consideration. National Grid and the Staff originally agreed to an O&M budget of $1,552,000 for the FY 2011 plan. As explained in the May 13 filing, the Company's actual O&M expense and capital investment associated with REP/VMP activities deviated from the filed budget and National Grid proposed to refund to ratepayers $758,113 which consists of $114,015 under-spending for REP and VMP O&M plus $644,098 in credits for vegetation management reimbursements from FairPoint. National Grid also said the proposal to recover the incremental revenue requirement of $102,941 associated with $610,835 of capital investment in FY 2011 was consistent with the settlement agreement.

On June 2, 2011, the Commission issued Order No. 25,228 suspending the proposed tariff pages and scheduling a hearing for June 17, 2011. On June 16, 2011, the day prior to the hearing, National Grid updated its filing to include an additional $86,291 in capital investment and $3,829 of O&M expense associated with a fourth recloser placed into service during the fiscal year. According to National Grid, those costs were inadvertently omitted from the filing.

During the June 17, 2011 hearing, Staff questioned the National Grid witnesses regarding the additional costs associated with the fourth recloser, particularly considering the variance in capital costs as compared to a) the original budget that was reviewed with Staff at the beginning of the fiscal year and b) details that were discussed during a February 10, 2011 meeting between Staff and Company personnel at which the status of the FY 2011 REP and VMP plans and costs were discussed along with National Grid's plans for FY 2012. In light of those differences, the Company was asked to provide additional detailed information subsequent to the hearing (Exhibit 6). The requested information was provided on June 23.

Having reviewed the original filing, the updated June 16 filing and the information provided in Exhibit 6, and having heard the testimony at the June 17 hearing, Staff offers the following observations and recommendations. First, Staff appreciates the additional detail that was provided in Exhibit 6, but it would have been more beneficial to Staff and the Commission had the information been presented prior to the hearing. Staff understands that the Company altered its plans regarding the specific locations of recloser installations during FY 2011 to respond to certain reliability problems being experienced on its system and why it made those decisions. Staff also understands that there were certain additional costs associated with those decisions and that the costs associated with recloser installations were further clouded by the Company's erroneous use of a blanket work order rather than a specific work order for the recloser installed on the 11L1 feeder. However, Staff finds it frustrating to learn of such details and significant variances from budgeted amounts at the eleventh hour. In addition, Staff notes that similar issues arose in the prior year's REP/VMP reconciliation, Docket No. DE 10-140. In that case the Commission stated:

> While we recognize that the settlement agreement that we approved in Order No. 24,777 does not specifically require the Company to inform Staff of each and every change to its budgets and/or planned activities, we direct the Company to inform Staff of any significant changes to the FY 2011 REP/VMP and future budgets, whether the changes are a result of opportunities that present themselves, increased costs for planned activities, or any other reason. Such continued communication will allow for a more orderly and streamlined rate adjustment process at the conclusion of a fiscal year. To the extent future significant variations are not sufficiently communicated, we will consider changes to the rate adjustment process. (*See* Order No. 25, 126 (June 30, 2010))

Notwithstanding the problems noted above, Staff is not at this time recommending changes to the rate adjustment process.[1] Staff does not believe that the issues related to correctly reporting and otherwise communicating the costs of recloser installations were intentional. Rather, Staff believes that the problems are more associated with internal Company recordkeeping and that the Company must take greater care when assembling its information for review with Staff.

Taking all of the above into account, Staff recommends that the Commission approve National Grid's adjustments to rates as reported in the Company's original filing dated May 13, 2011, specifically, the $758,113 refund to customers and recovery of the incremental revenue requirements of $102,941 associated with $610,835 of capital investment during FY 2011. These amounts are in line with what had previously been reviewed with Staff during the latter part of the fiscal year. The $758,113 will be refunded through a REP/VMP Adjustment Factor of ($0.00083) per kWh while the $102,941 will be collected through a 0.50% increase in base distribution rates. Overall, the bill impact for a typical residential default service customer taking 500 kilowatt hours (kWh) per month using the rates proposed for effect on July 1, 2011 as compared with current rates is a bill decrease of $0.95 per month, a 1.5% decrease, from $63.77 to $62.82. For residential default service customers using an average of 681 kWh per month, the monthly bill decrease would be $1.28, a 1.5% decrease, from $87.65 to $86.37. For other customers, decreases would range from 1.4% to 2.2 %.

As for the additional $86,291 in capital investment and $3,829 of O&M expense associated with a fourth recloser placed into service during the fiscal year, Staff recommends that those costs be brought forward for consideration as part of the FY 2012 REP/VMP programs. Considering that the information was brought to Staff's attention so late in the process, Staff would prefer to have sufficient time to thoroughly review all of the relevant information. In addition, the information provided in this proceeding has raised questions in Staff's mind concerning the validity some of the estimates included in National Grid's FY 2012 REP/VMP plans, specifically concerning planned capital spending. (For example, the budgeted average cost of reclosers to be installed during FY 2012 are significantly less than the actual cost of the reclosers installed during FY 2011.) In Staff's view, it would be beneficial for Staff to meet with National Grid to thoroughly review the FY 2011 results along with the FY 2012 budgeted information.

Please contact me if you would like to discuss this matter further.

cc: Service List

[1] This recommendation also is in light of the fact that the Settlement Agreement in DG 06-107 has a term that expires on December 31, 2012.