BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

In the matter of	)	DG 05-147
Northern Utilities	)	
Winter 2005/06 Cost of Gas	)	

Testimony
of
Kenneth E. Traum

Assistant Consumer Advocate
OFFICE OF CONSUMER ADVOCATE

October 18, 2005

DG 05-147

Re Northern Utilities

Winter 2005/06 Cost of Gas

Testimony of Kenneth E. Traum

Q. Please state your name, business address and qualifications.

A. My name is Kenneth E. Traum. I am the Assistant Consumer Advocate for the New Hampshire Office of Consumer Advocate (OCA), which is located at 21 S. Fruit Street, Suite 18, Concord, New Hampshire 03301. I have been affiliated with the OCA for over fifteen (15) years. My qualifications are summarized in Attachment 1.

Q. What is the purpose of your testimony?

A. I address one issue, specifically, Northern Utilties' (Company) inclusion of capacity costs incurred on behalf of Maine transportation customers in this winter's Cost of Gas (CGA) for New Hampshire.

Q. What is the magnitude in dollars of these capacity costs?

A. In its revised response to Staff data request 3 (Attachment 2, line 20), the Company estimated those costs to be $1,346,838.

Q. Please summarize the situation facing consumers this winter.

A. As the Commission is well aware, this winter, consumers will face unprecedented financial pressures including those related to increases in the prices of natural gas, gasoline, and home heating oil. In this docket, the Company's customers are facing a significant increase despite the very beneficial results from the physical and financial hedging implemented by the Company at the behest of the Commission, Staff, and the OCA.

Q. Based on the level of the proposed CGA increase and the resulting impact on consumer's finances, do you have any comments?

A. Stated simply, the $1,346,838 of capacity costs included in the estimated costs for this winter are costs that should be recovered from the Company's customers in the State of Maine, not from its New Hampshire customers.

By way of background, the Company incurs costs for capacity on a system-wide basis for Maine and New Hampshire. The Company then allocates those costs to the two states based on a Proportional Responsibility (PR) allocation methodology which was established roughly ten (10) years ago by the New Hampshire and Maine Commissions. Since then, the issue of transportation or customer choice has developed differently in each state. Specifically, New Hampshire moved to 100% mandatory capacity assignment and Maine did not. As a result, the PR allocation methodology is no longer equitable to the Company's New Hampshire customers. New Hampshire's mandatory capacity assignment forces New Hampshire transportation natural gas customers (usually large users) to pay for the capacity assigned to them whether or not they use it. That way those costs are not passed on to other customers as stranded or unrecovered costs. Maine did not force its transportation customers to pay for capacity dedicated to them.

This Commission recognized the unfair result of these differing treatments of capacity in Maine and New Hampshire in its last two CGA Orders.

In DG 04-162, the Company's 2004/2005 Winter COG, Order #24,389, dated October 29, 2004, this Commission recognized the inequity to New Hampshire customers of the PR allocation methodology when it stated:

> In *Northern Utilities, Inc.,* 80 NH PUC 685 (1995), the Commission approved Northern's use of the "Proportional Responsibility" (PR) allocation methodology to assign annual fixed demand costs to New Hampshire, contingent upon acceptance of the same methodology by the Maine Public Utilities Commission (MPUC). The PR methodology was approved by both Commissions and has been used by Northern to allocate fixed demand costs since 1995. In *Re Gas Restructuring-Unbundling and Competition in the Natural Gas Industry, supra*, the Commission approved mandatory capacity assignment for Northern's New Hampshire customers shifting from firm sales service to transportation service, thereby avoiding potential stranded costs that the remaining firm sales customers would have been required to pay. The MPUC does not require mandatory capacity assignment for firm sales customers switching from firm sales to transportation service and, consequently, there may be stranded fixed annual capacity costs related to Maine transportation customers that are being assigned New Hampshire under the PR allocation methodology. Northern has begun discussions with Staff and the OCA regarding the issue and plans to resolve the issue prior to next winter's COG proceeding.

Q. Was the issue addressed again?

A. Yes. In the Company's next CGA, DG 05-057, Order #24,460, dated April 29, 2005, the Commission wrote more about the issue:

> We have before us the letter agreement between Northern, the OCA and Staff deferring recovery of capacity-related demand costs shifted to New Hampshire as a result of Maine customers migrating to transportation from firm sales service. Clearly, New Hampshire

> customers should not be responsible for costs incurred on behalf of Maine customers, but as this issue only recently came to light and is the subject of a proceeding before the MPUC,[1] we are hopeful that the problem will be resolved in a manner that is fair to all New Hampshire and Maine customers. Northern's agreement to defer recovery of approximately $100,000 of demand costs related to summer 2005 and the reservation of rights relating to demand costs incurred during the 2004 Summer Season are adequate short-term means[2] to protect New Hampshire's interests pending completion of the MPUC's investigation of its transportation policies. Accordingly, we approve the Agreement.

As footnote 1 mentions, there was a Petition for and there are now joint proceedings "evaluating the reasonableness of the PR Allocation Methodology." The docket number in New Hampshire is DG 05-080 and the docket number in Maine is 2005-273.

Q. What is the phrase in the latest New Hampshire Commission analysis which you want to highlight?

A. "Clearly, New Hampshire customers should not be responsible for costs incurred on behalf of Maine customers."

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[1] This issue is related to a MPUC proceeding initiated by Northern on February 22, 2005, Docket No. 2005-87 in which the Commission and OCA have filed petitions to intervene. On April 20, 2005, subsequent to the hearing in this docket on April 12, 2005, Northern filed a petition with this Commission, and the MPUC, to convene a joint hearing for the purpose of evaluating the continued reasonableness of the PR Allocation Methodology.

[2] In addition, our order approving Northern's 2004-2005 Winter Season COG filing stated, "[w]e will consider any future recommendations by the Staff, OCA or Northern regarding possible adjustments to the 2003/04 fixed costs assigned to Northern's New Hampshire Division that may be filed with the Commission in a future proceeding." *Northern Utilities, Inc.*, Order No. 24,389 (October 29, 2004), slip op. at 7-8.

Q. Has the Company made statements supporting the OCA's position that the estimated $1,346,838 of costs are actually costs which are attributable to Maine customers and not New Hampshire customers?

A. Yes. In the Rebuttal Testimony of Joseph A. Ferro in the Maine Commission Docket No. 2005-87 dated September 9, 2005 (Attachment 3), Mr. Ferro testifies in several places about the inequities of the capacity assignment to New Hampshire customers.

On page 2, line 5, Mr. Ferro states, "The marketers seek to perpetrate the inequities that support the existing transportation services." On page 5, line 15, Mr. Ferro testifies, "The fact that these [Maine] customers and their marketers have already benefited from the inequity between sales and transportation services for a number of years is not a valid basis to perpetuate the inequity…" On page 9, line 1, Mr. Ferro again refers to "the inequities created in Maine through a long delay in addressing those critical capacity issues." Finally, on page 11, starting on line 6, Mr. Ferro testifies, "The capacity assignment issues have been before the Commission and subject to discussion since 1999. The issues are more than ripe for resolution now and should be addressed by the Commission."

Q. Do you agree with Mr. Ferro?

A. Yes. Just because the Maine Commission has not yet ruled on the issue does not mean the New Hampshire Commission should allow the Company to recover these costs from its New Hampshire customers. Even in a less trying financial time, the OCA wouldn't support New Hampshire customers subsidizing Maine customers or otherwise paying for costs that are not related to service to New Hampshire customers.

Q. A joint technical conference in NH docket DG 05-080, and Maine dockets 2005-273 and 2005-87 was held on September 19, 2005, in Portsmouth, New Hampshire. Did you attend and participate in that conference?

A. Yes. Since it was a transcribed technical session[3], there are several statements that I call to this Commission's attention, which further support the OCA's position that the $1,346,838 of costs should be removed from the pending CGA request.

For instance, on page 60, Mr. Tom Austin of the Maine Commission Staff states, "we understand that there are no costs coming through the CGA associated with the [Maine] transport[ion] customers."

Then, on page 62, Mr. Austin acknowledges, "I didn't realize until quite recently that you were planning and, I suppose, incurring costs on the assumption that you needed to back up a hundred percent of Maine customers. Perhaps I should have asked that question in the CGA two or three years ago, but I didn't. One of the reasons I didn't was I knew that the cost for transport customers wasn't flowing through the CGA."

[3] The OCA presumes that the Commission and the parties have a copy of this transcript available. Copies of the transcript are available upon request.

Q. Is it your understanding that the Company incurs capacity costs for 100% of its firm sales customers in New Hampshire and Maine, 100% for its mandatory capacity assigned transportation customers in New Hampshire, 0% for its Grandfathered transportation customers in New Hampshire, and up to 100% for its Grandfathered transportation customers in Maine?

A. Yes.

Q. What is a Grandfathered customer?

A. A "Grandfathered customer" is a transportation customer that does not have capacity assigned to them by mandate.

Q. Why does the Company incur O% capacity costs for the Grandfathered New Hampshire transportation customers?

A. As Mr. DaFonte of Northern explained on page 13 of the 9/19/05 Technical Session, the Company does not "plan" for those customers in the same manner that the Company plans for its Maine grandfathered customers.

> MS. BACHELDER: And I had a question based on inputs. This is Becky Bachelder. Chico, I think, you know, we were talking about customers that you did not plan for and we established that customers who were never sales customers were customers you didn't plan for, and I think I heard you say that customers that were grandfathered in New Hampshire you longer plan for; is that correct?
>
> MR. DAFONTE: Well, it's --
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> MS. BACHELDER: Do you plan for them to come back?
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> MR. DAFONTE: No, we don't. We're not obligated

to take them back, so therefore I don't plan for them.
MS. BACHELDER: So New Hampshire grandfathered customers you don't plan for?
MR. DAFONTE: Right.
MS. BACHELDER: As customers started to leave sales service in Maine and for -- you know -- did you make the determination that you still had to plan for those customers throughout this time period from 2000 to current?
MR. DAFONTE: Yes. I have not changed it. There is no definition of grandfathered in Maine.
MS. BACHELDER: Right but, I mean, as far as capacity exempt versus non capacity exempt.
MR. DAFONTE: Right.

Again on page 15, Mr. DaFonte stated: "I just simply didn't factor in the New Hampshire grandfathered customers (in the end) to any future planning."

On page 21, this exchange is telling:

MR. MCCLUSKEY: So the goal is to incur no cost to back up New Hampshire grandfathered customers?
MR. DAFONTE: Yes.
MR. MCCLUSKEY: Thank you.
MS. BACHELDER: And wouldn't that be the same if there ended up being grandfathered customers in Maine who (implored) you take that into account, your planning and shed resources -- appropriate resources?
MR. DAFONTE: Yeah. We've said all along that what we want is to know sort of what the rules of the game are. Once we know that from a planning perspective, it makes it a lot easier because there are so many variables today, and sort of unknowns. If you know what they are, then that will definitely help us to make the appropriate planning decisions, and if it means that there are grandfathered customers in Maine and we don't need to plan for them, then when we have an opportunity to decontract, we will. Absent that, we will optimize the assets that we currently have by, you know, releasing the capacity, making off-system sales, anything we can to try and optimize the (portfolio).

Then on page 26, Mr. Austin in a question to Mr. DaFonte notes:

> the argument I understand you to be making is that you -- a big reason you spent money and provided a hundred percent backup for the Maine transport customers was uncertainty about – or lack of clarity about what your role really was, and therefore your assumption that you needed to backup a hundred percent as a supplier of last resort.

On page 28, Mr. DaFonte notes: "in my opinion and our legal opinion, we still have the responsibility to plan for these [Maine transportation customers] customers."

Q. Please summarize the position of the OCA.

A. The Company is incurring capacity costs for Maine transportation customers but the PR formula does not allocate those costs to the cost causer. Instead, the Company seeks to recover in this CGA period $1,346,838 from its New Hampshire customers which represents costs of capacity for Maine transportation customers. This is inequitable and should not be allowed to occur.

Q. Does this conclude your testimony?

A. Yes.