Granite State Electric Company
d/b/a National Grid

Storm Fund Recovery Filing

Testimony and Schedules
of:
Theresa M. Burns,
Kurt F. Demmer, and
Jeffrey D. Oliveira

September 30, 2011

Submitted to:
New Hampshire Public Utilities Commission
Docket No. DE 11-___

Submitted by:

nationalgrid

DIRECT TESTIMONY

OF

THERESA M. BURNS

Table of Contents

I. Introductions and Qualifications

Q. Please state your full name and business address.

A. My name is Theresa M. Burns. My business address is 40 Sylvan Road, Waltham, MA 02451.

Q. By whom are you employed and in what position?

A. My title is Director, Revenue Requirements, Massachusetts, for National Grid USA Service Company, Inc. ("Service Company"). The Service Company provides engineering, financial, administrative and other technical support to subsidiary companies of National Grid USA including Granite State Electric Company. Although my primary responsibility pertains to revenue requirements duties for National Grid's Massachusetts operating companies, I also provide support to other National Grid New England operating companies, including Granite State Electric Company ("the Company").

Q. Please provide a brief summary of your educational background.

A. I graduated from Babson College in Wellesley, Massachusetts with a Bachelor of Science degree in Accounting in 1986. In 1994, I received a Masters in Business Administration from Babson College. I am a certified public accountant and a member of the Massachusetts Society of Certified Public Accountants.

Q. Please describe your professional background.

A. From 1986 to 1990, I was an auditor for Ernst & Young in Boston, Massachusetts. In June 1990, I joined New England Power Service Company ("NEPSCO") as an Accounting Analyst in the Financial Analysis Group of the General Accounting Department. In June 1991, I was given responsibility over general ledger accounting for NEPSCO's three retail affiliates. In July 1993, I joined the Internal Audit Department and was responsible for performing both financial and operational audits. In June 1994, I was promoted to Senior Internal Auditor. In July 1995, I transferred to the Rate Department as a Senior Rate Analyst. In this position, I have been responsible for the design and implementation of retail access rates. In April 1999, I was promoted to Principal Rate Analyst. Upon the merger of Eastern Utilities Associates with National Grid USA, I was renamed Principal Financial Analyst. In October 2000, I was promoted to Manager of Distribution Rates. In October 2006, I transferred to the Accounting Services Department of National Grid as Manager of New York general ledger accounting, responsible for the books of account of the Company's affiliate, Niagara Mohawk Power Corporation. In January 2009, I transferred back to Regulation and Pricing as Director, Electric Rates, responsible for pricing and tariffs of all of National Grid's electric delivery companies. I assumed my current position in June 2011.

Q. Have you previously testified before New Hampshire Public Utilities Commission ("Commission")?

A. Yes. I have previously testified before the Commission on a variety of rate-related matters.

II. Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the Company's proposal for an increase in its Storm Recovery Adjustment ("SRA") Factor to provide funding to the Company's Storm Contingency Fund ("Storm Fund") to offset the effects of three major storms that have caused a significant deficit balance in the Storm Fund and to provide a sufficient level of funding for future storms. The three major storms were (1) the December 12, 2008 Ice Storm ("Dec. 2008 Ice Storm"), (2) the February 24, 2010 Wind Storm ("Feb. 2010 Wind Storm"), and (3) the March 7, 2011 Ice Storm ("Mar. 2011 Ice Storm").

Q. Is the Company presenting any other witnesses in this filing?

A. Yes it is. My testimony also serves to introduce two additional Company witnesses. Mr. Kurt Demmer will describe the Feb. 2010 Wind Storm and Mar. 2011 Ice Storm, the actions undertaken by the Company to prepare for these weather events, the damage these major storms caused to the Company's electrical system, the customer outages experienced as related to the eligibility criteria of the Storm Fund, and the work performed to restore electric service to its customers. In addition, Mr. Jeffrey Oliveira will describe the costs for these two major storms events for which the Company is seeking inclusion in its Storm Fund. Mr. Oliveira will also illustrate the projected deficit in the Company's Storm Fund assuming the current level of SRA Factor revenue along with the Company's proposal to increase the SRA Factor in an amount designed to eliminate the anticipated Storm Fund deficit.

III. Storm Fund Background

Q. Please provide a brief description of how the Company's Storm Fund operates.

A. The Storm Fund was the result of the Commission's approval of the Merger Settlement Agreement in DG 06-107. Exhibit GSE-7 in DG 06-107, included in this filing as Schedule TMB-1, provides for the operation of the Storm Fund. The Storm Fund allows for costs of "major storms" experienced by the Company, defined as a severe weather event or events causing 30 concurrent troubles (i.e., interruption events occurring on either primary or secondary lines) and 15 percent of customers interrupted, or 45 concurrent troubles, to be charged against the fund.

Under the Storm Fund mechanism established in DG 06-107, the Company's base rates were set at a level that included $120,000 of annual collections to credit the Storm Fund, accruing at the rate of $10,000 per month. In addition, beginning July 1, 2010, in DE 10-096, the Commission authorized the Company to implement the SRA Factor which, on an annual basis, provides additional collections at a temporary level of $30,000 per month, or $360,000 annually, to provide additional funding to the Storm Fund. The SRA Factor was intended to address the fact that the Storm Fund had moved into a significant deficit balance as a result of the Dec. 2008 Ice Storm.[1] The Company's SRA tariff provision, included here as Schedule TMB-2, is the mechanism by which the Company is authorized to assess customers to fund the Storm Fund beyond the level provided for in base rates.

The cumulative balance of the fund (whether in a surplus or deficit position) accrues interest at the customer deposit rate, currently 3.25%. The interest calculation is intended to compensate customers or the Company for the net cash position of the fund. If the fund is in a credit position (cumulative collections from customers exceed cumulative qualifying storm costs charged to the fund), interest is accrued on behalf of customers increasing the fund's credit balance. If, however, the fund is in a debit, or deficit position (cumulative collections from customers are less than cumulative storm costs charged to the fund), interest is accrued on behalf of the Company, increasing the fund's deficit position.

Finally, expenses related to major storm preparation and restoration efforts are charged against the Storm Fund when paid. The Storm Fund is intended to smooth out the cost to customers of the inevitable impact of major storm events that cause damage to the Company's electrical system.

Q. Why is the Company making this proposal at this time?

A. First, as a result of Commission's audit of the Dec. 2008 Ice Storm costs, the Commission's audit staff ("Audit Staff") and the Company have agreed to a final cost to be charged to the Storm Fund of $1,762,372 as stated in a May 20, 2011 letter from the staff of the Electric Division to the Commission in DE 10-096, a copy of which is attached as Schedule TMB-3. In DE 10-096, the Commission approved the current SRA

[1] Order No. 25,125 dated June 30, 2010.

Factor on a temporary basis at a level below what the Company requested, subject to adjustment as result of a Commission audit. As part of this filing, the Company is taking the final costs of the Dec. 2008 Ice Storm into consideration in the proposal presented later in my testimony.

Second, the Company incurred significant O&M costs associated with the two additional major storms in February 2010 of $1.7 million and March 2011 of $1.8 million. As shown in the testimony of Mr. Oliveira, based upon the costs of these three major storms, if the Company does not receive incremental revenue above the amount in base rates and if the $30,000 monthly amount currently reflected in the SRA Factor remained in effect, it would be 10 years, assuming no additional major storms qualify for reimbursement from the Storm Fund, before the Storm Fund would reach a breakeven level.

IV. Proposal

Q. What is the Company's proposal?

A. The Company is proposing additional funding in two steps. First, the Company is requesting an increase in the temporary funding already in place by $540,000 over a five-year period commencing January 1, 2012 in order to address the estimated deficit balance at December 31, 2011. This is intended to provide a reasonably timely elimination of the expected Storm Fund deficit and minimize the interest accrued to the fund balance. Second, the Company also believes that the $120,000 base rate allowance is insufficient based upon the costs of storms eligible for Storm Fund treatment since the inception of the Storm Fund. Therefore, the Company is proposing a permanent increase in Storm Fund collections of $1.3 million per year. The proposed permanent increase in collections, through the SRA Factor, is intended to provide a more reasonable level of funding so that it will be available for future major storm events. The funding level proposed by the Company is equal to the average costs incurred to address damage over the prior five years from storms affecting the Company's service area.

Q. Why is the Company asking to increase the annual Storm Fund contribution level?

A. The Company believes, if adequately funded, the Storm Fund operates in a fashion that provides great benefit to customers and the Company alike. The current deficit balance resulting from these major storm events will result in increased costs if an alternative approach is not approved. Also, if these storm costs are not addressed through a mechanism like the storm fund, alternative mechanisms are likely to be more disruptive to rate stability through the recovery of storm-related costs in a less even fashion. Carrying excessively high unrecovered storm fund deficits may hamper the Company's ability to fund, or may increase the cost of funds for, storm response efforts over time by increasing the risk posed to investors with regard to the recovery of these costs. The Company believes that an increase in the Storm Fund contribution strikes the appropriate balance between the need to replenish the Storm Fund and the need to limit the impact on customer bills.

Q. Why does the Company believe an increase in Storm Fund collections is in customers' best interest?

A. The damage incurred from these recent major storms was clearly of an extraordinary magnitude, beyond what was assumed when the Storm Fund was originally created. While storms of this magnitude cannot be predicted, periodic storms of a significant nature are inevitable. As previously discussed, the Storm Fund accrues interest on both positive and deficit balances to compensate for the net cash position of the fund. Consequently, the fund will accrue interest on the significant deficit balance caused by these major storms. In addition, the Company is concerned with the recurring nature of storms of this magnitude, such that if they were to continue on an annual or relatively frequent basis, they would magnify the potential rate impacts to customers. The Company believes it is in customers' best interest to experience a bill impact today in order to provide the necessary funding to address these periodic, but irregular events. In addition, the Company's proposal will significantly reduce the amount of interest charges that would otherwise be accrued to the Storm Fund.

Q. Is the Company asking the Commission to approve the ultimate costs of the Feb. 2010 Wind Storm and Mar. 2011 Ice Storm?

A. The Company expects that the Commission will audit the costs of the Feb. 2010 Wind Storm and Mar. 2011 Ice Storm. However, consistent with past practice, the Commission has the authority to allow for a change in rates on a reconcilable basis until its review is complete and a final determination is made regarding the recoverability of all of the costs submitted by the Company. The Company believes this practice should be followed in this case as well in order to mitigate the accrual of interest on the deficit balance to be recovered and the time period over which the costs are recovered.

Q. Is the Company presenting its analysis on the impact of the total costs of the Dec. 2008 Ice Storm, Feb. 2010 Wind Storm, and Mar. 2011 Ice Storm and its proposal for incremental funding on the Storm Fund balance?

A Yes, it is. Mr. Oliveira's testimony presents a series of schedules which identify and provide an accounting of the O&M costs associated with each major storm. Schedule JDO-5 reflects all of the costs in question associated with the three major storms along with the impact of the Company's proposal on the Storm Fund over the period during which additional SRA Factor revenue is credited to the Storm Fund. The Company believes its proposal for a five year temporary increase coupled with a permanent increase in the SRA Factor strikes a balance between the goal of mitigating bill impacts that could be experienced in the future if there is no incremental funding at this time with the goal of mitigating the potential for subsidies by future customers of current customers.

Q. The Company's proposal for a permanent increase in Storm Fund collections is premised on an annual average cost of eligible storms each year. What would occur if these storm costs don't materialize at the level reflected in the Company's analysis?

A. The operation of the SRA Factor provides the Commission the flexibility to adjust its value, at any time should there be a significant deficit or surplus balance in the Storm Fund. This filing is an example of the operation of the factor to address a deficit balance. If the Storm Fund does not experience the level of storm costs that it has experienced in the recent past, the Company or the Commission, through review of the Company's annual Storm Fund reports, can initiate a proceeding to decrease or suspend the funding generated by the SRA Factor. In any event, because all storm fund collections are credited to an account for the benefit of customers, if the Company and its customers are fortunate enough to experience annual storm costs less than estimated in this proposal, customers will maintain the economic benefit of those collections along with any accrued interest.

Q. How does the Company proposal translate into the SRA Factor?

A. The Company has calculated the per-kWh SRA Factor proposed in this filing based upon the temporary increase the Company believes is necessary to address the estimated Storm Fund deficit balance at December 31, 2011, recovered over five years, and the permanent increase the Company believes is necessary to avoid significant deficit balances in the future should the trend of eligible storms that has been seen over the past five years continue. Page 1 of Schedule TMB-4 calculates the proposed SRA Factor effective January 1, 2012 of 0.223¢ per kWh that would be in effect for five years along with the proposed SRA Factor effective January 1, 2017 of 0.127¢ per kWh to reflect the termination of the temporary recovery and the continuation of the permanent funding of the Storm Fund.

Q. How is the Company proposing to implement the change in the SRA Factor on January 1, 2012?

A. Pursuant to Commission rule Puc 1203.05, the Company is proposing the change in the SRA Factor become effective for usage on and after January 1, 2012 and, upon the termination of the temporary funding to the Storm Fund, the decrease in the SRA Factor become effective for usage on and after January 1, 2017.

Q. What is the bill impact to customers of the Company's proposal?

A. Schedule TMB-5 presents the bill impacts of the Company's proposal on its various rate classes for customers receiving Default Service associated with the SRA Factor proposed for the first five years. Schedule TMB-6 present the same bill impacts on an illustrative basis beginning in year six of the Company's proposal based upon the reduced SRA Factor in the following years. The Company has based this bill impact on rates to become effective November 1, 2011, which considers the Default Service rates approved by the Commission in Order No. 25,270 in Docket DE 11-016 on September 23, 2011 for effect November 1, 2011, and the proposed change in the SRA Factor from 0.223¢ per kWh in 2016 to 0.127¢ per kWh in 2017.

Q. Is the Company including a proposed Summary of Rates tariff page 84 to reflect the Company's proposal?

A. The Company is including a proposed Summary of Rates in this filing in Schedule TMB-7. In addition, the Company is also including in Schedule TMB-7 proposed revisions to its currently effective Storm Recovery Adjustment Provision to reflect how the SRA Factor appears on customers' bills. Originally, when the Company filed with the Commission for its SRA Factor in 2010, the Company anticipated rolling the charge into the distribution energy charge on customers' bills. However, during the evidentiary hearing, the Company stated it would show the SRA Factor on its own line on the bill. As the Commission approved a separate line item on the bill, the Company is taking this opportunity to revise the tariff provision to reflect this. In addition, since the Company is proposing a permanent component as part of its request in this filing, the SRA Provision reflects the proposed deletion of the word "temporary" throughout.

V. Conclusion

Q. Does that conclude your testimony?

A. Yes it does.