STATE OF NEW HAMPSHIRE
Before the
PUBLIC UTILITIES COMMISSION

Northern Utilities, Inc. 2007 Summer Cost of Gas
Docket No. DG 07-033

COMMISSION STAFF OBJECTION TO MOTION FOR RECONSIDERATION, REHEARING AND CLARIFICATION

Pursuant to N.H. Code Admin. R. Puc 203.07 Staff of the Commission files this Objection to Northern Utilities, Inc.'s (Northern's) Motion for Reconsideration, Rehearing and Clarification.

In its Motion Northern makes two arguments. First, it claims that the Commission's Order No. 24,629 (Order) is "unreasonable and unlawful because, without substantial supporting evidence, it departs from a long-standing rate making methodology....," Northern Motion at 2. Second, it claims that the "Order is unlawful because both the new accounting methodology ...as well as, ..., the changeover or transition from the old methodology to the new methodology result in confiscation of company property. Moreover, the transition method ordered by the Commission is not based on any substantial record evidence and is inconsistent with precedent and applicable ratemaking principles." Id.

Northern's claims of insufficient evidence are refuted by the analysis and references to evidence in the Order itself. Northern's complaints about the transition mechanism simply repeat its objections to the change in methodology. Northern challenges the Commission's finding that including a 15 day billing lag in the reconciliation mechanism duplicates compensation Northern already receives through its cash working capital calculation. If a utility is over compensated for an expense, as Northern has been, removing that excess recovery is not confiscatory.

I. Supporting Evidence

At page 3 of the Motion, Northern alleges that the Order is "completely barren of quantitative analysis" to support the finding that "a double recovery of certain working capital costs occurs when interest is calculated on deferred gas costs using accrued costs and billed revenues." Staff disagrees. On pages 7-8 of the Order, the Commission summarizes Staff's argument that the stream of billed revenues shown in Northern's reconciliation calculation for the 2005-06 winter period (See Attachment 1 to Exhibit GRM-2 to Exhibit 5) lags accrued gas costs by on average 15 days.

The argument is provided in greater detail in Staff's "Report on Northern's Calculation of Carrying Charges related to the Development of the Cost of Gas Rate", which is referenced in footnote 2 to the Order as Exhibit GRM-2 to Exhibit 5. In addition, on page 9 of the Order, the Commission notes Staff's claim that the Company's lead/lag study already reflects a 15.2 day lag between the consumption of gas and the reading of customer meters: a claim not contested by Northern. These two facts taken together provide sufficient quantitative analysis to support the Commission's finding.

Northern contends at page 4 that absent clear quantitative evidence that Northern is over-collecting its gas costs, the Commission's decision to abandon Northern's long-standing accounting methodology is "unreasonable, arbitrary and unsupported by substantial evidence." In Staff's opinion, the above described double recovery of the costs associated with 15 day revenue lags provides sufficient quantitative support for abandoning the existing accounting methodology.

II. Transition to Accrual Accounting

At page 6 of the Motion, Northern seeks clarification on how the transition from "billed" to "accrued" revenues is to be accomplished. At page 7, Northern states that "because of the lack of clarity in the Order" it may have to "include one and one-half months of revenue, but only one month of gas costs in the reconciliation account in the first month after the transition." Northern goes on to say that this would be improper because it would inappropriately reduce the monthly COG balances and, in turn, lower the interest due to Northern on those balances.

Staff disagrees that the Order is not clear on how the transition is to be accomplished. The Order states at page 14 that "[r]evenues billed in the first month related to prior month sales would not be included in the first month's revenues under accrual accounting. October sales billed in November will not be recorded as November revenue; rather, November revenues will reflect sales in November that are billed in both November and December... Implemented correctly, a change to accrual accounting will record one month of revenue in the first month." That is, revenues in the first month after the transition (i.e., November 2005) must reflect a full month of November sales regardless of when those sales are billed. Thus, there is no rational basis for Northern speculating that it may have to match one and one-half months of revenue with one month of gas costs in the first month of the transition to accrued revenue accounting.

Northern also alleges at page 8 that the Order contains erroneous assertions, which require rehearing and clarification. One such alleged error relates to the following sentence, which appears on page 14 of the Order: "The summer COG reconciliation will be similarly adjusted to record October sales billed in November as October sales and adjust the summer period ending balance accordingly." Staff believes the Commission intended the above sentence to read as follows: "The summer COG reconciliation will be adjusted to record October sales billed in November as October sales and revenue and adjust the summer period ending balance accordingly." With this revision, it becomes clear that the Commission's position on how accrued revenue accounting works is indeed different from how the existing billed revenue accounting works. Specifically, revenue associated with October sales billed in November will be recorded as October revenue under accrued revenue accounting. Contrary to Northern's stated position, this is a change from the existing accounting, which records October sales billed in November as November revenue for the purpose of calculating interest on over/under collections.

Although there is no mismatch of costs and revenue in the first month of the transition, as explained above, there will be a reduction in interest with the transition from billed to accrual accounting for revenues beginning November 2005. In every month but one the transfer out of unbilled revenue related to the prior month will be largely offset by the transfer in of unbilled revenue related to the subsequent month. The exception is October 2005. In that month, the transfer in of October unbilled revenue from November is not offset by the transfer out of September unbilled revenue because accrued revenue accounting does not begin until the next month. The effect will be to reduce the October end-of-month balance in that account and, in turn, lower the average balance for November and all subsequent months. The net effect of these lower monthly balances will be a reduction in interest due to the Company in its Off-Peak account.

This reduction in interest is in not only appropriate, but necessary, as to do otherwise would defeat the purpose of the accounting change. In order to transition to an accounting method where accrued costs are matched with accrued revenues every month, unbilled revenue must be transferred from the month in which it is billed to the month in which it is accrued. Even though the resulting month and a half of revenue in October 2005 reduces the interest due to Northern going forward, it is not confiscatory. Rather, the inclusion of the extra revenue in October corrects an error made when the billed revenue accounting methodology was first implemented: namely, the inclusion of only half a month's revenue in the initial month. Thus, the reduction in interest eliminates a benefit (i.e., high interest receipts) that the Company was never entitled to.

Staff requests that the Commission deny Northern's Motion and affirm its Order as legally correct and supported by the evidence.

Respectfully submitted,

Staff of the Public Utilities Commission

F. Anne Ross, Esq.
Staff Attorney

Dated: October 22, 2007