

DE 98-124

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

Gas Restructuring

**Order Addressing Supplier Fees, Supplier Service Agreement,
and Capacity Allocators**

O R D E R N O. 23,824

November 1, 2001

I. PROCEDURAL HISTORY

On July 8, 1998, the New Hampshire Public Utilities Commission (Commission) issued an Order of Notice opening docket DE 98-124 to address issues concerning unbundling and competition in the natural gas industry. On September 14, 1998, the Commission authorized the formation of a collaborative (Collaborative)¹ to investigate the merits of further restructuring the provision of natural gas service in New Hampshire.

On March 10, 2000, EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England (KeySpan), Northern Utilities, Inc. (Northern), the Office of the Consumer Advocate (OCA), and the Staff of the Commission (Staff) filed the *New Hampshire Gas Collaborative Final Report* (Report) with

¹ The Collaborative was open to, and consisted of, all intervenors and Staff in Docket DE 98-124. For a complete list of intervenors, see Order No. 23,652 (March 15, 2001).

the Commission. The Report included recommendations for expanding competition in the commercial and industrial (C&I) sector and a model tariff for natural gas delivery service (Model Delivery Tariff).

On March 15, 2001, the Commission issued Order No. 23,652 accepting and approving the Report. KeySpan and Northern were ordered to incorporate the Model Delivery Tariff into their existing general tariffs. Further, the Report provided:

The Appendices to the model delivery tariff require cost information that will be developed as part of the rate redesign filings that the LDCs are currently preparing. Appendix A to the model delivery tariff is intended to be a Schedule of Administrative Fees and Charges. The fees and charges being proposed by the LDCs will be filed 90 days prior to the effective date for implementation. Similarly, the information required for Appendix B (Supplier Service Agreement) and Appendix C (Capacity Allocators) will be filed 90 days prior to the effective date. All parties and the Commission will then have an opportunity to review the filings before they become effective.

On August 10, 2001, KeySpan submitted a request for extension of time until August 28, 2001 to comply with provisions of Commission Order No. 23,652 pertaining to filing the Supplier Service Agreement and the Capacity Allocators. KeySpan stated that it did not expect to have any Supplier Fees and Charges or any company-specific changes to the Model

Delivery Tariff. On August 27, 2001, the Commission granted KeySpan's extension request.

On August 28, 2001, KeySpan filed its Supplier Service Agreement and Capacity Allocators, Appendices B and C, respectively. On September 25, 2001, Staff convened a meeting of the Collaborative to discuss the filings. On October 25, 2001, KeySpan filed revised Appendices A, B and C to reflect certain changes based on discussions held with Staff. On October 30, 2001, KeySpan filed revised Appendix A superceding the filing made on October 25, 2001.

KeySpan's Schedule of Administrative Fees and Charges includes a Supplier Balancing Charge of \$0.0110 per therm of daily imbalance volumes. KeySpan also intends to offer Capacity Mitigation Service pursuant to the Model Delivery Tariff at fifteen percent (15%) of the pro-rata share of the proceeds earned from the marketing of capacity contracts.

In its filing, KeySpan states that the purpose of the Supplier Balancing Charge is to recover a portion of the costs associated with KeySpan's balancing resources from suppliers taking Non-Daily Metered Service on behalf of their customers. KeySpan provides a balancing service to suppliers by managing the daily imbalance volumes quantified as the

difference between the sum of Non-Daily Metered customers' Adjusted Target Volumes (ATVs), which are based on the forecast of degree days, and the sum of customers' daily requirements based on actual degree days applied to KeySpan's consumption algorithms. KeySpan states that since the costs associated with KeySpan's balancing resources are recovered through the Cost of Gas (COG) clause, all revenues recovered through the billing of the Supplier Balancing Charge shall be credited to the COG.

KeySpan proposed Capacity Mitigation Service in accordance with the Model Delivery Tariff which reads:

Capacity Mitigation Service is available to Suppliers that have been assigned Capacity pursuant to Section 11 of this tariff. Such Suppliers shall have the option to take Capacity Mitigation Service from the Company for contracts that would otherwise be released to the Supplier in accordance with this tariff... The Company will market Capacity contracts designated by Suppliers for mitigation through the Capacity Mitigation Service. The Supplier shall receive a credit on its bill for Capacity Mitigation Service equal to the pro-rata share of the proceeds earned from the Company in exchange for such contract management.

KeySpan proposed to earn fifteen percent (15%) of the proceeds earned from the marketing of capacity contracts. This pro-rata share is the same as proposed by Northern for its Capacity Mitigation Service and, therefore, would be

consistent for all natural gas suppliers in New Hampshire.

KeySpan also filed its Capacity Allocators for the period November 1, 2001 through October 31, 2002. The Capacity Allocators are used under mandatory capacity assignment to allocate the costs of each unit of assigned capacity between Pipeline Capacity, Storage Withdrawal Capacity, and Peaking Capacity, in order to determine the appropriate price for each type of capacity. The Capacity Allocators were developed by segregating C&I demand into base use and remaining design day demand. Relative base use is the allocator for pipeline costs, and relative remaining design day use is the allocator for storage and peaking cost. This method is consistent with the gas cost allocation method implicit in KeySpan's revised Cost of Gas clause emanating from its rate redesign docket, DG 00-063, Order No. 23,675 (April 5, 2001). KeySpan proposed the following Capacity Allocators:

COMMERCIAL AND INDUSTRIAL		
	High Winter Use	Low Winter Use
Pipeline	27%	51%
Storage	21%	14%
Peaking	52%	35%

On October 30, 2001, Staff filed with the Commission a memorandum containing Staff's recommendation regarding KeySpan's Schedule of Administrative Fees and Charges, Supplier Service Agreement and Capacity Allocators. Upon Staff review and discussions with KeySpan, Staff recommended that the Commission approve the Appendices filed on October 25, 2001 and Appendix A as subsequently refiled on October 30, 2001, finding them to be consistent with the approved Model Delivery Tariff and KeySpan's revised Cost of Gas clause, where applicable. Staff stated that it will continue to review the supplier fees and charges, as well as the Supplier Service Agreement, to assess their impact on emerging competition and suppliers' willingness to participate in further gas competition in New Hampshire.

II. COMMISSION ANALYSIS

We have reviewed KeySpan's filings and Staff's recommendation. We will approve KeySpan's revised Schedule of Administrative Fees and Charges, Supplier Service Agreement and Capacity Allocators, as filed on October 25 and 30, 2001. We note that KeySpan revised its Schedule of Administrative Fees and Charges to include a Supplier Balancing Charge and a fee for Capacity Mitigation Service to address concerns raised by Staff during its review of KeySpan's filings. In the

absence of a more extensive cost allocation investigation, the use of allocators previously approved is reasonable.

The Model Delivery Tariff approved by the Commission in Order No. 23,652 requires a supplier to enter into a Supplier Service Agreement with KeySpan prior to the initiation of supplier service. KeySpan's Supplier Service Agreement is intended to be consistent with KeySpan's tariff. However, to the extent the terms and conditions of the Supplier Service Agreement are inconsistent with KeySpan's tariff, the terms of the tariff shall control.

The retention of 15 percent of the gross proceeds from sales of assigned capacity turned back to the Company while on the high side, is a reasonable sharing of the proceeds, to give the Company an incentive to maximize the proceeds of such sales.

It is important to identify that the issue presently before us is how the fees will be calculated. In Order No. 23,652, we addressed whether the services are appropriate. KeySpan has developed fees for only two services, one being cost-based for the Supplier Balancing Charge and the other being market-based for the Capacity Mitigation Service fee. Since KeySpan uses existing gas supply resources to provide the Supplier Balancing Service, it is appropriate that the

pricing be cost-based and revenues generated be returned to customers through the COG. Alternatively, suppliers may or may not opt to have KeySpan mitigate capacity contracts assigned to them under mandatory capacity assignment. KeySpan used a more market-based approach to pricing this service, therefore incenting them to get the most revenues for the suppliers' contracts as possible. We believe that KeySpan's attempt to differentiate its services and apply different pricing mechanisms is a good starting point for establishing fees for New Hampshire's gas suppliers. In order to monitor the development of competition, and the reasonableness of the fees proposed in this docket, we will require KeySpan to track its costs for the services previously described and requests for services not currently being offered.

Based upon the foregoing, it is hereby

ORDERED, that KeySpan's Schedule of Administrative Fees and Charges, Supplier Service Agreement and Capacity Allocators, Appendices A, B and C to the Model Delivery Tariff respectively, as filed on October 25, 2001, are APPROVED effective November 1, 2001; and it is

FURTHER ORDERED, that KeySpan shall track its costs for the services described above and requests for services not currently being offered; and it is

FURTHER ORDERED, that KeySpan shall file properly annotated tariff pages with the Commission within 14 days of the date of this order in accordance with N.H. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New
Hampshire this first day of November, 2001.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Claire D. DiCicco
Assistant Secretary