STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 09-010

GRANITE STATE ELECTRIC COMPANY D/B/A NATIONAL GRID

Petition for Approval of Proposed Default Service Rates for August 1, 2009 through October 31, 2009 for Large Commercial and Industrial Customers

Order Approving Petition

O R D E R N O. 24,981

June 19, 2009

APPEARANCES: Gallagher, Callahan and Gartrell by Marla B. Matthews, Esq. on behalf of Granite State Electric Company d/b/a National Grid; and Suzanne G. Amidon, Esq. on behalf of the Staff of the New Hampshire Public Utilities Commission.

I. BACKGROUND

On June 15, 2009, Granite State Electric Company d/b/a National Grid (National Grid or Company) filed a petition requesting approval of default service rates for its large and medium commercial and industrial customers (Large Customer Group) for the period from August 1, 2009 through October 31, 2009. National Grid named Hess Corporation (Hess) as the winning default service supplier for this period. In support of its petition, National Grid filed the testimony of John D. Warshaw and related exhibits. Mr. Warshaw is the principal New England energy supply analyst for National Grid USA Service Company, the National Grid affiliate with responsibility for procurement of default service power for National Grid.

National Grid made this filing pursuant to a settlement agreement approved by the Commission in Order No. 24,577 (January 13, 2006), 91 NH PUC 6. In Order No. 24,577, the Commission approved the process for solicitation, bid evaluation and procurement of default service supply by National Grid for its Large Customer Group. According to the terms of the settlement agreement, National Grid procures default service for its Large Customer Group under three-month contracts with fixed prices that vary month-to-month. National Grid charges the Large Customer Group retail rates consisting of monthly fixed energy charges, administrative costs and a reconciliation charge.

With its petition, National Grid filed a motion for confidential treatment of certain information pursuant to N.H. Code Admin. Rules Puc 203.08. Staff filed testimony summarizing its review of National Grid's lead/lag study on June 4, 2009. On June 15, 2009, the Commission scheduled a hearing for June 17, 2009 that took place as scheduled.

II. POSITIONS OF THE PARTIES AND STAFF

A. National Grid

National Grid testified that it conducted its solicitation process consistent with the terms of the settlement agreement approved by the Commission in Order No. 24,577. As with prior solicitations, National Grid and its retail distribution affiliates in Massachusetts prepared a joint RFP (request for proposals) for certain power supplies, including a default service supply for National Grid's Large Customer Group for the period August 1, 2009 through October 31, 2009. The RFP requested fixed pricing for each month of service on an as-delivered energy basis and allowed prices to vary by month so that prices did not have to be uniform across the entire service period.

According to National Grid, the RFP was sent to more than 25 potential suppliers on May 8, 2009. The RFP was also distributed to all members of the New England Power Pool (NEPOOL) Markets Committee and was posted on National Grid's energy supply website. According to National Grid, the RFP was widely distributed through the New England energy supply marketplace.

The Company testified that suppliers filed indicative bids on June 3, 2009 and final proposals on June 10, 2009. According to the Company, none of the bidders made their provision of National Grid's Large Customer Group default service contingent upon the provision of any other service. The Company testified that it evaluated the bids and selected Hess because its bid conformed to the RFP, had the lowest price, met the credit requirements described in the RFP, and passed National Grid's qualitative evaluation. National Grid attested that it complied with the solicitation and bid evaluation process approved by the Commission and that its choice of supplier is reasonable.

On June 11, 2009, National Grid entered into a transaction confirmation with Hess to provide default service to the Large Customer Group for the three-month period August 1, 2009 through October 31, 2009. This confirmation, together with the master power agreement previously filed with the Commission in Docket No. DE 07-012, provides the terms of National Grid's purchase of default service for its Large Customer Group from Hess.

National Grid testified that it had changed its risk management policy regarding the Company's procurement of default service supply. The Company explained that, in previous transactions, it required suppliers to provide credit support at the time the transactions were entered into, to cover the volatility of wholesale price movements throughout the entire transaction. According to National Grid, this requirement forced some suppliers to include the cost of credit support in their bid prices. In order to more closely track industry trends and provide customers with the lowest cost of default service, National Grid, beginning with this default service filing, requires supplier credit support to be based on the expected volume of load for the bid block and a mark-to-market margining clause. As described by the Company, as forward market prices change, the supplier will be required to post security for those incremental changes. In the event that a supplier fails to perform as required in the executed agreement, National Grid would be able to use the posted security to purchase replacement power without incurring additional costs for its customers.

National Grid testified that its Renewable Portfolio Standard (RPS) obligation for calendar year 2009 is a minimum of 6.0% of its default service load, of which at least 0.5% is from Class I new renewable energy resources, 4.5% is from Class III existing biomass resources, and 1.0% is from Class IV existing small hydroelectric resources.

Consistent with the RPS settlement agreement approved in Order No. 24,953 (March 23, 2009) in this docket, National Grid solicited an RPS compliance adder with the RFP for default service supply. The RPS compliance adder is the incremental charge by a bidder for agreeing to take on the RPS obligation with the default service obligation. The Company explained that the RPS adder from the winning default service bidder was close to the alternative compliance payment (ACP), and, therefore, the Company did not accept the winning bid with the RPS compliance adder. National Grid testified that it plans to issue an RFP in the future for the acquisition of Renewable Energy Certificates (RECs) and if it is unable to purchase sufficient RECs to meet its New Hampshire RPS obligations, the Company will make ACPs into the renewable energy fund to satisfy its RPS requirements. The Company did not request a change to its RPS adder with the current filing, and proposes to use the same RPS adder it used in its March 16, 2009 filing, or $0.00205 per kilowatt hour (kWh).

National Grid testified that the rates for the Large Customer Group for the period August 1 through October 31, 2009, including the various components included in the rate, will be as follows:

Month	August 2009	September 2009	October 2009
Base Default Service (DS) Rate	$0.06736	$0.06595	$0.06890
DS Cost Reclassification[1]	($0.00285)	($0.00285)	($0.00285)
DS Adjustment Reconciliation Factor[2]	$0.00055	$0.00055	$0.00055
RPS Adder	$0.00205	$0.00205	$0.00205
Total Default Service Rate	$0.06711	$0.06570	$0.06865

The simple average of the default service rates for the Large Customer Group for the period August through October 2009 is $0.06715 per kWh, compared with the simple average rate of $0.06587 per kWh for the period May through July 2009. For the customers in the Large Customer Group that remain on default service, the August 2009 total bill increases will range from 5.5% to 6.7% as compared to July 2009.

National Grid stated that it disagreed with one of the recommendations testified to by Staff regarding the Company's 2008 lead/lag study. That recommendation related to the standardization of payment terms to default service suppliers. Staff recommended that National Grid insert payment terms into its master power agreements stating that the Company will make payment on the supplier's invoice, less any amounts in dispute, on or before the later of the last business day of each month or the tenth day after receipt of the invoice, or if such day is not a business day, then on the next following business day.

National Grid said it understood that Staff recommended that the Company make payments to its default service suppliers, on average, at least thirty days following the end of the period for which customers have received the service, in order to increase the average number of days of the Company's expense lead and thereby reduce the Company's working capital requirement. According to National Grid, the Company's master power agreements have

[1] The filing states that the DS Cost Reclassification Factor (for use on and after May 1, 2007) recovers costs associated with unbundling the default service-related administrative costs.
[2] This factor is approved by the Commission for reconciling costs and revenues for default service. *See* National Grid Second Revised Page 87 of the National Grid Tariff.

payment dates that range from 20 days following the end of the period to 25 days after the invoice. The Company said that, since suppliers rarely issue invoices on the first day of the month following the end of the period, payment terms which require payment 25 days after the invoice date could result in payments to suppliers more than 30 days following the end of the period.

National Grid said that standard industry practice within the wholesale electric energy markets is that supplier invoices are paid on the 20th day of each month. The Company opined that Staff's recommendation to require the Company to impose a 30-day or end of the month payment term in all of its agreements with suppliers is a significant step away from standard industry practice and could negatively impact customers because suppliers may simply factor the cost of the 30-day payment term into their bids for providing default service to customers. The Company expressed concern that the additional cost factored into their bids could easily outweigh any potential benefit that customers might receive from a reduction in the Company's cash working capital requirement as a result of the longer expense lead. National Grid recommended that the Commission deny Staff's recommendation for standardized payment terms that would extend the Company's expense lead.

B. Staff

Staff filed testimony on the results of its investigation of the 2008 lead/lag study filed by the Company in Docket DE 09-010. That study, which was based on 2008 default service costs and revenues, was included in the Company's March 2009 default service filing and served to provide support for the proposed supply-related cash working capital allowance. In Order No. 24,953, the Commission approved the allowance on an interim basis pending the outcome of Staff's investigation.

As a result of its investigation, Staff recommended two changes that would affect future lead/lag studies. The first relates to the terms in the power supply agreement between the Company and the default service supplier that control when power supply bills are paid. Beginning with the next default service RFPs, Staff recommended that the payment terms for both Granite and Unitil Energy Systems (UES) be standardized based on the following language:

> The buyer shall pay seller the amount of the invoice, less any amounts in dispute, on or before the later of the last business day of each month, or the tenth day after receipt of the invoice, or, if such day is not a business day, then on the next following business day.

The second change relates to the zero days payment processing and bank float lag used in the Company's study. Staff concluded that there is no support for this number and recommended that the Company should use a lag of one day in its next lead/lag study, absent a detailed study supporting some other number. However, in order to allow Staff and National Grid to attempt to reach an agreement regarding Staff's concerns, Staff agreed with the Company to defer discussion of the lead/lag study and Staff's recommendations. Staff indicated that, if the Company and Staff could not agree to a full settlement, the issues not resolved would be litigated in the Company's next default service proceeding.

At the hearing, Staff reported that the issue of the appropriate payment terms in power supply agreements also applies to Unitil Energy Systems but that UES was not ready to litigate the issue in Docket DE 09-009. Instead, the parties to that proceeding reported that they had agreed to resolve the matter through settlement discussions to be held prior to the next default service hearing. In order not to prejudice those discussions, Staff recommended that the issue as it applies to National Grid be deferred as well.

Apart from the issues involving the 2008 lead/lag study, Staff stated that, based on its review of the petition, the Company had complied with the terms of the 2005 settlement agreement in its solicitation and bid evaluation process and recommended that the Commission approve the petition.

III. COMMISSION ANALYSIS

A. Confidentiality

First, we address National Grid's motion for confidential treatment. The information for which National Grid seeks confidential treatment is redacted from its public filing and was submitted separately with the motion. In the motion, National Grid requests confidential treatment of: the amendment to the Master Power agreement with Hess (Schedule JDW-4 attached to Mr. Warshaw's testimony) including the transaction confirmation; the summary of the RFP bid evaluation (Schedule JDW-2); the analysis comparing changes in electric and gas futures costs to changes in power procurement costs (Schedule JDW-3); the calculation of commodity costs at the retail customer meter (JDW-6); the indicative bid summary provided to Staff on June 4, 2009; and the Renewable Portfolio Standard (RPS) bid summary provided to Staff on June 5, 2009.

In support of its motion, the Company states that these materials contain commercially sensitive information, the disclosure of which could be harmful to the competitive positions of Hess and the participants in the RFP, and could stifle the willingness of those suppliers to participate in future energy service solicitations in New Hampshire. In addition, National Grid represents that competitive suppliers protect information they deem confidential or commercially sensitive. According to National Grid, the parties have taken steps to avoid disclosure of this information and believe that disclosure of such information could adversely affect the business position of the parties in the future.

The Company notes that documents exempt from public disclosure under RSA 91-A:5, IV include records that comprise "confidential, commercial, or financial" information and other documents whose disclosure would constitute an invasion of privacy. National Grid states that the information for which it seeks a protective order is confidential, commercial, or financial information within the meaning of RSA 91-A:5, IV and should be exempt from disclosure.

The Right-to-Know law provides each citizen the right to inspect public records in the possession of the Commission. RSA 91-A:4, I. Section IV of RSA 91-A:5, however, exempts from disclosure certain "confidential, commercial, or financial information." In order to rule on the motions, we have made an *in camera* review of the material which National Grid asserts is confidential and applied the balancing test set forth in *Union Leader Corp. v. New Hampshire Housing Fin. Auth.*, 142 N.H. 540 (1997).

Inasmuch as public disclosure in this instance could negatively affect customers, we find that the interest in maintaining the confidentiality of such information outweighs the interest in public disclosure of the financial, commercially sensitive information. *See Union Leader Corp. v. New Hampshire Housing Fin. Auth., supra*. In addition, we note that similar requests for confidential treatment have been made in past default service solicitations and have been consistently granted by the Commission. *See e.g.*, Order No. 23,953 (March 23, 2009). We therefore grant National Grid's motion for confidential treatment.

Pursuant to requirements of the Federal Energy Regulatory Commission (FERC), each wholesale supplier is obligated to report to the FERC the price and volume of its wholesale contractual sales during each quarter and to identify the party to whom the sale has been made, within 30 days of the end of that quarter. *See Revised Public Utility Filing Requirements*, 99 FERC ¶ 61,107 (April 25, 2002) and 18 CFR Parts 2, 35. The FERC makes this information available to the public through electronic quarterly reports. Therefore, insofar as protection is requested for wholesale contractual sales, we grant such information protective treatment until such time as the information is published by the FERC.

Consistent with N.H. Code Admin. Rules Puc 203.08(k), the protective treatment provisions of this order are subject to the on-going authority of the Commission, on its own motion or on the motion of Staff, any party or other member of the public, to reconsider this protective order.

B. Default Service

We find that National Grid complied with the procedures approved in Order No. 24,577 regarding National Grid's analysis of the bids and its selection of the winning bidder for default service supply for its Large Customer Group for the three-month period from August 1, 2009 through October 31, 2009. We are likewise satisfied that the participation of multiple bidders in the process is indicative of a competitive bid and, consequently, that the result is consistent with the requirement of RSA 374-F:3, V(c) that default service be procured through the competitive market.

We also find that National Grid's evaluation of the bids and its selection of Hess as its default service supplier for the Large Customer Group for the period August 1, 2009 through October 31, 2009 are reasonable. The testimony of National Grid, together with its bid evaluation report, indicates that the bid prices reflect current market conditions that are largely driven by natural gas prices, and, therefore, are reasonable. In light of the circumstances, we will grant the petition.

Finally, regarding the issue of payment terms in power supply agreements and other issues related to Staff's comments on the lead/lag study, we direct National Grid to participate in the settlement discussions on this issue with the parties to Docket DE 09-010.

Based upon the foregoing, it is hereby

ORDERED, that the transaction confirmation agreement between Granite State Electric Company d/b/a National Grid and Hess Corporation, and the resulting proposed rates, are APPROVED; and it is

FURTHER ORDERED, that the power supply costs resulting from the solicitation are reasonable and, subject to the ongoing obligation of Granite State Electric Company d/b/a National Grid to act prudently, according to law and in conformity with Commission orders, the amounts payable to the seller for power supply costs under the three-month transaction confirmation for the period August 1, 2009 through October 31, 2009 are APPROVED; and it is

FURTHER ORDERED, that National Grid's motion for confidential treatment is GRANTED; and it is

FURTHER ORDERED, that National Grid shall file conforming tariffs within 30 days of the date of this Order, consistent with N.H. Code Admin. Rule Puc 1603.02.

By order of the Public Utilities Commission of New Hampshire this nineteenth day of June, 2009.

Thomas B. Getz Chairman	Graham J. Morrison Commissioner	Clifton C. Below Commissioner

Attested by:

Debra A. Howland
Executive Director

ALEXANDRA E BLACKMORE
NATIONAL GRID
201 JONES RD
WALTHAM MA 02451

MEREDITH A HATFIELD
OFFICE OF CONSUMER ADVOCATE
21 SOUTH FRUIT ST STE 18
CONCORD NH 03301

KEN E TRAUM
OFFICE OF CONSUMER ADVOCATE
21 SOUTH FRUIT ST STE 18
CONCORD NH 03301-2429

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DEBRA A HOWLAND
EXEC DIRECTOR & SECRETARY
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THOMAS FRANTZ
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

AMANDA NOONAN
CONSUMER AFFAIRS DIRECTOR
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

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