

DG 03-160

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

2003/2004 Winter Cost of Gas

**Order Approving Fixed Price Option Rate, Supplier Balancing
Charges, Interim Cost of Gas Rate and Certain Portions of the
Local Distribution Adjustment Charge**

O R D E R N O. 24,227

October 29, 2003

APPEARANCES: McLane, Graf, Raulerson and Middleton by Steven V. Camerino, Esq. on behalf of EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England; Office of Consumer Advocate by Kenneth E. Traum on behalf of residential utility consumers; and Edward N. Damon, Esq. and Marcia Thunberg, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On March 25, 2003, EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England (KeySpan), a public utility engaged in the business of distributing natural gas in 29 cities and towns in southern and central New Hampshire and the City of Berlin in northern New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) its updated monthly projected over or under collection report for the 2002/2003 Winter Cost of Gas (COG) period. This monthly report was filed pursuant to Commission Order No. 24,078 (October 28, 2002) approving KeySpan's 2002/2003 Winter COG. The monthly report

projected an under collection of \$1,913 for the 2002/2003 Winter COG period.

On August 15, 2003, KeySpan filed its 2002/2003 Winter Period COG Reconciliation and 2002/2003 Winter Period Fixed Price Option (FPO) Reconciliation which disclosed an under collection of \$9,288,065. On August 25, 2003, the Commission issued an Order of Notice initiating an investigation to explore the issues described in the Order of Notice. The Office of Consumer Advocate (OCA) filed a notice of participation on behalf of residential ratepayers on August 26, 2003.

On September 8, 2003, KeySpan filed a Motion for Protective Order and Confidential Treatment regarding items contained in the Winter 2003/2004 COG filing.

The Commission held a prehearing conference on September 11, 2003. Staff and the parties met thereafter in a technical session and filed a proposed procedural schedule that same day.

On September 22, 2003, KeySpan filed its 2003/2004 Winter COG filing along with a Motion for Protective Order and Confidential Treatment regarding certain settlement information related to claims filed by KeySpan in U.S. District Court. On September 25, 2003, KeySpan filed its proposed Fixed Price Option (FPO) rates for the 2003/2004 Winter Period and supporting schedules in both redacted and confidential versions.

On October 2, 2003, by Order No. 24,215, the Commission approved a procedural schedule and granted the two pending Motions for Protective Order and Confidential Treatment. The Order established an October 21, 2003 hearing date to address, among other things, the FPO rate, charges referenced in the Local Distribution Adjustment Clause (LDAC), and a temporary COG rate. December 4-5, 2003 hearing dates were set to determine a final 2003-2004 winter COG rate and address all outstanding issues.

On October 20, 2003, KeySpan filed an updated version of the COG filing for the 2003/2004 Winter Period and supporting schedules. According to the Company, the revisions were based on updated New York Mercantile Exchange (NYMEX) prices, discussions between the Company and Commission Staff, and the Company's agreement that these rates would be treated as interim rates for purposes of the October 21, 2003 hearing.

The Commission held a duly noticed hearing on October 21, 2003. On October 29, 2003, Commission Staff submitted an agreed-upon revised procedural schedule as follows:

Staff & Intervenor testimony	November 18, 2003
Technical Session	November 24, 2003 at 9 a.m.
Company Data Requests	November 26, 2003
Data Responses	December 5, 2003

Technical Session	December 8, 2003 at 9 a.m.
Rebuttal Testimony	December 12, 2003
Hearing	December 17 and 18, 2003

II. POSITIONS OF THE PARTIES AND STAFF

A. KeySpan

At the hearing, the Company explained the parties' expectation that the Commission would, as a result of the hearing, act on a final basis on the Energy Efficiency Rate and the Conservation Rates included in the LDAC, the FPO rate, and two tariff changes that are in the Company's filing, the Supplier Balancing Charge and the Capacity Allocators. The Company represented that two rate issues would be set on an interim basis only: all of the cost of gas rates and the Environmental Surcharge in the LDAC.¹ With regard to the undercollection, the Company proposed that, on an interim basis, half of the undercollection would be included in rates based on the October 21 hearing, with the other half and its disposition to be determined by the December hearings; however, the issue of the entire undercollection and its treatment will be taken up in December. The Company stated that the interim and final rates

¹ According to the Company, the Company included in its updated filing only those environmental expenses for which the Company has produced backup information to date.

presented by the Company at the October 21 hearing would be effective November 1, 2003 if approved by the Commission. Finally, the Company indicated that all of the issues dealt with on an interim basis would be without prejudice to the rights of any parties when they are considered in the December hearings.

Mr. Poe and Ms. Arangio described the transportation and supply portfolio that KeySpan holds to serve its natural gas customers. Mr. Silvestrini addressed the following issues: 1) calculation of the temporary Firm Sales COG rate and impacts on customer bills; 2) the reasons for the increased rate; 3) calculation of the FPO rate; 4) the Firm Transportation Cost of Gas rate; 5) the Transportation Supplier Balancing Charge, Peaking Demand Charge and Capacity Allocators; 6) the LDAC charge, comprised of Environmental Surcharge, gas restructuring expense, and Conservation Charges; and 7) the reasons for the 2002/2003 winter period under collection.

1. Calculation and Impact of the Temporary COG Rate

The proposed 2003/2004 interim winter COG average cost of gas residential firm sales rate of \$0.7995 per therm is comprised of anticipated direct gas costs, indirect gas costs and various adjustments. Unadjusted anticipated direct gas costs total \$67,404,249 and are increased by adjustments totaling \$4,428,171. Anticipated indirect gas costs total \$4,296,925, consisting of working capital, bad debt and overhead

charges. The gas costs to be recovered over the 2003/2004 winter period (anticipated direct and indirect costs and adjustments) total \$76,129,345 and are divided by projected winter period sales of 95,219,000 therms (based on 2002/2003 winter normalized sales and projected sales growth of 1.2 percent) to arrive at the average cost of gas rate.

The applicable ratios established in KeySpan's rate redesign case, Order No. 23,675 (April 5, 2001), were applied to the average (Residential) COG rate to determine the Commercial/Industrial (C&I) Low Winter Use COG rate of \$0.7122 per therm and the C&I High Winter Use COG rate of \$0.8146 per therm.

KeySpan's proposed 2003/2004 interim winter COG residential rate of \$0.7995 per therm is an increase of \$0.2237 per therm from the 2002/2003 winter weighted Firm Sales COG rate of \$0.5758 per therm. The impact of the proposed interim winter firm sales COG rate is an increase in the typical residential heating customer's winter gas costs of \$209, a 24.81 percent increase compared to last winter.

2. Reasons for the Increase

KeySpan indicated at the hearing that the primary reason for the increased COG rates is an increase in the actual and projected commodity gas costs. The natural gas prices as quoted on the New York Mercantile Exchange (NYMEX) are

significantly higher than prices paid last winter, and it is the NYMEX futures prices that are used to estimate the cost of non-hedged gas supplies for the upcoming winter months. In addition, the gas injected into storage for the upcoming winter period was significantly more expensive than the gas stored prior to the 2002/2003 winter, as natural gas prices were dramatically higher during the summer of 2003 compared to the summer of 2002.

3. Calculation of the FPO Rate

The FPO rate is calculated in the same manner as the COG rate, except that the commodity prices for 30% of the Company's supply portfolio which is available for the FPO program have been locked in and the rate is based on those guaranteed prices rather than estimated prices. Once the FPO rate is calculated, it is compared to the proposed COG rate and a risk premium added if the rate is less than 105 percent of the COG rate. The 2003/2004 winter FPO calculation was 102 percent of the proposed COG rate and, therefore, a risk premium was 3 percent was added. Recovery of the risk premium will be credited to the winter COG.

The proposed FPO rates for the Residential, C&I low winter use and C&I high winter use are \$0.8597 per therm, \$0.7658 per therm and \$0.8759 per therm, respectively.

4. Firm Transportation Cost of Gas

The proposed Firm Transportation Cost of Gas rate of \$0.0000 per therm is \$0.0029 per therm lower than the \$0.0029 per therm rate of last winter. The decrease is a result of an \$894,643 reduction in anticipated costs of supplemental supplies compared to last winter, because the propane requirement has been eliminated under normal weather conditions. The remaining costs associated with produced Liquefied Natural Gas (LNG) are not enough to result in a cost of gas rate at the fourth decimal.

5. Revised Transportation Supplier Charges and Allocators

KeySpan is updating its Supplier Balancing charges, i.e., the charges that suppliers are required to pay KeySpan for balancing services as KeySpan attempts to meet the shifting loads for the supplier's customer pools. The Balancing Charge has been decreased from \$0.14 per MMBtu to \$0.13 per MMBtu and the Peaking Demand Charge has increased from \$15.25 per MMBtu of Peak MDQ to \$19.44 per MMBtu of Peak MDQ. The increases are based on an update of volumes and costs used in calculating the charges.

The capacity allocator percentages used to allocate pipeline, storage and local peaking capacity to a customer's supplier under New Hampshire's mandatory capacity assignment

required for firm transportation service, have been updated to reflect KeySpan's supply portfolio for the upcoming year.

6. LDAC Charges

The LDAC charges that KeySpan proposes to bill from November 1, 2003 through October 31, 2004 include Conservation Charges and the environmental remediation costs for the clean up of manufactured gas plant sites in New Hampshire. The LDAC also includes an Energy Efficiency Surcharge approved in Order No. 24,167 (April 30, 2003), effective May 1, 2003 through April 30, 2004.

KeySpan proposes a \$0.0005 per therm Conservation Charge for residential heating customers to recover lost revenues that resulted from discontinued Demand Side Management programs. KeySpan proposes a \$0.0001 per therm Conservation Credit for C&I customers, to refund a prior period over collection of lost revenues recoveries.

In *EnergyNorth Natural Gas, Inc.*, 84 NHPUC 489 (Order No. 23,303, 1999), the Commission approved recovery of costs associated with the environmental remediation of former manufactured gas plant sites, legal expenses and credits for recoveries from other responsible third parties and insurance carriers. The Commission further established a cost review mechanism and step adjustment for recovery of future costs and credit of recoveries and required that those be filed during the

winter COG proceedings. The proposed Environmental Surcharge is \$0.0108 per therm, a \$0.0006 per therm reduction from last year's rate of \$0.0114 per therm.

A reconciliation of the expenses and revenues associated with KeySpan's participation in the Commission's gas restructuring docket, DG 98-124, and the related surcharge to recover the approved expenses, resulted in an over collection of \$3,331. KeySpan has proposed to credit the over collection to the environmental remediation account.

7. Reasons for the 2002/2003 Winter Under Collection

The majority of the prior period under collection of \$9,330,284 detailed in the 2002/2003 Winter Period Reconciliation Analysis, according to KeySpan, can be attributed to two events: first, significantly colder than normal weather had a substantial impact on KeySpan's gas costs, most notably at the end of the winter period when it was too late for KeySpan to adjust its COG rate to reflect the higher costs; and second, there were two accounting errors that resulted in KeySpan under-reporting its gas costs in its monthly trigger reports.

KeySpan agreed to exclude one half of the prior period under collection in the proposed temporary winter COG rates, pending the outcome of a Commission investigation into the under collection and a final order on winter COG rates following a December hearing on the matter.

B. Office of the Consumer Advocate

The OCA agreed with the revised 2003/2004 winter COG filing.

C. Staff

Staff stated that it had reviewed KeySpan's demand and supply forecasts for the 2003/2004 winter period and recommended approval, as the plan is consistent with those filed and approved for previous winters and is designed to provide reliable service at a reasonable cost, reflecting normal industry practice. Staff noted that the actual 2003/2004 winter COG and gas revenues will be reconciled and subject to review, both during (through monthly reporting and rate changes) and following the winter period.

Staff also stated that it is currently investigating supply practices during the winter of 2002/2003, which may or may not have been consistent with the plan filed for that winter. Staff supported deferring recovery of one-half of the under collection to reduce the severity of the rate increase at this time and to allow adequate time for the parties to develop and present positions as to how the under collection should ultimately be treated.

Staff explained that the FPO plan does not include prior period under collections and is based upon the proposed

plan and, therefore, recommends approval of the proposed FPO rates.

Staff stated it had reviewed the proposed surcharges and Supplier Balancing Charges and recommends approval. Staff requested that, as the Company is still in the process of collecting supporting documentation for environmental remediation costs, the proposed environmental surcharge be implemented on an interim basis, pending further review by Staff, with Staff's recommendations to be presented at the December hearing.

Staff also requested a progress report on the two-phased plan to improve and increase service in the Tilton/Laconia area, and KeySpan's plans to provide safe and reliable service for its firm sales customers in that area for the upcoming winter. KeySpan expressed its willingness to meet with Staff and provide the requested information. Staff stated it would advise the Commission on the results of KeySpan's status report regarding the Tilton project.

III. COMMISSION ANALYSIS

Based on a careful review of the record in this docket, we find that KeySpan's proposed COG rates and surcharges will result in just and reasonable rates pursuant to RSA 378:7. As recommended by Staff and as agreed to by the parties, the COG rate and the Environmental Surcharge are to be considered

interim rates which will be finalized upon the conclusion of the Commission's investigation into those matters and issuance of an order following the December hearing. The actual gas costs and revenues for the 2003/2004 winter period will be reconciled and reviewed as part of next winter's COG filing.

The COG rates we are approving for effect November 1, 2004 do not include one-half of the prior period under collection. Given the magnitude of the under collection, its potential impact on rates, and questions regarding the reasons behind it, we believe it is both prudent and reasonable to defer a decision on how those costs are to be treated until a more complete record has been established. The COG mechanism allows for monthly rate changes within a range of 20 percent above and 20 percent below the approved rate to be made without further Commission action. By deferring recovery of one-half of the under collection at this time, our final decision following the December hearings should result in a rate change within the 20 percent range that customers are currently subject to, whether that decision should be to ultimately include or exclude the entire amount, or any part thereof, for recovery in this winter's rates.

For the foregoing reasons, we accept and approve KeySpan's proposed interim 2003/2004 Firm Sales Winter COG rate, FPO rates, Firm Transportation Winter COG rate, Conservation

Charges/credits, interim Environmental Surcharge Allowable for LDAC, Transportation Supplier Balancing Charge, Transportation Peaking Demand Charge and Transportation Capacity Allocators, and the transfer of \$3,331 in over recovery of rate case expense in the restructuring docket, DG 98-124, as a credit to the environmental remediation account. We will take up the issue of the final COG rate, final Environmental Cost Recovery Charge, and other issued contained in the Order of Notice at the December hearing.

Finally, we will approve the revised procedural schedule proposed by the parties as set forth in Staff's letter submitted on October 29, 2003.

Based upon the forgoing, it is hereby

ORDERED, KeySpan's 2003/2004 Winter COG per therm rates, pending a final order in this docket, and FPO per therm rates for the period November 1, 2003 through April 30, 2004, are APPROVED, effective for service rendered on or after November 1, 2003, as follows:

	Cost of Gas	Minimum COG	Maximum COG	Fixed Price
Residential	\$0.7995	\$0.6396	\$0.9594	\$0.8597
C&I, low winter use	\$0.7122	\$0.5697	\$0.8546	\$0.7658
C&I, high winter use	\$0.8146	\$0.6517	\$0.9776	\$0.8759

FURTHER ORDERED, that KeySpan may, without further Commission action, adjust the COG rates upward or downward monthly based on KeySpan's calculation of the projected over or under collection for the period, within the minimum and maximum rates as set above; and it is

FURTHER ORDERED, that KeySpan shall provide the Commission with its monthly calculation of the projected over or under calculation, along with the resulting revised COG rates for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. KeySpan shall include a revised tariff page 84 - Calculation of Firm Sales Cost of Gas Rate and revised rate schedules if KeySpan elects to adjust the COG rates; and it is

FURTHER ORDERED, that the over or under collection for the period shall accrue interest at the Prime Rate reported in the *Wall Street Journal*, 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 KeySpan's proposed 2003/2004 Local Distribution Adjustment Clause per therm rates are APPROVED effective for service rendered on or after November 1, 2003, as follows:

	Demand Side Mgmt.	Envir. Sur.	Energy Efficiency	LDAC
Residential Heating	\$0.0005	\$0.0108	\$0.0118	0.0231
Residential Non-heating	\$0.0000	\$0.0108	\$0.0118	0.0226
Small C&I	(\$0.0001)	\$0.0108	\$0.0089	0.0196
Medium C&I	(\$0.0001)	\$0.0108	\$0.0089	0.0196
Large C&I	(\$0.0001)	\$0.0108	\$0.0089	0.0196

FURTHER ORDERED, that KeySpan's proposed Demand Side Management Charge/Credit in the LDAC rate is effective for the period November 1, 2003 through October 31, 2004; and it is

FURTHER ORDERED, that KeySpan's proposed rate for Environmental Surcharge Allowable for LDAC is effective November 1, 2003 through October 31, 2004, subject to change based upon a final order in this docket; and it is

FURTHER ORDERED, that KeySpan's proposed Firm Transportation Winter COG rate of \$0.0000 per therm for the period November 1, 2003 through April 30, 2004, is APPROVED; and it is

FURTHER ORDERED, that KeySpan's proposed Transportation Supplier Balancing Charge of \$0.13 per MMBtu of Daily Imbalance Volumes, is APPROVED; and it is

FURTHER ORDERED, that KeySpan's proposed Transportation Peaking Demand Charge of \$19.44 per MMBtu of Peak MDQ, is APPROVED; and it is

FURTHER ORDERED, that KeySpan's proposed Transportation Capacity Allocators as filed in Proposed Third Revised Page 155, Superseding Second Revised Page 155, is APPROVED; and it is

FURTHER ORDERED, that KeySpan will credit \$3,331 of the over recovery of rate case expense in the restructuring docket, DG 98-124, to the environmental remediation account; and it is

FURTHER ORDERED, that the following revised procedural schedule is APPROVED:

Staff & Intervenor testimony	November 18, 2003
Technical Session	November 24, 2003, at 9 a.m.
Company Data Requests	November 26, 2003

Data Responses	December 5, 2003
Technical Session	December 8, 2003 at 9 a.m.
Rebuttal Testimony	December 12, 2003
Hearing Dates	December 17, 18, 2003

FURTHER ORDERED, that KeySpan 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; and it is

FURTHER ORDERED, that KeySpan file a status report with the Commission on the two-phased plan to improve and increase service in the Tilton/Laconia area, and KeySpan's plans to provide safe and reliable service for its firm sales customers in that area for the upcoming winter.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of October, 2003.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Graham J. Morrison
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary