

ORIGINAL

STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

N.H.P.U.C. Case No. DG 07-050

Exhibit No. 2

Witness \_\_\_\_\_

DO NOT REMOVE FROM FILE

**RE: ENERGYNORTH NATURAL GAS, INC.  
D/B/A KEYSpan ENERGY DELIVERY NEW ENGLAND**

**DOCKET NO. DG 07-050**

**Partial Settlement Agreement**

This Partial Settlement Agreement is entered into by and among EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England ("KeySpan" or "Company"), the Staff of the New Hampshire Public Utilities Commission ("Staff") and the Office of Consumer Advocate ("OCA"). (The signatories to this Partial Settlement Agreement are collectively referred to below as the "Parties and Staff.")

**BACKGROUND**

In its Order No. 24,688, the Commission reserved, pending further inquiry, a decision on the methodology to determine over/under collections in its cost of gas ("COG") mechanism and the associated interest costs, as well as the appropriate bad debt percentage used for cost of gas calculations. This docket was subsequently opened by the Commission when the Parties and Staff failed to reach a resolution of these issues. At the request of Staff, the Commission also included as an issue in this docket the lead/lag study used by KeySpan to calculate its cash working capital requirement. A fourth issue, relating to the interest rate applied to the Company's cash working capital requirement, was initially included in this proceeding, but was later moved to Docket DG 07-072 and is no longer the subject of this proceeding.

In September 2006, KeySpan filed a lead/lag study in DG 06-121 that underlies the currently effective allowance for supply-related cash working capital. The currently effective bad debt percentage for KeySpan also originated in Docket DG 06-121. On June 22, 2007, Staff filed the written direct testimony of Amanda O. Noonan and George R. McCluskey. On August 31, 2007, KeySpan filed the written rebuttal testimony of Ann E. Leary and Kimberly Ahern. On October 19, 2007, Staff filed the written joint surrebuttal testimony of Ms. Noonan and Mr. McCluskey. The Parties and Staff have exchanged numerous rounds of discovery regarding the testimony in this proceeding.

In its testimony in this proceeding, the Company has indicated that, with regard to the methodology used to determine the over/under collection, it intends to accept the final

outcome of that issue as determined in Docket DG 07-033 regarding Northern Utilities, Inc. The Company has also indicated, however, that, if the Commission ultimately determines in DG 07-033 that gas utilities must use accrued rather than billed revenues for purposes of calculating the over/under collection of gas costs, it reserves the right to address the issue of how a transition from the old method to the new should be accomplished. On October 12, 2007, KeySpan filed written testimony of Ms. Leary in Docket DG 07-033 regarding that issue.

This partial settlement agreement is intended to resolve all of the issues in this proceeding except (1) the issue of the use of accrued instead of billed revenues for purposes of determining the level of over or under collection of gas costs through the COG, which is the subject of a motion for rehearing filed by Northern Utilities, Inc. in DG 07-033, and (2) how a transition from one method to the other should be accomplished, depending on the final outcome of Docket DG 07-033. Because the transition issue remains an issue in this proceeding, on November 1, 2007, KeySpan filed in this docket similar testimony to the testimony Ms. Leary previously submitted in DG 07-033.

## **AGREEMENT**

Based on the foregoing, the Parties and Staff recommend that the Commission issue an order as follows:

1. The Company will use a net lag of 13.48 days to calculate its cash working capital for purposes of determining its COG rates effective as of May 1, 2007. The net lag of 13.48 days shall be used for such purpose until a different figure is approved by the Commission.

2. For purposes of calculating the indirect gas costs included for recovery through its COG rates, the Company will use a bad debt percentage of 2.00% for rates in effect for the period November 1, 2006 through October 31, 2007 and 1.75% for rates in effect from November 1, 2007 until a new rate is determined in the upcoming base rate case contemplated by the settlement in DG 06-107 (regarding the merger of KeySpan Corporation and National Grid USA, Inc.). The bad debt percentage determined in the base rate case will be effective, for delivery rate purposes, as of the same effective date as the change in delivery rates and, for COG purposes, as of effective date of the rates set based on the first COG filing after the conclusion of the base rate case (which is expected to be May 1, 2009).

3. The Company will file a written plan setting forth its proposed collections process on a going-forward basis for review by Staff. The plan will be filed no later than with the Company's upcoming base rate case filing. The prudently incurred costs of the collections process described in the plan (including, on an annualized basis, any costs that are incremental to those reflected in the Company's test year) shall be recoverable through the rates set in the base rate case. The Company may include in its filing a plan

for addressing the Staff's concerns regarding the practice of using a "soft off" process for terminating service to customers.

4. In its base rate case, the Company will adopt the Staff's accounts receivable turnover lead/lag methodology described in the direct testimony of George R. McCluskey dated June 22, 2007 as modified by the Joint Surrebuttal Testimony of Amanda O. Noonan and George R. McCluskey dated October 19, 2007.

5. In its base rate case, the Company will adopt Staff's recommendation on the methodology for calculating the bad debt percentage by replacing uncollectible accounts expense with actual net write-offs.

6. The Company and Staff will agree on an independent consultant to recommend an appropriate bad debt percentage for KeySpan that reflects the Company's particular circumstances. The recommendation of the consultant shall be non-binding, and the Company, Staff and OCA each reserve the right to argue for a different percentage during the Company's base rate case proceeding.

#### **MISCELLANEOUS**

1. This Partial Settlement Agreement shall not be deemed in any respect to constitute an admission by any party hereto that any allegation or contention in this proceeding is true or false, except that the sworn testimony of any witness in this proceeding shall constitute an admission by such witness. Based on the foregoing, the Parties and Staff have each agreed to forego the right to cross-examine witnesses based on their testimony filed in this case relating to the issues of net lag and bad debt percentage covered by this Partial Settlement Agreement.

2. The approval of this Partial Settlement Agreement by the Commission shall not in any respect constitute a determination by the Commission as to the merits of any allegations, contentions, or issues made in this proceeding. The Parties and Staff agree that the Commission's approval of this Partial Settlement Agreement will not constitute continuing approval of, or precedent for, any particular issue or resolution thereof in this proceeding, except that (1) the matters set forth in this Partial Settlement Agreement shall be binding on the Parties and Staff to the extent expressly set forth herein and (2) this Partial Settlement Agreement shall upon approval resolve the matters covered by this Partial Settlement Agreement in contention before the Commission in this proceeding.

3. This Partial Settlement Agreement is agreed to on the condition that, in the event the Commission does not approve it in its entirety, the agreement shall be deemed withdrawn and void and shall not constitute any part of the record in this or any future proceeding or be used for any other purpose.

4. This Partial Settlement Agreement is agreed to on the condition that, in the event the Commission does not approve it in its entirety or takes any action beyond that

recommended herein, this Agreement shall be deemed withdrawn and void and shall not constitute any part of the record in this or any future proceeding or be used for any other purpose.

5. The Parties and Staff have entered into this Partial Settlement Agreement to resolve pending differences among them and avoid the time and costs of litigation, as well as to provide for a just and reasonable resolution of the issues in this docket.

WHEREFORE, this Partial Settlement Agreement has been executed or caused to have been executed by the Parties and Staff on the dates set forth beside their names.

ENERGYNORTH NATURAL GAS, INC.  
d/b/a KEYSpan ENERGY DELIVERY NEW ENGLAND  
By its attorneys  
McLane, Graf, Raulerson & Middleton, Professional Association

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Date:  
Steven V. Camerino, Esq.

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Date:  
Thomas P. O'Neill, Esq.  
Senior Counsel

STAFF OF THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION  
By their attorney,

  
F. Anne Ross, Esq. \_\_\_\_\_ Date: 11/2/07

OFFICE OF CONSUMER ADVOCATE

\_\_\_\_\_  
Date:  
Kenneth E. Traum