DG 00-193

ENERGYNORTH NATURAL GAS, INC.

2000/2001 Winter Cost of Gas

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

O R D E R N O. 23,580

October 31, 2000

APPEARANCES: McLane, Graf, Raulerson, and Middleton by Steven V. Camerino, Esq., on behalf of EnergyNorth Natural Gas, Inc.; Office of the Consumer Advocate by Michael Holmes, Esq. on behalf of residential ratepayers; and Larry S. Eckhaus, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 15, 2000, EnergyNorth Natural Gas, Inc. (ENGI) filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) for the 2000/2001 winter period. Accompanying its COG filing was a Motion for Protective Order and Confidential Treatment, which was granted September 25, 2000 by Order No. 23,559. ENGI's filing included the direct testimony and supporting attachments of Theodore E. Poe, Senior Resource Planning Consultant with Boston Gas Company, Mark G. Savoie, Manager of Regulatory Affairs with ENGI, and Donald E. Carroll, Vice President of Gas Supply with ENGI. On October 4, 2000, ENGI filed a letter informing the Commission of the rate ENGI intended to offer through its winter period Guaranteed Price

Protection Program (GPPP). An Order of Notice was issued on September 20, 2000, setting the date of the hearing for October 19, 2000.

ENGI proposed: a Firm Sales COG rate of $0.6351 per therm (allowing for monthly, cumulative adjustments not to exceed a maximum rate of $0.6986 per therm and a minimum rate of $0.5716 per therm); a Firm Transportation Cost of Gas (FTCOG) rate of $0.0039 per therm; a winter surcharge to recover the 280 Day Sales margin of $0.0011 per therm; two surcharges, totaling $0.0136 per therm, to recover environmental remediation costs related to its former manufactured gas plant (MGP) sites operated in New Hampshire; and Conservation Charges of $0.0006 per therm for Domestic Heating customers and $(0.0001) per therm for Commercial & Industrial customers.

On October 9, 2000, Staff filed the Direct Testimony of Stephen P. Frink, Assistant Finance Director, recommending approval of the proposed COG rates and surcharges. Mr. Frink also proposed revising the mechanism that allows ENGI to implement monthly changes, without further Commission action, to provide ENGI greater flexibility in making adjustments.

On October 17, 2000, ENGI filed the Direct Testimony of Alexander G. Taft, Director of Environmental Management for Eastern

Enterprises, to update the Commission on environmental matters affecting ENGI.

On September 20, 2000, the Office of the Consumer Advocate (OCA) filed a Notice of Intent to Participate in this docket on behalf of residential utility consumers pursuant to the powers and duties granted to the OCA under RSA 363:28,II. There were no other intervenors in this docket. A duly noticed hearing on the merits was held at the Commission on October 19, 2000.

II. POSITIONS OF THE PARTIES AND STAFF

A. EnergyNorth Natural Gas, Inc.

Witnesses for ENGI addressed the following issues: 1) Calculation of the Firm Sales COG and the impact on customer bills; 2) the reason for the increased rate and merger savings; 3) hedging strategy and the fixed price plan; 4) calculation of the FTCOG; 5) environmental remediation surcharges; and 6) conservation charges.

1. Calculation and Impact of the Firm Sales COG

The proposed 2000/2001 Winter COG rate of $0.6351 per therm was calculated by decreasing the anticipated cost of gas of $52,280,229 for net adjustments of $884,458 and dividing the resulting anticipated costs of $51,395,771 by projected therm sales of 80,923,695.

ENGI’s proposed 2000/2001 Winter COG rate of $0.6351 per therm for Firm Sales represents an increase of $0.1730 per therm from the 1999/2000 weighted Firm Sales COG rate of $0.4621 per therm.

The impact of the proposed firm sales COG rate and revised surcharges is a monthly increase on the average residential heating customer’s bill of $23, a 20.5% increase as compared to last winter.

2. Reason for the Increased COG and Merger Savings

The increase in the COG can be attributed to a substantial increase in the natural gas and supplemental fuels commodity prices. Mr. Carroll stated that the natural gas prices as quoted on the New York Merchantile Exchange (NYMEX) were the highest they have ever been since the NYMEX began trading natural gas contracts ten years ago. Mr. Carroll explained that, among other reasons, production had not kept up with demand over the past couple of years, resulting in the unprecedented high prices. An increase in natural gas exploration and drilling is expected to alleviate the situation, though probably not during the short term period of this year's heating season.

Mr. Poe testified that the approximately $2 million in merger related gas cost savings forecasted in the Eastern

Enterprises/KeySpan Corporation merger filing (Docket DG 99-193) were not included in the proposed COG rate filing. While merger related gas cost savings are still anticipated, those savings will not be realized until certain contracts, currently under negotiation, are finalized. ENGI proposed to pass along those savings through the monthly rate adjustment mechanism.

3. Hedging Costs and the Fixed Price Plan

In Order No. 22,699, *Re EnergyNorth Natural Gas, Inc.* 82 NHPUC 635 (1997), the Commission approved ENGI's Natural Gas Price Risk Management Policy (hedging policy) which was designed to mitigate natural gas price volatility that had substantially increased gas costs in the past. In Order No. 22,915, *Re EnergyNorth Natural Gas, Inc.* 83 NHPUC 261 (1998), the Commission approved modifications to ENGI's hedging policy to allow for the use of "collars" which essentially establishes the maximum and minimum price at which ENGI will buy gas contracts on the commodities market.

Due to extremely high futures prices, ENGI did not hedge any of its Gulf Coast supplies for this winter, although up to 50% could have been hedged under its hedging policy. Mr. Carroll testified that ENGI believed, and still believes, that natural gas is over-valued. ENGI did not want to lock in a high rate; it wanted to be unable to take advantage of lower prices in the event natural gas prices do drop.

In Order No. 22,953 *Re EnergyNorth Natural Gas, Inc.* 83 NHPUC 344 (1998), the Commission approved ENGI’s GPPP to enable customers who desire price certainty the ability to purchase gas at a set price for the winter period. In *Re EnergyNorth Natural Gas, Inc.,* 84 NH PUC 404 (1999), the Commission approved extending the plan with minor modifications. Approximately six percent (6%) of the estimated weather normalized firm therm sales have been offered under the GPPP and ENGI has contracted a fixed price for such therms. The price offered under the plan is $0.6408 per therm, or $0.0057 per therm more than the current proposed Firm Sales COG rate of $0.6351 per therm, and is available for customers who register for it through November 10, 2000.

4. Firm Transportation Cost of Gas

ENGI proposed a FTCOG rate of $0.0039 per therm based on anticipated costs of $34,854 for the winter period adjusted by prior period under-collections of $8,003. The net amount of $42,857 to be collected from transportation customers was divided by projected firm transportation throughput of 10,918,520 therms to calculate the proposed rate.

ENGI’s proposed 2000/2001 Winter FTCOG rate of $0.0039 per therm represents an increase of $0.0026 per therm from the 1999/2000 Winter FTCOG rate of $0.0013 per therm.

5. Environmental Remediation

By Order No. 21,710, *Re EnergyNorth Natural Gas, Inc.* 80 NHPUC 382 (1995), the Commission approved recovery of environmental remediation costs associated with the Gas Street Relief Holder over a seven year period and required ENGI to make any necessary adjustments to the surcharge during its winter COG proceeding each year. The $0.0040 per therm surcharge needed to recover the remaining costs was determined by dividing the unrecovered costs as of September 30, 2000 by the remaining 1.67 years and dividing by 129,131,000, the weather normalized therm sales for the 12 months ended September 30, 2000.

By Order No. 22,943, *Re EnergyNorth Natural Gas, Inc.* 83 NHPUC 324 (1998), the Commission approved recovery of additional costs associated with the environmental remediation of former MGP sites. The Commission further established a cost review mechanism and step adjustment for recovery of future costs and required that those be filed during ENGI's winter COG proceedings. Additional costs of approximately $3.6 million resulted in a surcharge of $0.0096 per therm, an increase of $0.0024 per therm over the current surcharge of $0.0072 per therm.

6. Conservation Charges

The proposed Conservation Charges are designed to collect lost net margins that resulted from discontinued Demand Side Management programs and the estimated over or under recovery balances with applicable interest. ENGI proposed the following Conservation Charges for effect November 1, 2000: Domestic Heating at $.0006 per therm, identical to last year's surcharge; and Commercial General, Commercial Heating, Industrial General, Large Volume 70, and Large Volume 90 at ($0.0001) per therm, a decrease of $0.0005 per therm.

B. OCA

The OCA did not oppose ENGI’s proposed COG rates and surcharges and supported Staff’s proposed change to the mechanism that would allow for monthly fluctuations in the approved COG of up to 20% without further Commission action. As a reconcilable item, prudently incurred gas costs to be recovered from residential ratepayers would be the same under both the current and proposed mechanism.

The OCA expressed concern that ENGI, through its gas purchasing policies, had not done enough to reduce gas costs and provide rate stability. The OCA averred that residential customers who are on fixed incomes can not easily absorb such large increases in fuel costs. The OCA suggested that making natural gas purchases for the winter in each of the summer months would result in an average price and reduce some of the price uncertainty that results from delay in securing supplies.

In closing statements, the OCA asked the Commission to direct ENGI to explore the possibility of revising the fixed price program to enable customers to participate much earlier than is currently the practice, and to discuss such changes with the Staff and OCA.

C. <u>Staff</u>

Staff testified that it had reviewed the filing and recommended approval of the proposed COG rates and surcharges, noting that fuel purchasing for the period is consistent with prior periods and adjustments to the surcharges comply with prior Commission Orders which initiated the surcharges and established the terms under which those surcharges are set.

Staff recommended that the mechanism which allows for a monthly adjustment without further Commission action be revised to allow changes of up to 20% (currently 10%) of the approved COG rate, with no limitation on the amount of change within that range (currently there is a limit of no more than 10% in any given month).

Mr. Frink testified that the revised mechanism would enable ENGI to better control over/under recoveries and reduce the need for more time consuming and costly revised COG proceedings when gas costs vary substantially within the period. Mr. Frink explained that the COG is a reconciling item and, therefore, the proposed changes to the mechanism would have no impact on the gas costs ultimately paid by ENGI’s customers, other than a reduction in related carrying costs.

Staff was concerned that ENGI had not taken all the necessary steps to secure GPPP supplies at the lowest cost, had not hedged any supplies and had delayed purchasing sufficient GPPP supplies and notifying its customers. Staff was also concerned about the role Boston Gas and Eastern Enterprises had played with regard to these matters, as well as environmental matters, and requested ENGI to explain under what provisions of the Merger Agreement and/or the Outsourcing Agreement (Exhibit 5), the subject of Docket DG 00-208, these services were provided.

III. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that ENGI’s proposed COG rates and surcharges will result in just and reasonable rates. Accordingly, we accept and approve ENGI’s proposed 2000/2001 Firm Sales Winter COG rate, the GPPP rate, the proposed 2000/2001 Firm Transportation Winter COG rate, the proposed 280 Day Margin Recovery Surcharge, Environmental Cost Recovery Surcharges, and Conservation Charges. However, as the costs associated with these rates are reconcilable and subject to continuing investigation, they are subject to Staff’s investigation of ENGI’s GPPP gas purchasing practices and hedging practices as described below.

Allowing ENGI greater flexibility to adjust the COG rate on a monthly basis without further Commission approval, as proposed by Staff and supported by both ENGI and the OCA, will enable ENGI to pass along increases or decreases in gas costs on a more timely basis. A decrease in gas costs can be anticipated due to merger related savings, as testified to by ENGI. The proposed revisions to the mechanism will better enable ENGI to pass along those savings as realized. Accordingly, we approve the proposed change to the mechanism that allows ENGI to adjust its monthly rate without further Commission action.

We recognize that a 20% increase in the COG rate, representing the total amount that gas costs would be allowed to fluctuate under the mechanism we are approving today, is substantial. The bill impact on an average residential heating customer of such an increase would be more limited: it would be approximately half that amount when the customer charge and delivery rate are factored into the total rate. While a 10% change in rates may be significant, in today's energy markets such fluctuations are, unfortunately, not uncommon. Through experience, it is hoped that customers become more aware of the volatility of natural gas prices and, if risk averse, avail themselves of the options ENGI has made available that allow its customers to limit the price risk, such as its fixed price and budget programs.

In light of the sharp and steady increases in natural gas prices, we share Staff's and the OCA's concerns regarding the effectiveness and timing of gas cost purchasing and hedging activities. We recognize that natural gas is a commodity and participation in the market is speculative, with inherent risks in whatever purchasing decisions are made. Based on the information available, ENGI has attempted to minimize gas costs by delaying purchases until necessary. Ultimately, time will tell the success of this policy. But clearly, given the unique market experience of this year, a review of ENGI's decision- making regarding its hedging and fixed price programs and practices is in order. Therefore, we direct ENGI to review those policies for possible modifications or alternatives that might help stabilize rates in the future and to discuss those policies with Staff and the OCA no later than February 28, 2000. We further direct Staff to investigate ENGI's gas purchasing decisions for the 2000/2001 GPPP program and hedging, and the role Eastern Enterprises and Boston Gas played in those decisions and to report to the Commission no later than December 29, 2000.

On October 26, 2000, ENGI responded to the record requests regarding the work performed by Messrs. Poe and Taft (Exhibit 6) regarding cost of gas issues and environmental issues, respectively. Although ENGI therein avers that "the services provided by Messrs. Poe and Taft generally are covered by the Outsourcing Agreement", we find that the Outsourcing Agreement contains numerous Schedules A which provide for specific services which do not include those provided by Mr. Poe and Mr. Taft. In addition, the Merger Agreement sections identified by ENGI, do not appear to provide for the direct hands-on services provided by either of these individuals. The Commission will consider these matters in its investigation in Docket DG 00-208.

Based upon the foregoing, it is hereby

ORDERED, that EnergyNorth Natural Gas, Inc.'s proposed Firm Sales Winter COG rate of $0.6351 per therm for the period of November 1, 2000 through March 31, 2001, is APPROVED, effective for bills rendered on or after November 1, 2000; 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 ENGI may, without further Commission action, adjust the approved COG rate of $0.6351 per therm upward or downward monthly based on ENGI's calculation of the projected over or under-collection for the period, but the cumulative adjustments shall not vary more than twenty percent (20%) from the approved unit cost of gas (or $0.1270 per therm); and it is

FURTHER ORDERED, that ENGI will 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. ENGI shall include a revised tariff page 20 - Calculation of Cost of Gas Adjustment for firm sales and revised firm rate schedules if ENGI elects to adjust the COG rate; and it is

FURTHER ORDERED, that EnergyNorth Natural Gas, Inc.'s proposed Guaranteed Price Protection Program - Fixed Winter Cost of Gas Rate of $0.6408 per therm for the period of November 1, 2000 through March 31, 2001, is APPROVED, effective for bills rendered on or after November 1, 2000; and it is

FURTHER ORDERED, that EnergyNorth Natural Gas, Inc.'s proposed Firm Transportation Winter COG rate of $0.0039 per therm for the period of November 1, 2000 through March 31, 2001, is APPROVED; and it is

FURTHER ORDERED, that EnergyNorth Natural Gas, Inc.'s proposed Conservation Charges of $0.0006 per therm for Domestic Heating and ($0.0001) per therm for Commercial General, Commercial Heating, Industrial General, Large Volume 70, and Large Volume 90, for the period November 1, 2000 through October 31, 2001, to recover lost net margins related to ENGI's discontinued Demand Side Management program is APPROVED; and it is

FURTHER ORDERED, that EnergyNorth Natural Gas, Inc.'s proposed surcharge of $0.0011 per therm for the period of November 1, 2000 through March 31, 2001, to recover the 280 Day Sales Margin is APPROVED; and it is

FURTHER ORDERED, that EnergyNorth Natural Gas, Inc.'s proposed surcharge of $0.0040 per therm for the period

November 1, 2000 through October 31, 2001, to recover the costs of the closure of the Gas Street Relief Holder is APPROVED; and it is

FURTHER ORDERED, that EnergyNorth Natural Gas, Inc.'s proposed surcharge of $0.0096 per therm for the period November 1, 2000 through October 31, 2001, to recover the cost of environmental remediation and pursuit of third party claims related to former manufactured gas plant sites in New Hampshire is APPROVED; and it is

FURTHER ORDERED, that ENGI 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 thirty-first day of October, 2000.

Douglas L. Patch Chairman	Susan S. Geiger Commissioner	Nancy Brockway Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary