

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 07-102

NORTHERN UTILITIES, INC.

2007/2008 Winter Cost of Gas

**Order Regarding the Cost of Gas Rates and Local Distribution
Adjustment Clause and Other Rates**

ORDER NO. 24,798

October 31, 2007

APPEARANCES: Susan S. Geiger, Esq. of Orr and Reno P.A., on behalf of Northern Utilities, Inc.; Kenneth E. Traum of the Office of the Consumer Advocate, on behalf of residential ratepayers; and F. Anne Ross, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 17, 2007, Northern Utilities, Inc. (Northern) filed its proposed cost of gas (COG) and other rate adjustments for the period November 1, 2007 through April 30, 2008, applicable to Northern's natural gas operations in the seacoast area. The filing was accompanied by supporting attachments and the direct testimony of Ronald D. Gibbons, manager of regulatory accounting, and Francisco C. DaFonte, director of energy supply services. Previously, on September 14, 2007, Northern filed environmental response cost information in support of the Company's proposed local distribution adjustment clause (LDAC) rate. On October 10, 2007, Northern's filed a motion for confidential treatment of data responses related to certain supplier pricing, contract quantity and cost information.

On September 19, 2007, the Commission issued an order of notice scheduling a hearing for October 16, 2007. On September 19, 2007, the Office of the Consumer Advocate (OCA)

entered an appearance on behalf of residential ratepayers pursuant to RSA 363:28. There were no intervenors in this docket.

On October 12, 2007, Northern filed with the Commission a revised 2007-2008 Winter COG, including supporting attachments. The hearing before the Commission was held as scheduled on October 16, 2007.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern witnesses Gibbons and DaFonte addressed the following issues: (1) calculation of the COG rates, (2) reasons for the decrease and customer bill impacts, (3) supply reliability and price stability, (4) the LDAC rates, (5) the transportation supplier balancing charge, peaking service demand charge and capacity allocators, (6) re-entry fee unit charge tariff filing and (7) unaccounted for gas.

1. Calculation and Impact of the Firm Sales COG Rates

According to Northern's revised COG filing, the proposed 2007-2008 winter average residential firm sales COG rate of \$1.0610 per therm comprises anticipated direct gas costs, indirect gas costs and various adjustments. Anticipated direct gas costs total \$40,436,645 and are decreased by adjustments totaling \$2,858,939 (made up of a prior period under-collection of \$2,770,431, refunds of \$20,377 and interest of \$68,131). Anticipated indirect gas costs total \$1,010,544, consisting of production and storage capacity, working capital, bad debt and overhead charges. The gas costs to be recovered over the 2007-2008 winter period (anticipated direct and indirect costs and adjustments) total \$38,588,251 and are divided by projected winter period sales of 36,370,060 therms to arrive at Northern's proposed average COG rate.

Using the method approved in *Northern Utilities, Inc.*, Order No. 24,615 (2006), Northern applied updated load factor ratios to the unit demand cost component, multiplied by the correction factor, and added the remaining average COG unit rate to determine the proposed commercial and industrial (C&I) low winter use COG rate of \$0.9801 per therm and the C&I high winter use COG rate of \$1.1289 per therm.

Northern's proposed 2007/2008 winter COG residential rate of \$1.0610 per therm represents a decrease of \$0.2952 per therm from the average weighted 2006-2007 winter COG rate of \$1.3562 per therm. The combined impact of the proposed firm sales COG and LDAC rates is a decrease in the typical residential heating customer's winter gas costs of \$281, which represents a 17 percent decrease from last winter's rates.

2. Reasons for the decrease

According to Northern, the decrease in the proposed COG rate from last winter can be attributed to lower commodity cost projections and a \$2.8 million prior period over-collection compared to a \$2.1 million under-collection in last year's rates.

3. Supply Reliability and Price Stability

Northern testified that its gas supply portfolio focuses on supply and resource diversity, as well as on economic efficiencies and resource flexibility. Northern testified that along with pre-purchased supplies in storage, a substantial volume of index-priced supplies have been hedged for this winter pursuant to its hedging plan, effectively locking in prices for approximately 80 percent of its winter period supply. As a result of Northern's storage supplies and hedging, 20 percent of its forecasted winter period supply is subject to changes in the natural gas commodity market.

4. LDAC Rates

Under Northern's proposal, surcharges to be included in the LDAC rates are related to environmental costs to remediate manufactured gas plant (MGP) sites, energy efficiency programs and the residential low-income assistance program (RLIAP).

In *Northern Utilities, Inc.*, 83 NH PUC 580 (1998), the Commission approved a recovery mechanism for environmental response costs associated with former MGP sites. These costs are filed during Northern's winter COG proceedings for Commission review and are recovered over a seven year period. Northern filed for recovery of \$186,594 in unamortized deferred environmental response costs incurred from July 1, 2006 through June 30, 2007. The environmental response costs, when increased by a prior period under-collection of \$11,351 and combined with environmental response costs approved for recovery in prior years and not yet recovered, total \$332,034 of costs to be recovered from ratepayers over the upcoming year. This yields a proposed environmental response cost rate of \$0.0052 per therm to be applied from November 1, 2007 through October 31, 2008.

In *Energy Efficiency Programs for Gas Utilities*, 87 NH PUC 892 (2002), the Commission approved the implementation of energy efficiency programs for New Hampshire's natural gas utilities for a three-year period. The Commission approved the continuation of Northern's energy efficiency programs for an additional three years in *Northern Utilities, Inc.*, Order No. 24,630 (2006). The LDAC rate includes a proposed energy efficiency surcharge of \$0.0122 per therm for residential customers and \$0.0066 per therm for C&I customers, effective November 1, 2007 through October 31, 2008.

In *New Hampshire Natural Gas Utilities*, 90 NH PUC 358 (2005), the Commission approved implementation of a pilot RLIAP for New Hampshire's natural gas utilities. The

Commission approved continuation of the RLIAP in *Northern Utilities, Inc.*, Order No. 24,669 (2006). The estimated cost of the RLIAP for the upcoming year is \$207,074 and is offset by a prior period over-collection \$87,033. The LDAC rate includes a proposed RLIAP surcharge of \$0.0020 per therm for all firm sales and transportation customers, effective November 1, 2007, through October 31, 2008.

5. Revised Transportation Charges and Allocators

In *Gas Restructuring-Unbundling and Competition in the Natural Gas Industry*, 86 NH PUC 131 (2001), the Commission approved a supplier balancing charge and peaking service demand charge to be updated once a year, commencing with the November billing month. Supplier balancing charges are the charges that suppliers are required to pay Northern for balancing services as Northern attempts to meet the shifting loads for the supplier's customer pools. Peaking service demand charges reflect Northern's peaking resources and associated costs.

Northern proposes to increase the supplier balancing charge from \$0.78 per MMBtu to \$0.80 per MMBtu of daily imbalance volumes and to decrease the peaking service demand charge from \$18.97 per MMBtu of peak maximum daily quantity (MDQ) to \$17.27 per MMBtu of peak MDQ. The changes are based on an update of volumes and costs used in calculating the charges. Finally, the capacity allocator percentages, which are used to allocate pipeline, storage and local peaking capacity to a customer's supplier under the mandatory capacity assignment required by New Hampshire for firm transportation service, have been updated to reflect Northern's supply portfolio for the upcoming year.

6. Re-Entry Fee Unit Charge Tariff Filing

In *Northern Utilities, Inc.*, Order No. 24,627 (2006), the Commission approved a re-entry fee for grandfathered transportation customers returning to firm sales service. On December 11, 2006, Northern submitted its re-entry fee bill adjustment compliance filing, which set out the terms of the re-entry fee as approved by the Commission. While this tariff provides all the provisions associated with administering the re-entry fee, the tariff did not contain the unit capacity cost from which the fee is calculated. At the request of Staff, Northern filed a re-entry fee tariff sheet that sets out the re-entry fee unit charge of \$5.572 per MMBtu per month effective November 1, 2007 through October 31, 2008 based on the updated annual average unit cost.

7. Unaccounted for Gas

Unaccounted for gas in the 2007-2008 winter COG forecast is approximately 1 percent of firm sales, compared to a reported 7.59 percent for the 12-month period ending April 2007. Northern questions whether it is experiencing actual losses of 7.59 percent and has opened an internal investigation to determine the actual unaccounted for gas usage for that period, the cause of any misreporting and a solution. According to Northern, the investigation has revealed no operational issues and is focusing on the automated computer program that calculates the unaccounted for gas as the possible source of the problem. According to Northern, it is likely that the program contains an error that has resulted in the unaccounted for gas being overstated.

Northern stated that it does not believe that firm sales customers have been affected by this issue but it will determine that as part of its investigation. Northern will report the results of its investigation to the Staff by year end and if it is determined that firm sales customers have

been overcharged as a result of a reporting error, the overcharges will be refunded through a credit.

B. OCA

The OCA supported Northern's proposed updated cost of gas with the understanding that the issue of unaccounted for gas will be held in abeyance.

C. Staff

Staff recommended approval of Northern's proposed rates. Staff stated that it had reviewed Northern's demand and supply forecasts for the upcoming winter period and found that the plans are consistent with those filed and approved in previous winter periods. Staff stated that Northern's supply portfolio is sufficiently diversified to provide reliable service through the winter period and Northern's purchasing and hedging policies provide a reasonable level of price stability.

Staff noted that a COG reconciliation of the forecasted and actual costs will be filed prior to next winter's COG and any concerns that may arise related to the 2007-2008 gas planning and dispatch will be addressed in that 2008-2009 winter COG proceeding. With the exception of the environmental remediation expenses, all other gas costs from the reconciliation for last winter had been reviewed by the Commission's Audit Staff and found to be reasonable and accurately reported. The environmental remediation expenses are to be audited in the near future and if any exceptions are found that may have a material impact on the environmental response cost rate, Staff will file a report prior to the 2008 summer COG for Commission consideration in that proceeding.

Staff recommended Commission approval of the proposed re-entry fee tariff page filed by Northern. The new tariff page provides the re-entry rate and will enable customers considering a change in service to calculate the cost of that service.

The unaccounted for gas losses for the 12-month period through April 2007, as reported in the winter 2006-2007 cost of gas reconciliation, is an issue that concerns Staff. First and foremost, the Company has stated that there is no indication this is due to gas leakage and therefore is not a gas safety issue. The Company expressed a strong determination to find answers to this question and promised to report back to Staff in a timely manner. Staff expects a detailed report, including likely and known causes, corrective actions to be taken, and targets for future 12-month unaccounted for percentage levels in its New Hampshire Division. Staff accepted the Company's commitment to report back on the unaccounted for gas inquiry by year end.

III. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that Northern's proposed COG rates and surcharges will result in just and reasonable rates as required by RSA 378:7. Accordingly, we adopt the Staff recommendation and approve Northern's proposed 2007-2008 winter COG rates, LDAC rate components (including environmental cost recovery surcharge, energy efficiency surcharge, and RLIAP surcharge), transportation supplier balancing rate, transportation peaking service demand rate, transportation capacity allocators, and re-entry fee.

We understand that Northern is investigating the amount of the unaccounted for gas reported in its 2006-2007 winter COG reconciliation. Accordingly, we require Northern to file a detailed report with the Commission that determines: the actual unaccounted for gas figures for the period; the cause of any misreporting; whether, and to what extent firm sales customers have

been harmed; and, corrective actions to make customers whole and prevent future reporting errors.

Further, we note that the proposed environmental response cost recovery surcharge is based in part on July 2006 through June 2007 costs that have not yet been audited. Therefore, we will consider recommendations by the Staff regarding possible adjustments to those costs that may be filed with the Commission prior to the 2008-2009 winter COG.

Lastly, we approve the proposed re-entry fee tariff page that reflects the rate calculation and rate. The new tariff page will enable customers considering a change in service to better determine the cost of such a change.

IV. MOTION FOR CONFIDENTIAL TREATMENT

In connection with its COG filing, the Company moved for confidential treatment of certain contractual information, including commodity costs, contained in its response to Staff data request 1-2. The Company asserts that this material contains trade secrets that should not be subject to public disclosure.

The Right-to-Know Law provides each citizen with the right to inspect all public records in the possession of the Commission. *See* RSA 91-A:4, I. The statute contains an exemption, invoked here, for “confidential, commercial or financial information.” RSA 91-A:5, IV. Our applicable rule, Puc 203.08, is designed to facilitate the implementation of the statute as it has been interpreted by the courts. In most cases, a balancing test is used to determine whether confidential treatment should be granted. *See e.g., Union Leader Corp. v. New Hampshire Housing Fin. Auth.*, 142 N.H. 540, 553-554 (1997).

We note that no parties have objected to the motions for confidential treatment and that the information for which such treatment is sought is similar to information for which the

Commission has granted confidential treatment in the past. In this case there is a possibility that the identification of suppliers and costs would make it difficult for Northern to negotiate with other suppliers in the future. Conversely, public disclosure of this information would shed relatively little light on how the Commission discharges its responsibilities in COG proceedings. In balancing the interests for and against public disclosure of the information for which confidential treatment is sought, we find, on the basis of the record in this docket, that the interests of Northern, and its customers, in non-disclosure outweigh the public's interest in obtaining access to the information. We therefore grant the motions for confidential treatment. Consistent with our practice, the confidentiality provisions of this order will be subject to the ongoing rights of the Commission, on its own motion or on the motion of Staff, any party or any other member of the public, to reconsider in light of RSA 91-A, should circumstances so warrant.

Based upon the foregoing, it is hereby

ORDERED, that Northern's proposed 2007/2008 Winter period COG rates for the period November 1, 2007 through April 30, 2008 are APPROVED, effective for service rendered on and after November 1, 2007 as follows:

	Cost of Gas	Minimum COG	Maximum COG
Residential	\$1.0610	\$0.8488	\$1.2732
C&I, Low Winter Use	\$0.9801	\$0.7841	\$1.1761
C&I, High Winter Use	\$1.1289	\$0.9031	\$1.3547

FURTHER ORDERED, that Northern may, without further Commission action, adjust the approved COG rates 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 20 percent of the approved unit cost of gas, i.e., the minimum and maximum rates as set above; and it is

FURTHER ORDERED, that Northern (1) 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 business days prior to the first day of the subsequent month and (2) include revised tariff pages 38 & 39 - Calculation of Cost of Gas Adjustment and revised rate schedules if Northern elects to adjust the COG rates; and it is

FURTHER ORDERED, that the over- or under-collection shall accrue interest at the monthly prime lending rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates; and it is

FURTHER ORDERED, that Northern's proposed 2007-2008 LDAC per therm rates for the period November 1, 2007 through October 31, 2008 as filed in Proposed Eleventh Revised Page 56, Superseding Tenth Revised Page 56, are APPROVED, effective for service rendered on and after November 1, 2007 as follows:

	Energy Efficiency	Envir. Response Costs	Residential Low Inc. Assistance	LDAC
Residential Heating	\$0.0122	\$0.0052	\$0.0020	\$0.0194
Residential Non-heating	\$0.0122	\$0.0052	\$0.0020	\$0.0194
Commercial & Industrial	\$0.0066	\$0.0052	\$0.0020	\$0.0138

FURTHER ORDERED, that Northern's proposed transportation supplier balancing charge of \$0.80 per MMBtu of daily imbalance volumes, as filed in Proposed Seventh Revised Page 154, Superseding Sixth Revised Page 154, is APPROVED; and it is

FURTHER ORDERED, that Northern's proposed transportation peaking service demand charge of \$17.27 per MMBtu of peak MDQ, as filed in Proposed Seventh Revised Page 154, Superseding Sixth Revised Page 154, is APPROVED; and it is

FURTHER ORDERED, that Northern's proposed annual firm sales service re-entry fee per unit charge of \$66.86 per MMBtu as filed in Propose Original Page 170-b, is APPROVED; and it is

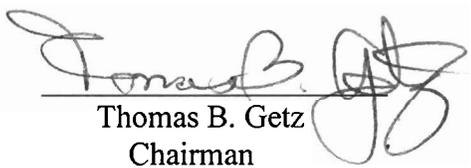
FURTHER ORDERED, that Northern's proposed transportation capacity allocators as filed in Proposed Sixth Revised Page 169, Superseding Fifth Revised Page 169, are APPROVED; and it is

FURTHER ORDERED, that Northern file a detailed report by December 31, 2007 regarding the results of its investigation into unaccounted for gas as reported in its 2006-2007 winter COG reconciliation filing; 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.

FURTHER ORDERED, that Northern's motion for protective order and confidential treatment of certain information submitted in discovery is GRANTED, provided however that the determination as to protective treatment contained herein shall be subject to the ongoing authority of the Commission, on its own motion or on the motion of Staff, any party or any other person, to reconsider this order in light of RSA 91-A should circumstances so warrant.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of
October, 2007.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner

Attested by:


Lori A. Normand
Assistant Secretary

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10/31/07 Order No. 24,798 issued and forwarded to all parties.
Copies given to PUC Staff.

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FILING INSTRUCTIONS: PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),

WITH THE EXCEPTION OF DISCOVERY, FILE 7 COPIES (INCLUDING COVER LETTER) TO:

DEBRA A HOWLAND
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