DE 00-198

GRANITE STATE ELECTRIC COMPANY

Transition Service Rates

Order Approving Transition Service Rate Increase

O R D E R N O. 23,589

November 13, 2000

APPEARANCES: Seth L. Shortlidge, Esq. for Granite State Electric Company, James K. Brown, Esq. for the Governor's Office of Energy and Community Service, Steven V. Camerino, Esq. for the Town of Salem, James Monahan for Competitive Energy Services, Michael Holmes for the Office of Consumer Advocate, and Lynmarie Cusack for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 15, 2000 Granite State Electric Company (Granite State or the Company) filed with the New Hampshire Public Utilities Commission (Commission) a petition to increase its Transition Service rates along with the supporting testimony and exhibits of Michael J. Hager, Manager Distribution Energy Services for National Grid USA Services Company, and Peter T. Zschokke, Vice President and Director of Distribution Financial Analysis for National Grid USA. The Company petitioned to increase its Transition Service rate from $0.03838 per kilowatt-hour to $0.05596 per kilowatt-hour, inclusive of franchise tax, on November 15, 2000. Supplemental testimony by Mr. Zschokke, illustrating the effect of implementing the requested Transition Service rate increase on

December 1, 2000 and January 1, 2001, was filed on September 22, 2000.

On October 3, 2000 the Commission issued an Order of Notice calling for a Pre-hearing Conference to be held on October 17, 2000. At the Pre-hearing Conference intervener status was granted to the Governor's Office of Energy and Community Service and the Town of Salem, New Hampshire. The parties held a technical session on October 20, 2000. A hearing was held on November 1, 2000. At the hearing, Competitive Energy Services made an appearance and asked to be added to the service list. On November 3, 2000, Staff filed a letter with the Commission clarifying its position in this case. On November 6, 2000, a fax was received from James Monahan, on behalf of Competitive Energy, stating his client's position that 13-month pricing should be approved in response to the Town of Salem's recommendation.

II. POSITIONS OF THE PARTIES AND STAFF

Granite State Electric Company

The Company avers that an increase in the retail price of transition service is necessary to mitigate the increasing deferrals in the Transition Service 1 reconciliation account which are due to the fuel trigger adjustment mechanism, approved as part of Granite State's

Amended Restructuring Settlement Agreement in Docket DR 00-012. The proposed increase is designed to allow the Company to recover its wholesale Transition Service 1 costs on a current basis.

In his pre-filed testimony, Mr. Hager explained how the fuel index adjustment provision contained in the Company's Transition Service 1 contract operates; he also calculated the additional cost incurred as a result of the fuel index adjustment payments, and estimated the additional fuel index adjustment payments through the end of 2001. The fuel index adjustment provision compares the sum of the twelve month rolling average of No. 6 residual fuel oil and natural gas to a pre-set trigger point on a monthly basis. If the trigger point is exceeded, additional payments are made to Granite State's wholesale supplier that month based upon the following formula:

$$\text{Fuel Adjustment} = \frac{(\text{Market Gas Price} + \$.60/\text{MMBtu}) + (\text{Market Oil Price} + \$.04/\text{MMBtu})}{\text{Fuel Trigger Point} + \$.60/\text{MMBtu} + \$.04/\text{MMBtu}}$$

Currently, the Company charges all its Transition Service customers the base Transition Service 1 rate of $0.03838 per kilowatt-hour, inclusive of franchise tax. According to Mr. Hager's testimony, the fuel index trigger point has been exceeded every month since April 2000. The Company has made

fuel adjustment payments in addition to base charges of $1,218,659 through August of 2000. The Company estimates that additional fuel trigger payments will be made to Constellation Power Services, Inc., the Company's wholesale Transition Service 1 supplier, at least through the end of 2001. The monthly fuel index payments, estimated by the Company for October 2000 through December of 2001, range from 1.1 cents per kilowatt-hour up to 2.0 cents per kilowatt-hour.

In his testimony, Mr. Zschokke described Transition Service, the Company's current Transition Service reconciliation mechanisms, the Company's reasons for requesting to price Transition Service 1 at its estimated cost, and a full description of the Company's proposal. Exhibits were provided which detail Granite State's calculation of the rate necessary to recover its estimated costs for Transition Service 1 through the end of 2001; the estimated under-collection as of September 30, 2000 for Transition Service 1, Transition Service 2 and transmission service; proposed tariff pages; and typical bills.

The Company proposes to increase rates from 3.8 cents per kilowatt-hour to 5.541 cents per kilowatt-hour, exclusive of franchise tax, from November 15, 2000 through the end of December 2001. This rate is not designed to recover

any of the Transition Service 1 under-recovery to date, but only to recover its ongoing costs. The Transition Service 1 revenues and costs are reconciled annually, starting January 1, and any balance is recovered from or refunded to all Transition Service customers. Mr. Zschokke states in his pre-filed testimony that the Company "believes its proposal minimizes rate instability and cross-subsidies across customer classes, reflects proper cost incurrence to customers, protects the Company's continued economic viability and has the potential to promote competition in the retail marketplace." The Company calculates that the impact on a typical, 500 kilowatt-hour per month residential customer on transition service, will be an increase of 18.4 percent or $8.79 per month compared to current rates. The Company recommends increasing the Transition Service rate on November 15, 2000 and provided the rate impact of alternate implementation dates only for informational purposes.

Governor's Office of Energy and Community Service

The Governor's Office of Energy and Community Service did not take a position or question the witnesses in this case, but requested that the responses to the data requests it asked of the Company be marked as an exhibit. The responses to Questions GOECS 1-1 through 1-5 were marked as

Exhibit 4.

Town of Salem

The Town of Salem (Town) did not testify, but cross-examined the Company witnesses. The Town advocates setting the Transition Service rate on the estimated Transition Service 1 price, base rate plus the weighted average fuel trigger estimates, over a 3 month period. The Town recommends that this rate remain in place unless the Company's Transition Service 1 payments vary from revenues by greater than 20 percent, at which time the Town suggests an automatic adjustment. The Town used the data in Mr. Hager's pre-filed exhibit MJH-4, Summary of Additional Payments Estimated to be Made Pursuant to the Fuel Index Adjustment Provision, to show that an adder less than the Company's proposed Transition Service rate increase of 1.741 cents per kilowatt-hour is necessary to keep the Company current with its estimated projection of the fuel index adjustment provision if estimated over a period of 3 to 6 months rather than the proposed 13 months (Exhibit 5). According to Mr. Zschokke, the estimated weighted average of the fuel index adjustment payment is 1.436 cents per kilowatt-hour if averaged over a 3-month period starting November 1, 2000. The Town stated that the Settlement Agreement is silent on how the Company should recover the fuel

adjustment provision from its Transition Service customers and thus the Commission has discretion on whether to increase rates at this time and by how much. The possibility of rates being increased such that the Company over-collects from its Transition Service customers raises several concerns for the Town. First, if the Company under-collects Transition Service 1 revenue the under-collection is collected from just Transition Service customers. If the Company over-collects Transition Service 1 revenue, the over-collection is refunded to all distribution customers, regardless of energy supplier. The Town is concerned that if rates are set too high, revenue collected from one group of customers will be credited to a larger set of customers. Secondly, customers currently benefit from the fact that interest is not charged to the Transition Service 1 reconciliation account. If rates are set to the level at which the Company over-collects, customers will not receive interest on the over-collected funds. Unlike the current mechanism to collect Transition Service cost, the proposed mechanism introduces the possibility of Company over-collections which shifts some risk from the Company to customers since interest is not paid on the Transition Service 1 reconciliation account. The Town interprets the Settlement Agreement as intending to have after-the-fact reconciliations

and not a lot of forecasted changes.

Office of Consumer Advocate

The Office of Consumer Advocate (OCA) questioned the Company panel on the tradeoff between including the fuel index adjustment provision in the Settlement and the gain on the sale of assets credited to stranded costs. The OCA pointed out that the Company's nuclear assets have not been sold and the Commission will address those issues in the future.

Commission Staff

The Commission Staff did not submit testimony but questioned the Company witnesses. Staff recommends that the Commission accept the Transition Service rate of $0.05541 per kilowatt-hour as filed by the Company, but only approve the rate for a six-month period. As justification for its support of the requested rate increase, Staff submitted an exhibit (Exhibit 7) which calculates the estimated fuel adder over a 6-month period, using updated estimated fuel index adjustment provision payments from a Company data response. Staff calculates that over a 6 month period the Company would need to charge a fuel adder of 1.91 cents per kilowatt-hour compared to the proposed 1.74 cents per kilowatt-hour, based upon the Company's updated estimates. Because the Company's proposal is already a significant rate increase, Staff does

not advocate a higher rate. Similar to the Town of Salem, Staff is concerned about the shift in interest risk from the Company to customers. Staff avers that a shorter rate period would diminish this risk. Specifically, Staff recommends a 6-month approval period and that the Company be required to submit a filing on or before April 1, 2001 for Transition Service 1 rates starting May 1, 2001, or earlier if, as the Town suggests, Transition Service 1 cost varies by 20 percent or more from Transition Service 1 revenue. Additionally, Staff recommends that the Company be required to issue a press release and bill stuffer explaining the rate increase if approved.

III. COMMISSION ANALYSIS

After reviewing the testimony and exhibits in this case along with reviewing the relevant portions of Granite State's Amended Settlement Agreement and Order No. 23,041, Approving the Amended Offer of Settlement (October 7, 1998), the Commission will approve the requested Transition Service rate increase from $0.03838 per kilowatt-hour to $0.05596 per kilowatt-hour effective for all service rendered on and after November 15, 2000. This rate is approved until May 15, 2001. On or before April 15, 2001, Granite State is directed to file a new Transition Service rate proposal unless Granite State's

Transition Service 1 costs vary by 20 percent or more from Transition Service 1 revenues.

An increase in the retail Transition Service rate is necessary to mitigate the increase in deferrals building up in the Transition Service 1 reconciliation account. The parties do not disagree that rates need to be increased to forestall further deferrals which are due to the fuel index adjustment mechanism approved as part of Granite State's Amended Restructuring Settlement Agreement. The main questions arise over the size of the rate increase and length of time the rate should be approved. Given the current volatility in the fuel markets, we do not believe that a 13-month rate approval is appropriate. Therefore, we will accept Staff's recommendation of a 6 month approval period. Page 17 of Granite State's Amended Restructuring Settlement Agreement in DR 00-012 states "(e)very six months, Granite State shall reconcile the revenues billed to retail customers taking Transition Service against payments to suppliers of Transition Service and recover or refund any under or overcollections from Transition Service customers." In addition this is the traditional time period used by this Commission in previous fuel adjustment proceedings. In addition, the shift in interest risk onto customers, described by the Town of Salem and Staff, is also a

concern. A rate review in six months will not only mitigate the risk of over-recovery from customers but will also mitigate the risk of under-recovery for the Company.

In its letter filed subsequent to the hearing, Competitive Energy Services (CES) states that “any proposal to shorten the time period for which transition service will be priced will create a new stifling effect in the market”. We understand CES’s concern but are not convinced that under the current circumstances a longer time period is appropriate. If over the next six months fuel prices continue to rise, and as a result the market price of electricity continues to rise, leaving Granite State’s Transition Service price at the new approved level will also have a stifling effect on competition in Granite State’s territory. The size of the Transition Service rate increase should also aid in spurring competition in Granite State’s service territory. Additionally, as stated above, a six month reconciliation period has already been agreed to in the Company’s Amended Restructuring Settlement Agreement.

Using the Company’s updated estimates of future Transition Service 1 prices, it appears that Granite State will continue to under-collect at the end of the six month period. In order to prevent even greater deferrals, we will

accept the rate increase proposed by the Company. The increase to Transition Service rates will also aid in mitigating the size of the Transition Service 2 deferral account.

The approved rate results in an 18.4 percent increase for a 500 kilowatt-hour a month residential customer. Given the size of the rate increase, we will require Granite State to issue a press release and include bill stuffers explaining the increase. We will defer the issue of interest on reconciliation account balances until Granite State's reconciliation docket.

Based upon the foregoing, it is hereby

ORDERED, that Granite State Electric Company's Transition Service rate is approved to increase from $0.03838 per kilowatt-hour to $0.05596, adjusted for franchise tax, on a service rendered basis from November 15, 2000 until May 15, 2001; and it is

FURTHER ORDERED, that on or before April 15, 2001 Granite State shall file a new Transition Service rate proposal; and it is

FURTHER ORDERED, that upon receipt of this Order the Company shall issue a press release explaining the rate increase and the Company shall arrange to include bill

stuffers describing the rate increase; and it is

FURTHER ORDERED, that the Company shall file a compliance tariff with this Order within fifteen days of the date of this Order.

By order of the Public Utilities Commission of New Hampshire this thirteenth day of November, 2000.

Douglas L. Patch Chairman	Susan S. Geiger Commissioner	Nancy Brockway Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary