

DG 02-167

NORTHERN UTILITIES, INC.

Winter 2002-2003 Cost of Gas

Order Approving Cost of Gas Rates
and Local Distribution Clause

O R D E R N O. 24,076

October 28, 2002

APPEARANCES: Rubin & Rudman, L.L.P., by Maribeth Ladd, Esq., on behalf of Northern Utilities, Inc.; Kenneth Traum on behalf of the Office of Consumer Advocate; and Marcia A.B. Thunberg, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 16, 2002, Northern Utilities, Inc. (Northern) filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) for the period November 1, 2002 through April 30, 2003 for Northern's natural gas operations in the Seacoast area of New Hampshire. The filing was accompanied by supporting attachments and the Direct Testimony of Joseph A. Ferro, Manager of Regulatory Policy, and Francisco C. DaFonte, Director of Gas Control.

On September 20, 2002, the Commission issued an Order of Notice setting the date of the hearing for October 16, 2002.

On October 2, 2002, Northern filed a Motion for Protective Order and Confidential Treatment concerning negotiated pricing terms that Northern claims are commercially

sensitive and are not subject to public disclosure. This information was supplied in response to Staff Data Requests 1-1.c and 1-2.c.

On October 8, 2002, 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.

On October 11, 2002, Northern filed a revised Cost of Gas for the 2002/2003 Winter Period.

On October 14, 2002, Staff filed the Direct Testimony and supporting schedules of Utility Analyst Robert J. Wyatt.

A duly noticed hearing on the merits was held at the Commission on October 16, 2002.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern witnesses Joseph A. Ferro and Francisco C. DaFonte addressed the following issues: 1) calculation of the COG rates; 2) reasons for the increase and customer bill impacts; and 3) the Local Distribution Adjustment Clause.

1. Calculation and Impact of the Firm Sales COG Rates

According to Northern's revised COG filing, the proposed 2002-2003 Winter average cost of gas residential firm

sales rate of \$0.7200 per therm is comprised of anticipated direct gas costs, indirect gas costs and various adjustments. Anticipated direct gas costs total \$23,192,881 and are increased by adjustments totaling \$2,486,237 (deferred summer costs of \$1,254,455, prior period under collection of \$1,161,463 and interest of \$70,319). Anticipated indirect gas costs total \$962,856, consisting of production and storage capacity, working capital, bad debt and overhead charges. The gas costs to be recovered over the 2002-2003 winter period (anticipated direct and indirect costs and adjustments) total \$26,641,974 and are divided by projected winter period sales of 37,004,246 therms (based on 2001/2002 winter normalized sales and projected sales growth of 1.7 percent) to arrive at the average cost of gas rate. (Exh. 2 at 5-6).

Northern applied the ratios established in the Company's revenue-neutral rate redesign proceeding, see Order No. 23,674 (April 5, 2001), to the average residential COG rate to determine the Commercial/Industrial (C&I) Low Winter Use COG rate of \$0.5183 per therm and the C&I High Winter Use COG rate of \$0.7677 per therm.

Northern's proposed 2002/2003 Winter COG residential rate of \$0.7200 per therm represents an increase of \$0.0651 per therm from the average weighted 2001/2002 Winter COG rate of

\$0.6549 per therm. (Hearing Transcript of 10/16/02 (10/16/02 Tr.) at page 22 lines 1-7).

The impact of the proposed firm sales COG rate, Local Distribution Adjustment Clause (LDAC) and delivery rates is an increase in the typical residential heating customer's winter gas costs of \$74, a 7.6% increase compared to last winter.

2. Reasons for the Increase

According to Northern, the increase in the proposed COG rate compared to last winter's rate can be attributed to 1) an increase in the projected natural gas fuel prices; 2) an increase in demand charges; and 3) an increase in the prior period under-collection compared to the 2001/2002 Winter COG prior period under-collection.

3. Local Distribution Adjustment Clause

Under Northern's proposal, the surcharges that will be billed from November 1, 2002 through October 31, 2003 under the LDAC are rate case expenses, environmental costs to remediate Manufactured Gas Plant (MGP) sites and costs related to exiting the Wells LNG Peak Shaving Facilities contract. Credits to be passed through the LDAC over that period include a refund of revenues for the difference between temporary rates and permanent rates in Docket No. DG 01-182 and a refund of an over collection recovered through the conservation charge. The

surcharge to recover rate case expenses and credit a refund of revenues for the difference between the temporary and permanent rates are estimated to \$480,000 and \$980,000, respectively, resulting in a net credit of \$0.0096 per therm. In addition, as a result of the settlement reached in Northern's *Petition for Rate Increase*, Docket No. DG 01-182, conservation charges that were collected during the temporary rate period for lost revenues that resulted from discontinued Demand Side Management programs would also be refunded through a \$0.0003 per therm credit.

In *Northern Utilities, Inc.*, 84 NH PUC 669 (1999), the Commission approved a plan for the recovery of costs related to early termination of the Company's Wells LNG Peak Shaving Facilities contract. The settlement provided for recovery of \$401,139 in year four, commencing November 1, 2002. Northern's reconciliation of prior period costs and revenues resulted in an under-recovery which has been added to this year's recovery amount resulting in a surcharge of \$0.0108 per therm.

In *Northern Utilities, Inc.* 83 NH PUC 580 (1998), the Commission approved a recovery mechanism for environmental remediation costs (ERC) associated with former manufactured gas plant (MGP) sites. These costs are filed during Northern's winter Cost of Gas proceeding for Commission review and are

recovered over a seven year period. Northern filed for recovery of unamortized deferred environmental remediation costs of \$1,035,413, incurred from July 1, 2001 through June 30, 2002. The remediation expenses, combined with prior year's expenses approved for recovery and unamortized to date, third party recovery legal expenses of \$2,228, and a \$206,851 insurance recovery adjustment, result in \$830,790 to be recovered from ratepayers. This determined an ERC rate of \$0.0112 per therm to be applied for the period of November 1, 2002 through October 31, 2003.

B. OCA

The OCA did not oppose Northern's proposed COG rate and surcharges.

C. Staff

Staff witness Robert J. Wyatt testified as to Staff's position regarding Northern's long range sales forecast and supply portfolio.

Mr. Wyatt stated Staff generally supports the COG filing but expressed concern that Northern's long term supplemental contracts are susceptible to being under-utilized if load growth projections are not realized. (10/16/02 Tr. at 67 lines 2-22). Mr. Wyatt noted that when the weather is warmer than normal, as experienced last winter, supplemental peaking

contracts may not be used at all and Northern's customers end up paying only the fixed costs associated with those contracts.

Mr. Wyatt also pointed out that Northern's supplemental peaking contracts are such that its peak shaving plants are rarely needed except during colder than normal winters. (10/16/02 Tr. at 69-70 lines 20-13).

Staff recommended that sales forecasts and supply planning not include volumes used by grandfathered transportation customers. Those customers are responsible for their own supply, storage and capacity contracts. Contracts to cover grandfathered customers raise the costs borne by the firm sales and non-grandfathered firm transportation customers. (10/16/02 Tr. at 70-71 lines 18-17).

Mr. Wyatt supported approval of the costs related to a revised Amendment 3 between Northern and its affiliate, Granite State Gas Transmission, Inc. (Granite State), for additional capacity on the Granite State pipeline. The original COG filing include increased capacity on Granite State well beyond Northern's need for the upcoming winter, but following discussions with Staff, the revised filing reduced that capacity to meet only this winter's requirements, resulting in a substantial savings.

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 pursuant to RSA 378:7. Accordingly, we accept and approve Northern's proposed 2002/2003 Winter COG rate, the proposed Wells Exit Surcharge, Environmental Cost Recovery Surcharge, Rate Expense Surcharge, Conservation Charges Credit and Temporary Rate Refund Credit. Customers are protected by the additional fact that the costs underlying these rates are reconcilable and subject to the Commission's continued investigation. We share Staff's concerns that supplemental peaking supplies and peakshaving plants may be under utilized if projected load growth is not realized, but understand that the sales and supply projections for this winter are reasonable. We agree with Staff that sales projections should not include grandfathered transportation customers and advise Northern not to enter into any contracts on behalf of those customers. We also suggest Northern re-evaluate its long term supplemental supply contracts to determine if those contracts make sense in light of current economic conditions and as to whether savings may be possible through renegotiation of those contracts.

At hearing, the Commission received no objections to Northern's Motion for Protective Order and Confidential Treatment concerning negotiated pricing terms supplied in response to Staff Data Requests. The basis of Northern's motion is that the information is not publicly disclosed, that the information is commercially sensitive, and that release of the information would disadvantage Northern in future negotiations. The applicable provision of the Right-to-Know Law, RSA 91-A:5, IV, exempts from public disclosure certain commercial or financial information that is private and confidential. Applying this provision requires us to balance the asserted private, confidential, commercial or financial interest against the public's interest in disclosure. See *Union Leader Corp. v. N.H. Housing Fin. Auth.*, 142 N.H. 540, 553 (1997). Applying that test, we determine that the potential disadvantage to Northern in future negotiations outweighs the public's interest in disclosure. We therefore grant Northern's motion.

Based upon the foregoing, it is hereby

ORDERED, that Northern's proposed 2002/2003 Winter COG and FPO per term rates for the period of November 1, 2002 through April 30, 2003 are APPROVED effective for service rendered on or after November 1, 2002 as follows:

| | Cost of Gas | Minimum COG | Maximum COG |
|---------------------------------|--------------------|--------------------|--------------------|
| Residential | \$0.7200 | \$0.5760 | \$0.8640 |
| C&I, low winter use | \$0.5183 | \$0.4146 | \$0.6219 |
| C&I, high winter use | \$0.7677 | \$0.6142 | \$0.9213 |

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 twenty percent (20%) of the approved unit cost of gas, the minimum and maximum rates as set above; and it is

FURTHER ORDERED, that Northern shall 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 (5) business days prior to the first day of the subsequent month. Northern shall include a 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 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 Northern's proposed 2002/2003 Local Distribution Adjustment Clause (LDAC) per therm rates for the period November 1, 2002 through October 31, 2003, are APPROVED effective for service rendered on or after November 1, 2002 as follows:

| | Demand Side Mgmt. | Envir. Remed. Costs | Wells Exit Fee | Refund Temp. Revenue | Rate Case Expense | LDAC |
|--------------------------------|--------------------------|----------------------------|-----------------------|-----------------------------|--------------------------|-------------|
| Residential Heating | (\$0.0003) | \$0.0112 | \$0.0108 | (\$0.0188) | \$0.0092 | 0.0121 |
| Residential Non-heating | (\$0.0003) | \$0.0112 | \$0.0108 | (\$0.0188) | \$0.0092 | 0.0121 |
| Small C&I | (\$0.0003) | \$0.0112 | \$0.0108 | (\$0.0188) | \$0.0092 | 0.0121 |
| Medium C&I | (\$0.0003) | \$0.0112 | \$0.0108 | (\$0.0188) | \$0.0092 | 0.0121 |
| Large C&I | (\$0.0003) | \$0.0112 | \$0.0108 | (\$0.0188) | \$0.0092 | 0.0121 |

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; and it is

FURTHER ORDERED, that Northern's Motion for Protective Order and Confidential Treatment concerning negotiated pricing terms is GRANTED; and it is

FURTHER ORDERED, that the determination as to confidential treatment made herein is subject to the ongoing authority of the Commission, on its own motion or on the motion of Staff, any party or any other member of the public, 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 twenty-eighth day of October, 2002.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary