

DG 99-130

**NORTHERN UTILITIES, INC.**

**1999/2000 Winter Cost of Gas**

**Order Approving the Cost of Gas and  
Environmental Remediation and Conservation Surcharges**

**O R D E R   N O.   23,330**

**October 29, 1999**

**APPEARANCES:** LeBoeuf, Lamb, Greene & MacRae, L.L.P., by Paul B. Dexter, Esq., on behalf of Northern Utilities, Inc. and Larry S. Eckhaus, Esq., for the Staff of the New Hampshire Public Utilities Commission.

**I.    PROCEDURAL HISTORY**

On September 15, 1999, Northern Utilities, Inc. (Northern) filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) for the period November 1, 1999 through April 30, 2000 for Northern's natural gas operations in the Seacoast area of New Hampshire. Northern filed revised tariff pages on September 17, 1999. The filing was accompanied by the pre-filed direct testimony and supporting attachments of Marjorie H. Izzo, Senior Rate Analyst, and Francisco C. DaFonte, Director of Gas Control, which explained the filing.

An Order of Notice was issued on September 17, 1999 and a Revised Order of Notice was issued September 28, 1999 setting the date of the hearing for October 14, 1999. Apart from the Office of Consumer Advocate (OCA), which is a statutorily

recognized intervenor, there were no intervenors in this docket.

## II. POSITIONS OF THE PARTIES AND STAFF

### A. Northern

Northern witnesses Marjorie H. Izzo, Senior Rate Analyst, Francisco C. DaFonte, Director of Gas Control, and Joseph A. Ferro, Director of Revenue Development, addressed the following issues: 1) calculation of the COG and the impact on customer bills; 2) factors contributing to the increased rate; 3) over-collections; 4) environmental remediation surcharge; and 5) conservation charges.

#### 1. Calculation and Rate Impact of the Proposed COG

The proposed 1999/2000 Winter COG rate of \$0.4347 per therm was derived using two calculations. First, the anticipated cost of gas of \$15,400,420 was reduced for net adjustments of (\$425,592) and the resulting anticipated cost of \$14,974,828 was divided by projected therm sales of 35,093,480 to arrive at a per therm rate of \$0.4267. An additional charge of \$0.0080 was added for the Wells LNG tank project exit fee which was calculated by dividing the annual cost of \$465,569 by the projected annual firm sales and transportation throughput, a combined total of 58,546,890 therms.

Northern's proposed 1999/2000 Winter COG rate of \$0.4347 per therm represents an increase of \$0.0824 per therm from the average weighted 1998/1999 Winter COG rate of \$0.3523

per therm.

The proposed COG rate of \$0.4347 per therm will increase an average residential heating customer's monthly bill by \$12.35, or 11.2 percent, as compared to last winter's rate.

## **2. Factors Contributing to the Increased COG**

The increase in the proposed COG rate compared to last winter's rate can be primarily attributed to a reduction in the prior period over-collection which is being applied against the 1999/2000 COG rate as compared to the prior period over-collection included in the 1998/1999 COG rate calculation and to an increase in actual and projected winter gas costs.

The 1998/1999 Winter COG rate calculation included an over-recovery credit of \$3,342,029 compared to a credit of \$825,863 in this winter's calculation.

Natural gas and supplemental fuel prices have increased from last year and the futures prices used in the calculation of the 1999/2000 Winter COG rate are also higher. In addition, Northern's 1999/2000 winter gas costs include higher demand charges due to the inclusion of a full year of demand charges on Portland Natural Gas Transmission Service (PNGTS) pipeline.

## **3. Over-Collections**

Northern experienced substantial over-collections over the past two winters, approximately \$3.5 million (20% of total gas costs for the period) in 1997/1998 and \$1.8 million (11% of

total gas costs for the period) in 1998/1999. One million dollars of the 1998/1999 over-collection was applied to the Wells LNG storage tank exit fee, as approved during Commission deliberations on October 4, 1999 (Docket No. DG 99-050).

Several factors contributed to the most recent over-collection. One was the uncertainty of when PNGTS was to begin service. PNGTS represented to Northern that it would be in service on January 1, 1999. Northern's 1998/1999 COG filing included PNGTS demand charges of \$682,000 per month for four of the six winter months. Northern was hesitant to make a monthly revision or file a revised CGA without knowing when those demand charges might be billed. PNGTS did not come into service until March 1999 and Northern was billed only one month of PNGTS demand charges during the 1998/1999 winter period.

Northern also had problems with incorrect supplier invoices and inexperienced accountants last winter, which contributed to the magnitude of the over-collection. Northern is in the process of addressing those problems through the implementation of new procedures, training, and reporting, and expects to be better able to recognize and react to potential problems.

#### **4. Environmental Remediation Surcharge**

Commission Order No. 23,046 (October 27, 1999) approved a mechanism for recovery of environmental remediation costs (ERC)

associated with former manufactured gas plant sites, such costs to be filed during Northern's winter COG proceeding for review and, if approved, recovered over seven years. Northern filed for recovery of unamortized deferred environmental remediation costs of \$480,224, incurred from July 1, 1998 through June 30, 1999. These remediation expenses, combined with prior year's expenses approved for recovery and unamortized to date, were fully offset by third party recoveries, resulting in zero period costs to be recovered from ratepayers. Zero costs were divided by projected period throughput of 73,644,340 therms for the period of November 1, 1999 through October 31, 2000 and resulted in the proposed environmental surcharge of \$0.0000 per therm.

Third party recoveries totaled \$2,676,921 and exceeded environmental expenses by \$1,722,825, as of June 30, 1999. These recoveries have been set aside and, along with related interest, will be used to offset future environmental remediation costs.

#### **5. Conservation Charges**

By letter dated August 3, 1999, the Commission acknowledged Northern's decision not to file an avoided cost study, a necessary prerequisite for Northern to continue to offer its demand side management (DSM) program. The Commission stated that it planned to resolve outstanding DSM issues relative to the natural gas industry after reports are filed by the Energy Efficiency Working Group and Gas Unbundling Collaborative.

Therefore, Northern proposed Conservation Charges designed to collect: program costs estimated at \$81,400 which Northern expects to expend to phase out its DSM program; lost net revenues; and the estimated over or under recovery balances with applicable interest. Northern proposed the following Conservation Charges for effect November 1, 1999: Residential Non Heating at (\$0.0028) per therm; Residential Heating at \$.0042 per therm; Small Commercial at \$0.0097 per therm; and Large Commercial at (\$0.0048) per therm.

**B. Staff**

Staff did not object to the proposed 1999/2000 COG rate but did express concerns regarding the large over-collections that have occurred.

Staff requested that the Commission direct Northern to address the issues of offering a fixed price program and the use of financial instruments for hedging in its next winter cost of gas filing. Staff stated that it was not advocating the implementation of such programs at that time, but simply wanted Northern to investigate those issues and either implement them or state the reasons for not doing so.

Staff supported a zero ERC surcharge as appropriate in this proceeding, but did not take a position with regard to the proposed allocation of the third party recoveries and the costs to obtain those recoveries. Staff stated that it needed

additional time to conduct a further investigation into the allocations.

**C. OCA**

The OCA expressed serious concerns regarding the level of over-collections carried forward from last winter, given that the Commission has afforded Northern the flexibility to change the COG rate by up to plus or minus ten percent as a tool to avoid over or under recovery issues. The OCA suggested that the Commission should consider applying a much higher interest rate to substantial over-collections in future COG filings, but recognized that last winter was unique due to the uncertainty of the PNGTS pipeline in service date.

The OCA also expressed its support for the implementation of a fixed price option plan for residential customers, similar to that offered by EnergyNorth Natural Gas, Inc. The OCA stressed that there should be no subsidies between plan participants and non-participants.

**III. COMMISSION ANALYSIS**

After reviewing the record, we conclude that the proposed 1999/2000 Winter COG of \$0.4347 per therm and the ERC surcharge of \$0.0000 per therm will result in just and reasonable rates, and, therefore, are hereby approved.

We share the concerns of Staff and the OCA regarding the substantial over-collections experienced by Northern in its two most recent winter COG filings. Northern has testified that it is taking efforts to identify and address the conditions which contributed to those over-collections and we expect to see a marked improvement in that area. Should such high levels of over-collections persist, we will consider whether to apply a higher interest rate, as suggested by the OCA.

As recommended by Staff and supported by the OCA, we direct Northern to investigate the implementation of a fixed price program for the 2000/2001 winter period. In addition, we recommend Northern review its hedging policies, with consideration given to the use of financial instruments to hedge gas supplies.

During Staff's closing statement at the hearing, Staff requested additional time to review the allocation of recoveries and the cost to obtain such recoveries from third parties related to environmental remediation. Hearing no objection from Northern or the OCA, we find the request to be reasonable, and, therefore, grant the request.

Although we defer the issue of whether natural gas utilities should continue to offer DSM programs, we will approve the Conservation Charges proposed by Northern in order to allow Northern to recover the costs associated with phasing out its current programs.

**Based upon the foregoing, it is hereby**

**ORDERED**, that Northern's Twenty-Ninth Revised Page 32, Sheet No. 1, and Proposed Twenty-First Revised Page 32, Sheet No. 2, respectively, N.H.P.U.C. tariff of Northern Utilities, Inc. - New Hampshire Division, providing for a Winter COG rate of \$0.4347 per therm for the period of November 1, 1999 through April 30, 2000, is APPROVED, effective for bills rendered on or after November 1, 1999; and it is

**FURTHER ORDERED**, that Northern may, without further Commission action, adjust the approved COG rate upward or downward monthly based on Northern's calculation of the projected over or under-collection for the period, but the cumulative adjustments shall not exceed ten percent (10%) of the approved unit cost of gas (or \$0.0435 per therm) and can not change more than ten percent (10%) in any given month; and it is

**FURTHER ORDERED**, that Northern shall provide the Commission with its monthly calculation of the projected over or under-calculation, along with the resulting revised COG rate for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. Northern shall include a revised tariff page 32 - Calculation of Cost of Gas and revised rate schedules if Northern elects to adjust the COG rate; and it is

**FURTHER ORDERED**, that the over or under-collection

shall accrue interest at the Prime Rate reported in the *Wall Street Journal*. The rate is to be adjusted each quarter using the rate reported on the first date of the month preceding the first month of the quarter; and it is

**FURTHER ORDERED**, that Northern's Third Revised Page 35 Superseding Second Revised Page 35, providing for a surcharge of \$0.0000 per therm to recover the cost of environmental remediation and pursuit of third party claims related to former manufactured gas plants, is APPROVED, effective for bills rendered on or after November 1, 1999; and it is

**FURTHER ORDERED**, Northern's Seventh Revised Page 36, providing for Conservation Charges of Residential Non Heating at (\$0.0028) per therm, Residential Heating at \$.0042 per therm, Small Commercial at \$0.0097 per therm, and Large Commercial at (\$0.0048) per therm, to recover costs related to Northern's DSM Program, is APPROVED, effective for bills rendered on or after November 1, 1999; and it is

**FURTHER ORDERED**, that Northern shall file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by N.H. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New  
Hampshire this twenty-ninth day of October, 1999.

---

Douglas L. Patch  
Chairman

---

Susan S. Geiger  
Commissioner

---

Nancy Brockway  
Commissioner

Attested by:

---

Thomas B. Getz  
Executive Director and Secretary