

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 07-128

GRANITE STATE ELECTRIC COMPANY d/b/a NATIONAL GRID

Petition for Approval of 2008 Retail Rate Adjustments

Order Following Hearing

ORDER NO. 24,813

December 28, 2007

Appearances: Alexandra E. Blackmore, Esq. for Granite State Electric Company d/b/a National Grid; Rorie Hollenberg, Esq. of the Office of Consumer Advocate on behalf of residential ratepayers; and Suzanne G. Amidon, Esq. on behalf of the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL BACKGROUND

On November 28, 2007, Granite State Electric Company d/b/a National Grid (National Grid) filed a request for approval of retail rate adjustments to the company's stranded cost charge, transmission service charge and distribution rates for effect on January 1, 2008. Based on National Grid's calculation, the aggregate impact of the proposed rates for a residential customer using 500 kilowatt hours (kWh) per month would be a decrease of \$1.16 per month, or a monthly bill reduction of 1.58 percent.

National Grid proposes to decrease its stranded cost charge from 0.17 cents per kWh in 2007 to 0.050 cents per kWh for 2008. The purpose of the stranded cost charge is to recover the Contract Termination Charge (CTC) billed to National Grid by an affiliate, New England Power Company (NEP), in connection with the termination of NEP's all-requirements power contracts with National Grid prior to the advent of retail competition in National Grid's territory. The Commission approved the applicable recovery mechanism in *Granite State Electric Co.*, 83 NH

PUC 532 (October 7, 1998). On November 30, 2007, National Grid filed NEP's reconciliation of the costs and revenues under its CTC formula for the period from October 1, 2006 through September 30, 2007. The report supports a decrease in the CTC from its 2007 rate of 0.170 cents per kWh to 0.050 cents per kWh for 2008. This decrease is reflected in National Grid's stranded costs charge. The stranded cost charge also includes class-specific adjustment factors, where necessary, to reflect the class-specific reconciliation.

National Grid's transmission service charge includes transmission costs that the company incurs in providing transmission service. Transmission service rates are implemented through separate transmission factors for each rate class. The transmission factors are designed to recover estimated transmission expenses during the upcoming calendar year, together with an adjustment for over- or under-recoveries that occurred in the prior period. National Grid estimates that total transmission expenses will produce an average total transmission charge of 0.979 cents per kWh for 2008, an increase of 0.097 cents per kWh over the current 2007 rate of 0.882 cents per kWh.

Finally, in this filing National Grid proposes to implement a \$1.1 million reduction to its distribution rates, which is the second phase of the distribution rate reduction approved by the Commission in Docket No. DG 06-107, the National Grid/KeySpan Corporation merger proceeding. *See* Order No. 24,777 (July 12, 2007).

In support of its petition, National Grid filed the testimony and related exhibits of Scott M. McCabe and Mary P. Haines. National Grid filed the retail rate adjustments pursuant to its Amended Restructuring Settlement Agreement (Settlement Agreement) as approved by the Commission in *Granite State Electric Company*, 83 NH PUC 532 (1998) and subsequent Commission orders.

On December 4, 2007, the Commission issued an order of notice scheduling a hearing for December 18, 2007. The hearing was held as scheduled. The Office of Consumer Advocate (OCA) participated in the hearing.

II. POSITIONS OF THE PARTIES

A. National Grid

1. Stranded Cost Charge

National Grid testified that its stranded cost charge consists of two components: (1) a uniform per kilowatt-hour charge it collects from all customers, which reflects the CTC assessed by NEP; and (2) rate-class-specific adjustment factors reflecting the reconciliation of any excess or deficiency in stranded cost recovery from that rate class in the prior year. National Grid's stranded cost adjustment provision provides for changes to the stranded cost charge as a result of a change in the CTC from NEP and the rate-class-specific reconciliation described above. National Grid stated that the changes it proposed are in accordance with its tariff.

Based on the 2007 CTC Reconciliation Report, National Grid proposed to decrease the uniform stranded cost charge from 0.170 cents per kWh to 0.050 cents per kWh (excluding stranded cost adjustment factors) for 2008. The reduction in the transition charge for 2008 is primarily due to two one-time credits flowing through the reconciliation of NEP's sale of its ownership interest in the Wyman IV generating unit in Yarmouth, Maine and a one-time credit related to salvage value from the unbuilt Unit No. 2 at Seabrook Station.¹ National Grid said that it expected that the CTC for 2009 would revert back to the 2007 level of 0.170 cents per kWh.

¹ See the Reconciliation of Contract Termination Charge to Granite State Electric Company filed with the Commission on November 30, 2007. The report is designed to reconcile costs and revenues for the sale of NEP's assets for the year 2007 and provides more detail on the transactions.

In addition to establishing a revised uniform CTC applicable to all kilowatt-hour deliveries for 2008, National Grid testified that it also performed an annual reconciliation of the stranded cost charges it billed to customers, which was recorded in its general ledger together with the CTC expenses it paid to NEP in order to develop rate-class-specific adjustment factors. The adjustment factors are implemented to ensure that there is no over- or under-collection of stranded costs from any particular rate class (*see* McCabe Testimony, Schedule SMM-2).

National Grid prepared a reconciliation of the stranded cost adjustment factors that were implemented in 2006 and 2007. The company testified that a stranded cost adjustment factor is indicated for Rate V, the class of customers taking limited commercial space heating. The remaining rate classes (D, D-10, T, G-1, G-2, G-3 and M) have balances so low that their calculated adjustment factor is zero. Therefore, the balances for these rate classes will be carried forward as the beginning balance in the next reconciliation period (October 2007 through September 2008). Consequently, except for Rate V, there will be no stranded cost adjustment factors for other rate classes.

2. Transmission Service Charges

National Grid testified that it recovered its transmission-related expenses pursuant to the Transmission Service Cost Adjustment (TCA) provision, which allows the company to recover costs billed to it by the regional grid operator, ISO New England, and NEP. The TCA provides for the full reconciliation of transmission revenue and expense adjustments for any over- or under-recovery of transmission costs from prior years. The 2007 reconciliation reflects actual transmission revenue for the period October 2006 through September 2007, actual transmission expenses for the period October 2006 through August 2007, and estimated expenses for September 2007.

National Grid testified that, of the \$655,807 under-collection from the October 2004 through September 2005 transmission service reconciliation, \$648,919 had been recovered through the end of 2006, resulting in an under-recovery \$6,888. National Grid reflected this amount in the 2007 transmission service reconciliation. National Grid stated that \$330,114 of the \$441,580 under-collection from last year's transmission service reconciliation for the period October 2005 through September 2006 had been recovered through October 2007, and \$111,467 remains to be recovered through the end of the year (*see McCabe Testimony, Schedule SMM-8*). Any remaining balance, either positive or negative, will be reflected in next year's transmission service reconciliation.

According to National Grid, in addition to the transmission revenue and expense, there are two adjustments. One adjustment made in October 2006 is an over-collection of \$30,477, which represents the actual reconciliation of August and September 2006 transmission expense with the estimated expense. The second adjustment was made in January 2007, which is an under-collection of \$6,888. National Grid testified that the gross under-collection of transmission expense for 2007 is \$226,573. The net under-collection, with the two adjustments, is \$202,985.

National Grid proposed a uniform transmission service adjustment factor of 0.022 cents per kWh. This factor was calculated by dividing the under-collection of \$202,985 in transmission expense at September 2007 by the forecasted 911,070,633 kilowatt-hour of deliveries for calendar year 2008. The transmission service adjustment factor would become effective along with the other proposed adjustments for usage on and after January 1, 2008.

3. Transmission Service Rate

National Grid testified that it obtains transmission service on behalf of all of its customers in its service territory as part of the retail delivery service it provides. Although the company's restructuring settlement approved by the Commission allows end-use customers to arrange for their own transmission service directly from transmission service providers, National Grid must arrange for transmission service for its customers who do not arrange for their own transmission service directly. Therefore, the company contracts with entities that are authorized by the Federal Energy Regulatory Commission (FERC) to be transmission service providers in New England.

Prior to February 2005, there were three entities authorized to provide transmission service to National Grid and bill National Grid under their FERC-approved tariffs: NEP under its FERC Electric Tariff No. 9; the New England Power Pool (NEPOOL) under its FERC Electric Tariff No. 1; and ISO New England under its FERC Electric Tariff No. 1. On February 10, 2005, FERC authorized ISO New England to begin operating as a Regional Transmission Operator (RTO) effective February 1, 2005, replacing the New England Power Pool as the transmission provider in New England. The new ISO New England Transmission, Markets and Services Tariff (ISO/RTO Tariff) superseded previous transmission tariffs by aggregating them into a single, omnibus tariff.

National Grid is now charged by NEP and ISO New England as the RTO under this superseding omnibus tariff. Section II of the ISO/RTO Tariff provides access over New England's 69 kilovolt or greater regionally networked transmission facilities (more commonly known as Pool Transmission Facilities (PTF) or bulk transmission facilities), which serve as New England's electric transmission "highway." The service provided over these facilities is

referred to as Regional Network Service (RNS). In addition, the ISO/RTO Tariff provides for Black Start, Reactive Power, and Scheduling, System Control and Dispatch Services. The ISO New England RNS Rate (RNS Rate) recovers the RNS costs and is determined annually based on an aggregation of the transmission revenue requirements of each of the transmission owners in New England, calculated in accordance with a FERC-approved formula.

Pursuant to a NEPOOL Settlement dated April 7, 1999, and incorporated into the ISO/RTO Tariff, the RNS Rate continues to be in a period of transition as the transmission rates move from zonal rates to a single “postage stamp” rate in New England (NEPOOL Transition Rate). The transition will be complete on February 29, 2008. The NEPOOL Transition Rate provides for a unique rate derivation in that each transmission owner’s RNS rate is determined by looking separately at the costs associated with vintage PTF assets: (1) in service at December 1996 (Pre-97 Property), and (2) the PTF assets placed in-service after January 1, 1997 (Post-96 Property).

National Grid testified that transmission costs are estimated to be approximately \$8.7 million in 2008, an increase of \$888,000 from 2007. This forecast of transmission expense yields an average rate of 0.957 cents per kWh, which compares to the currently effective average transmission rate of 0.835 cents per kWh, exclusive of the transmission service cost adjustment factor. National Grid proposes to implement the new rate of 0.957 cents per kWh on January 1, 2008.

4. Bill Impact

National Grid testified that the total bill impact of the rates proposed in this filing and the distribution rates already approved for January 1, 2008, as compared to current rates, is a bill

decrease of \$1.16 or 1.58 percent, from \$73.27 to \$72.11, for a residential customer using 500 kWh per month.

The rates are as follows:

	\$/kWh	\$ Amount
Customer Charge		\$4.28
Distribution Charge		
1st 250 kWh	0.01651	\$4.13
next 250 kWh	0.04235	\$10.57
Transmission Charge	0.01054	\$5.27
Stranded Cost Charge	0.00050	\$0.25
System Benefits Charge	0.00300	\$1.50
Electricity Consumption Tax	0.00055	\$0.28
Default Service Charge	0.09161	\$45.81
TOTAL BILL		\$72.11

For customers taking 673 kWh per month, the average residential customer usage for National Grid customers over the past six months, rates would decrease to \$97.79 from \$99.39 per month.

National Grid testified that it no longer reconciles default service costs in the retail rate reconciliation filing. The company noted that it reconciles those costs in its default service power supply proceedings in the first quarter of each year. National Grid concluded by requesting that the Commission approve its petition as filed in time for the company to prepare bills rendered on and after January 1, 2008.

B. Office of Consumer Advocate

The OCA inquired as to whether National Grid used the same method it had previously used in allocating costs among customer classes. National Grid answered in the affirmative, stating that it continued to use the same methodology. The OCA concluded by supporting National Grid's petition as filed.

C. Commission Staff

At hearing, Staff asked to what National Grid attributed the decrease in the rates for 2008. National Grid stated that the \$1.1 million reduction in distribution rates resulted from the settlement agreement in Docket No. DE 06-107 and approved in Order No. Order No. 24,777 (July 12, 2007). Staff noted that there was a decrease in costs for reactive power, which is power necessary to maintain transmission voltages on the regional transmission system, and asked the company the reason for the decrease. In response, National Grid testified that the decrease in the costs for the reactive power resulted from FERC's approval of a tariff reducing by 6 percent National Grid's costs for that service. Staff concluded by recommending that the Commission approve the petition as filed.

III. COMMISSION ANALYSIS

RSA 378:7 vests the Commission with the responsibility to determine whether rates to be charged retail utility customers in New Hampshire are just, reasonable and lawful. RSA 374-F:4,VIII(a) further authorizes the Commission to "order such charges and other service provisions and to take such other actions that are necessary to implement [electric industry] restructuring and that are substantially consistent with the principles" as set forth in RSA 374-F:3. Among the RSA 374-F:3 principles relevant to this proceeding are the objectives of minimizing customer confusion arising out of restructuring, providing "clear price information on the cost components of generation, transmission, distribution and any other ancillary charges," RSA 374-F:3,III, and recovery of stranded costs through "a nonbypassable, nondiscriminatory, appropriately structured charge that is fair to all customer classes, lawful, constitutional, limited in duration, consistent with the promotion of fully competitive markets," RSA 374-F:3,XII.

Most of the policy determinations relevant to this proceeding were made in *Granite State Electric Co.*, 87 NH PUC 302 (2002), when the Commission approved the adjustment mechanisms reflected in National Grid's proposal. However, the various component changes warrant some discussion.

First, we address the stranded cost charge. National Grid proposed to decrease the stranded cost charge from 0.17 cents per kWh to 0.050 cents per kWh for 2008. National Grid refers to its 2007 CTC Reconciliation Report in support of the reduction and states that two one-time credits account for the reduction. According to the company, the rate will revert to 0.17 cents per kWh in 2009. Although we have not received Staff's recommendations regarding the CTC Reconciliation Report, we understand the source of the reduction in the stranded cost charge and we approve it. We will reserve our approval of the CTC reconciliation until such time as we have received Staff's recommendations.

The requested increase in the average transmission service charge, including both the transmission service adjustment factor and the transmission rate for 2008, would move the current average transmission rate of 0.882 per kWh to 0.97 cents per kWh, including the transmission service adjustment factor. The majority of the increase is attributable to charges assessed by ISO New England and much of it relates to scheduled additions to transmission facilities. These costs result from FERC tariffs and we will therefore grant National Grid's request to increase the transmission service rate to 0.979 cents per kWh as of January 1, 2008. We also approve National Grid's request to change the transmission service adjustment factor for the various rate classes.

Based upon the foregoing, it is hereby

ORDERED, that the proposed retail rate adjustments and adjustment factors, as amended by National Grid in its filing of November 28, 2007, are hereby **APPROVED** for bills rendered on or after January 1, 2008; and it is

FURTHER ORDERED, that National Grid file appropriate tariff changes that conform with this order within 30 days hereof pursuant to N.H. Code Admin. Rule Puc 1603.02.

By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of December 2007.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

ChristiAne G. Mason
Assistant Executive Director & Secretary