DG 07-102

NiSource Corporate Services

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NH PUBLIC UTILITIES COMMISSION

VIA OVERNIGHT DELIVERY

Ms. Debra A. Howland
Executive Director and Secretary
New Hampshire Public Utilities Commission
21 S. Fruit St., Suite 10
Concord, NH 03301

Re: Northern Utilities, Inc., Unaccounted for Gas Inquiry and Resolution Spectra Meter Pulse Factor Error at Newington Meter Station, Newington, New Hampshire

Dear Ms. Howland:

On October 31, 2007, the New Hampshire Public Utilities Commission ("Commission") issued Order No. 24,798 approving Northern Utilities, Inc.'s ("Northern's" or the "Company's") 2007/2008 Winter Period Cost of Gas ("COG") rates. Northern Utilities, Inc., Docket No. DG 07-102 ("Order"). Order at p. 10. The Commission directed Northern to file a Report by December 31, 2007, to, among other things, assess the actual unaccounted for gas ("UAFG") figures for the period reported in its 2006-2007 Winter COG reconciliation filing. Order at pp. 8-9, 12. Since that time, Northern has provided numerous subsequent updates through written filings with the Commission and oral discussions with Commission Staff.

I. Northern's Multi-Year Investigation into UAFG

In early 2006, Northern began noticing an increase in its UAFG levels. Shortly thereafter, Northern began closely reviewing certain operational conditions that could contribute to increasing UAFG levels, including gas leakage rates and distribution system metering accuracy levels. When no obvious cause was in the offing, Northern then elevated the investigation of UAFG by forming a multidisciplinary team consisting of representatives from various areas of the company: General Accounting, Regulatory Accounting, Regulatory Affairs, Operations (including engineering and customer metering) and Energy Supply Services. The team focused on several aspects of gas purchases (invoicing), metered gas receipts at Northern's city-gates, nominations by retail suppliers, metered customer sales, transportation throughput, and the like. Based on its experience, the Company was also concerned that the UAFG levels may have also been linked to the data or processes used to calculate Schedule 26.[1]

Northern used Schedule 26 for years to track and report its UAFG levels as part of both its Annual Report filed with the Commission as well as its COG Annual Reconciliation. In Schedule 26, the UAFG levels are based on the difference between purchased gas volumes and the associated flow of gas into its distribution system at the pipeline interconnections, and the metered volumes sold or transported to its retail customers.

Northern's UAFG levels were a topic of discussion during a Commission Audit Staff review of Northern's 2006 Annual Report in May 2007. The 2006 Annual Report UAFG level, which was based on Schedule 26, showed a UAFG for the Northern – New Hampshire division of 5.9%. Nevertheless, Northern's own investigation continued by requesting an internal NiSource audit; by hiring an outside consultant to assist in the Northern investigation; and, by further reviewing UAFG data and reporting practices. By July 30, 2007, Northern filed with the Commission its 2006-07 Winter COG Reconciliation and updated Schedule 26 for the twelve month period ending April 2007. The Northern - New Hampshire division UAFG had increased to 7.59%. *Northern Utilities*, Docket No. DG 07-102 (2007). Northern focused its attention to the data flow of metered or invoiced delivered gas volumes into Northern's distribution system versus customer metered sales volumes.

During its investigation, therefore, not knowing the source of the UAFG, Northern conducted an extensive review of a variety of processes and data related to measurement, billing and operations. For example, the Company examined a variety of meter reading statistics, billing for newly established accounts, and meter inventory. From an operational perspective, Northern also reviewed the gas volumes consumed at its own facilities. Northern also examined and analyzed leak rates per mile of main. Northern comprehensively reviewed all incidents of third-party damage resulting in loss of gas.

Finally, the cause was uncovered: incorrect metering by Spectra Energy ("Spectra") at the Maritimes & Northeast ("M&NE") / Portland Natural Gas Transmission System ("PNGTS") Newington Gate Station in Newington, New Hampshire ("Newington Gate Station"). As the Commission knows, Spectra owns M&NE Operating Company, the "Measuring Party" responsible for both operating and maintaining the Newington Gate Station and for updating the Newington Gate Station meter "pulse factor." The gate receives volumes delivered to Granite

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1 Schedule 26, which was mechanized in the Fall of 2002, provides the Company with a monthly balancing of Northern's supply and throughput volumes, and it is used to calculate UAFG. The output from Schedule 26 is not used as a basis for calculating Northern's Cost of Gas Filings. The automated process pulls information from an Access database that includes data from the following systems: CIS – Customer Information System; EASy – Energy Access System; GRIPS – Gas Resource Information Processing System; and Lawson – Lawson General Ledger System.

State Gas Transmission ("Granite") for Northern on the Joint Facilities co-owned by Spectra and PNGTS.

This letter identifies a number of important steps taken to date to address the identification and source of UAFG, to resolve the specific cause of the 2005-2007 UAFG anomaly without costly litigation and to establish a credit to Northern of in-kind volumes of gas, at no cost, consistent with existing federally-approved tariffs.

II. Northern's Redesigned and Updated Schedule 26

As part of Northern's investigation into its UAFG, Northern closely reviewed the (1) purpose for, (2) design of, and (3) inputs to its primary UAFG reporting tool – Schedule 26. In reviewing both the purpose for and design of Schedule 26, the Company concluded that this tool should track Northern's total purchases and throughput volumes, including Company-use gas, and derive the UAFG. Schedule 26 should not allocate end-use gas costs recovered through Northern's gas cost recovery mechanisms. Northern now uses a separate streamlined schedule to serve as a tool to capture firm sendout into each division to derive the monthly allocation factors.

As a result of both the redesign and input changes to Schedule 26, Northern recast the following:

(1) 12 months ended December 2005, resulting in an amendment to Northern's New Hampshire Division 2005 Annual Report (Attachment A),

(2) 12 months ended December 2006, resulting in an amendment to Northern's New Hampshire Division 2006 Annual Report (Attachment B),

(3) 12 months ending April 2007, which illustrates both the corrections to the most recently filed Schedule 26 that was the basis for the Audit Staff's original inquiry as well as the positive result Northern has made in reducing its high reported UAFG levels (Attachment C),

(4) 12 months ending October 2007, resulting in an amendment to Northern's New Hampshire Division Summer 2007 CGA reconciliation filing made on January 31, 2008 (Attachment D), and

(5) 12 months ending December 2007 (Attachment E).

III. Amendments to Schedule 26 to Derive Monthly Allocation Factors to Allocate Total Portfolio Commodity Costs and Gas Cost Credit between Northern's Service Divisions

Northern uses - and the Commission has approved - the use of gas flows metered into each division to allocate monthly commodity costs between the Northern - New Hampshire division and the Northern - Maine division. In practice, if the relationship of the gas flows between the two divisions, based on business judgment, appeared questionable, the Company substituted firm sales (plus Company-use and forecast of UAFG based on historical levels before any metering problem) as the basis. The use of firm sales is reasonable and appropriate because it assures that the allocation of commodity costs are proportional to the gas consumed by customers in each of the Company's operating and service Divisions, and not solely dependent on the purchased volumes billed by delivering pipelines.

Northern tracks and reports the gas flows into each division as recorded through Granite meters, less interruptible sales and Company-use attributable to each division. As a result of its investigation and its amendment to Schedule 26, Northern now derives the percentage of Northern's total firm sendout between the Northern - New Hampshire division and the Northern - Maine division, and therefore establishes the monthly commodity cost allocation factors. Attachment E provides the recent 12-months ending December 2007, and shows the monthly metered volumes into the respective divisions ("Throughput In") and each division's end-use volumes recorded through Company meters and consistent with those volumes reported in the Company's financial statements ("Throughput Out"). Northern will begin using this schedule for the month of November 2008 to identify the monthly firm sendout allocation factors to be applied to total Northern's commodity gas costs each month.

IV. Erroneous Billing Volumes

As a result of Northern's investigation, Northern, Granite and Spectra determined that volumes of gas were erroneously recorded as having been actually consumed downstream of the Newington Gate Station, as a result of Spectra modifying the Newington Gate Station meter "pulse factor" in May 2005. The erroneous pulse factor set by Spectra affected the second meter run at the Newington Gate Station ("Run 2"). The meter pulse error caused Granite to be billed for an additional 758,702 dekatherms ("Dth") of natural gas commodity between June 2005 and December 2007, with Granite then billing Northern for an equivalent amount. See Attachment F.

Run 2 is not the primary meter run at the Newington Gate, so complicating the UAFG investigation was the fact that volumes measured through Run 2 were capable of fluctuating substantially from time to time depending on demand and other operational factors. Once Spectra identified the pulse factor error, it issued its calculation of the volumes of gas that were erroneously billed Granite. In confirming Spectra's calculation of the metering discrepancy, Northern calculated the percentage error between the original and updated "Run 2" volumes, and found that these percentages were reasonably consistent from May 2005 to the point when the error was corrected in December 2007. Granite and PNGTS also confirmed these calculations. Accordingly, Northern, Granite and PNGTS accepted Spectra's revised metered volumes as appropriate in light of the corrected meter "pulse factor" of Run 2. The differential between the revised metered volumes and the amount billed by PNGTS to Granite, and Granite to Northern, constitutes the amount of commodity to be returned to Northern's customers.

V. Reimbursement of In-Kind Volumes

With this letter, Northern is pleased to inform the Commission that a final resolution has been obtained with the counterparties relative to the UAFG levels caused by Spectra's metering error. Compensation is to be provided in the form of in-kind volumes under the Granite Federal Energy Regulatory Commission ("FERC") tariff and related agreements that are in place between Granite and Northern. This resolution is a result of extensive negotiations between Northern, Granite and PNGTS. Ultimately under the resolution, Northern's customers will receive in-kind volumes of natural gas, over approximately eighteen consecutive months, which will match the volumes that were incorrectly metered.

Since the onset of Northern's negotiations with Spectra, Northern understood and informed the Commission that the ultimate reimbursement (whether in cash or in-kind) would be made to Northern via Granite, and subsequently passed back to Northern's customers, and that this arrangement (in whatever form it ultimately took) required the assent and participation of PNGTS. As agent for PNGTS, Spectra is responsible for all operations associated with the Newington Gate Station and, up until June 1, 2006, was responsible for administering the Operational Balancing Agreement for the Newington Gate Station. PNGTS owns all meter capacity at the Newington meter and, since June 1, 2006, has held the OBA contract with Granite and therefore is ultimately responsible for the resolution of operational imbalances.

After analyzing all alternatives, the resolution of this issue under relevant tariffs, as insisted by PNGTS, could only be achieved through imbalance protocols under each participant's tariff. Accordingly, for this reason, as well as the inherent risks, costs and time delays associated with litigation, the best outcome for Northern's customers was the negotiated outcome between Granite and PNGTS.

After several different potential solutions were discussed to effectuate a refund in the context of settlement negotiations, PNGTS and Granite finally reached an agreement on August 28, 2008 that will provide in-kind compensation for Northern's customers as a result of the metering error. See Attachment G ("PNGTS-Granite Agreement"). PNGTS will deliver to Granite a total of 758,702 Dth of natural gas, in-kind and at no charge (including, but not limited to, fuel, shrinkage, and transportation), to the Newington Gate. The in-kind deliveries will be managed by, and subject to, the terms and conditions regarding Management Variance of Section 7.3 of the General Terms and Conditions of the PNGTS FERC-regulated tariff. The in-kind deliveries to Granite are expected to commence no later than December 1, 2008. Granite will contact PNGTS to confirm daily nominations of the in-kind deliveries, or such other quantity mutually agreeable to PNGTS and Granite. Only under limited operational circumstances (identified in Attachment H) may PNGTS alter or curtail the scheduled deliveries. If deliveries are curtailed for any reason, PNGTS' in-kind deliveries will continue past the 18 months in order to ensure all in-kind reimbursement is made to Granite.

The in-kind deliveries constitute an imbalance repayment from PNGTS to Granite under the PNGTS tariff. Granite acknowledges that the imbalance repayment is for the benefit of Northern under the Operational Balancing Agreement ("OBA") between Granite and Northern dated November 1, 1993. Accordingly, Granite will deliver to Northern a total of 758,702 Dth of natural gas, in-kind and at no charge under the same terms and conditions contained in the PNGTS-Granite Agreement and Granite's existing OBA with Northern. See Attachment H ("Granite Memorialization"). Granite has authorized Northern to be Granite's designee for the purpose of contacting PNGTS regarding Northern's daily nominations of the in-kind deliveries. Once the nominations are confirmed, consistent with the OBA, Granite will make those daily volumes available at the designated delivery points until the full 758,702 Dth of natural gas has been delivered to Northern's customers.

VI. Credit of In-Kind Volumes Against the 2008 – 2009 Winter COG

Northern will reflect the receipt of in-kind volumes at no cost from Granite, resulting in a reduction or credit to the commodity cost of gas associated with satisfying firm demand no later than December 1, 2008. Because the metering problem at the Newington Gate Station and the resulting overstated volumes and associated commodity costs impacted Northern's New Hampshire Division and its Maine Division at the June 2005 through November 2007 historical monthly allocation factors, the Company has used these historical factors to determine the allocation of the in-kind volumes and associated no-cost benefit to each Division. See Attachment I, which shows the monthly example of the in-kind volumes flowing through to Northern's customers and the derivation of the allocation factors between the two divisions based on the 29 months at the cashout price.

VII. Conclusion and Request for Approval

Consistent with the terms of the OBA and Granite's tariff, Northern proposes to commence the daily nominations of the repayment quantities and in-kind deliveries no later than December 1, 2008. The repayment quantities will be credited to Northern's commodity cost of gas to both its Maine and New Hampshire Divisions in relation to how the metering error volumes were allocated to each Division. Northern will be pleased to file semi-annual reports with the Commission indicating the status of repayment of the in-kind quantities, and explaining issues that may arise during the 18-month repayment period. Northern hereby respectfully request Commission approval of this proposed corrective action as a final resolution of this matter, prior to the commencement of the in-kind deliveries by PNGTS.

Thank you for your assistance. Please return one copy of this filing to me bearing the Commission receipt stamp in the envelope provided for your convenience.

Very truly yours,

Patricia M. French

Enclosures

cc: Edward Damon, Staff Attorney
Steve Frink, NHPUC
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