DG 02-170

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

Winter 2002/2003 Cost of Gas

Order Approving Cost of Gas Rates
and Local Distribution Adjustment Clause

O R D E R N O. 24,078

October 28, 2002

APPEARANCES: McLane, Graf, Raulerson and Middleton by Steven V. Camerino, Esq. on behalf of EnergyNorth Natural Gas Inc. d/b/a KeySpan Energy Delivery New England; Office of Consumer Advocate by Kenneth E. Traum on behalf of residential utility consumers; and Marcia A.B. Thunberg, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 17, 2002, EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England (KeySpan), a public utility engaged in the business of distributing natural gas in 29 cities and towns in southern and central New Hampshire and the City of Berlin in northern New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) for the 2002/2003 winter period. Accompanying its COG filing was a Motion for Protective Order and Confidential Treatment. KeySpan's filing included the direct testimony and supporting attachments of A. Leo Silvestrini, Director of Rates and Regulatory Affairs, and Theodore E. Poe, Jr., Energy Planning Manager.

On September 20, 2002, the Commission issued an Order of Notice setting a hearing for October 17, 2002.

On October 3, 2002, KeySpan filed its proposed Fixed Price Option (FPO) rates for the 2002/2003 Winter Period and supporting schedules. Accompanying its proposed FPO filing was a Motion for Protective Order and Confidential Treatment.

On October 11, 2002, the Commission granted the three Motions for Protective Order and Confidential Treatment by Order No. 24,067.

On October 17, 2002, KeySpan filed revised FPO rates for the 2002/2003 Winter Period.

A duly noticed hearing on the merits was held at the Commission on October 17, 2002.

II. POSITIONS OF THE PARTIES AND STAFF

A. KeySpan

At the hearing, Mr. Poe described the transportation and supply portfolio that KeySpan holds to serve its natural gas customers. Mr. Silvestrini addressed the following issues: 1) calculation of the Firm Sales COG rate and impacts on customer bills; 2) the reasons for the increased rate; 3) calculation of the FPO rate; 4) the Firm Transportation Cost of Gas rate; 5) the Transportation Supplier Balancing Charge, Peaking Demand Charge and Capacity Allocators; and 6) the Local Distribution Adjustment Clause(LDAC) surcharge comprised of, environmental remediation, gas restructuring expense, and conservation charges. David Kearny, Manager of Operations Engineering, testified regarding KeySpan’s service plan for the Tilton/Laconia area.

1. Calculation and Impact of the Firm Sales COG Rate

The proposed 2002/2003 Winter COG average cost of gas residential firm sales rate of $0.5289 per therm is comprised of anticipated direct gas costs, indirect gas costs and various adjustments. Anticipated direct gas costs total $46,030,706 and are off-set by adjustments totaling $856,323. Anticipated indirect gas costs total $3,676,758, consisting of 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 $48,851,141 and are divided by projected winter period sales of 92,366,840 therms (based on 2001/2002 winter normalized sales and projected sales growth of 1.2 percent) to arrive at the average cost of gas rate.

The applicable ratios established in KeySpan's rate redesign case, Order No. 23,675 (April 5, 2001), were applied to the average (Residential) COG rate to determine the Commercial/Industrial (C&I) Low Winter Use COG rate of $0.4711 per therm and the C&I High Winter Use COG rate of $0.5389 per therm.

KeySpan's proposed 2002/2003 Winter COG residential rate of $0.5289 per therm is an increase of $0.0471 per therm from the 2001/2002 Winter weighted Firm Sales COG rate of $0.4818 per therm.

The impact of the proposed firm sales COG rate is an increase in the typical residential heating customer's winter gas costs of $36, a 5 percent increase compared to last winter.

2. Reasons for the Increase

KeySpan indicated at hearing the two primary reasons for the increased COG rate are an increase in the pipeline demand charges and projected commodity gas costs. The natural gas prices as quoted on the New York Mercantile Exchange (NYMEX) are significantly higher than prices paid last winter, and it is the NYMEX futures prices that are used to estimate the cost of non-hedged gas supplies for the upcoming winter months. In addition, the demand charges to secure interstate gas pipeline capacity to transport the commodity have increased approximately $800,000 over last winter's demand charges.

3. Calculation of the FPO Rate

The FPO rate is calculated in the same manner as the COG rate, except that the commodity prices have been locked in and the rate is based on those guaranteed prices rather than estimated prices. Once the FPO rate is calculated, it is compared to the COG rate and a risk premium added if the rate is less than 105 percent of the proposed COG rate. The 2002/2003 winter FPO calculation was 104 percent of the proposed COG rate and, therefore, a small risk premium was added. Recovery of the risk premium will be a credited to the winter COG.

4. Firm Transportation Cost of Gas

The proposed Firm Transportation Cost of Gas rate of $0.0029 per therm is $0.0003 per therm lower than the $0.0032 per therm rate of last winter. The decrease is largely a result of a $679,000 reduction in anticipated costs of supplemental supplies compared to last winter.

5. Revised Transportation Charges and Allocators

KeySpan is updating its Supplier Balancing charges, the charges that suppliers are required to pay KeySpan for balancing services as KeySpan attempts to meet the shifting loads for the supplier’s customer pools. The Balancing Charge has been increased from $0.11 per MMBtu to $0.14 per MMBtu and the Peaking Demand Charge from $15.14 per MMBtu of Peak MDQ to $15.25 per MMBtu of Peak MDQ. The increases are based on an update of volumes and costs used in calculating the charges.

The capacity allocator percentages used to allocate pipeline, storage and local peaking capacity to a customer’s supplier under New Hampshire’s mandatory capacity assignment, required for firm transportation service, have been updated to reflect KeySpan’s supply portfolio for the upcoming year.

6. Local Distribution Adjustment Charges

The Local Distribution Adjustment Charges (LDAC) that KeySpan proposes to bill from November 1, 2002 through October 31, 2003 include conservation charges and the environmental remediation costs for the clean up of manufactured gas plant sites in New Hampshire. The LDAC will also be used to refund an over recovery of gas restructuring expenses for the commercial/industrial (C&I) rate classes.

KeySpan proposed a $0.004 per therm Conservation Charge (CC) for Residential Heating customers and a $0.0001 per therm CC for C&I customers to recover lost revenues that resulted from discontinued Demand Side Management programs.

In *EnergyNorth Natural Gas, Inc.* 80 NHPUC 382 (1995), the Commission approved recovery of $3,553,848 of environmental remediation costs associated with the Gas Street Relief Holder over a seven year period. Those costs have been fully recovered and the current surcharge of $0.0030 per therm is now eliminated.

In *EnergyNorth Natural Gas, Inc.* 83 NHPUC 324 (1998), the Commission approved recovery of addition costs associated with the environmental remediation of former manufactured gas plant sites. The Commission further established a cost review mechanism and step adjustment for recovery of future costs and required that those be filed during the winter COG proceedings. Additional environmental remediation costs of $362,663 have been incurred over the past year and proposed for recovery. The proposed environmental surcharged for the upcoming year is $0.0114 per therm.

The net impact on the total environmental surcharge is a decrease of $0.0053 per therm from the current surcharge of $0.0167 per therm.

A reconciliation of the expenses associated with KeySpan’s participation in the Commission’s gas restructuring docket, DG 98-124, are being recovered through a $0.0020 per therm surcharge on C&I customers for sales between November 1, 2001 through October 31, 2002 are anticipated to result in an over collection. KeySpan has proposed a $0.0002 per therm credit on sales to those customers for the upcoming year to refund that estimated over recovery.

7. Tilton/Laconia Service Plan

Mr. Kearney testified that the current plan to serve the Tilton/Laconia area would provide safe and reliable service for all of KeySpan's firm sales customers for the upcoming winter. Mr. Kearney described the planning process used in reaching that determination and expressed KeySpan's willingness to work with Staff and the OCA this winter in formulating a plan for serving that area beyond this winter.

B. Office of the Consumer Advocate

The OCA did not oppose the proposed rates, but did express concerns regarding safety and reliability of service in the Tilton/Laconia area. The OCA suggested that KeySpan provide updated plans on how best to address those concerns in the future as part of KeySpan's 2003 Summer COG filing.

C. Staff

Staff witness Richard Marini, gas safety engineer, and Robert J. Wyatt, senior utility analyst, testified as to Staff's concerns regarding service to the Tilton/Laconia area. Mr. Wyatt also testified in support of KeySpan's proposed 2002/2003 Winter COG filing.

Mr. Marini expressed his concern regarding the provision of safe and reliable service given the physical limitations in providing natural gas through the pipeline beyond Concord, the maximum output of the peaking facility in Tilton, lack of on-site storage at that peaking facility, the potential for weather disruptions of on-road deliveries of liquefied natural gas and greater supply demands due to strong customer growth.

Staff testified that it had held discussions with KeySpan to develop an appropriate method of monitoring the Tilton/Laconia service during the upcoming winter and that KeySpan had agreed to provide monthly reports. According to Staff, the reports would help Staff monitor and evaluate service in the Tilton/Laconia area. Mr. Wyatt stated KeySpan had been very corporative and forthcoming in developing a monitoring report and in providing data to Staff. Mr. Wyatt noted the exact parameters of the monthly monitoring report had not yet been finalized, but he expected that to happen soon.

Mr. Wyatt testified KeySpan’s gas purchasing policies for the period were both prudent and reasonable. Mr. Wyatt testified the policies were designed to achieve a balance between minimizing gas costs while providing reliability and a certain level of rate stability. Mr. Wyatt noted KeySpan’s supply portfolio was extremely well-balanced, using peak shaving and various other assets to the benefit of its firm sales customers, as reflected in the proposed COG rates. Mr. Wyatt stated he had participated with the Commission audit staff in an audit of KeySpan’s 2001/2002 winter gas costs and that the reported costs were true and accurate.

III. COMMISSION ANALYSIS

Based on careful review of the record in this docket, we find that KeySpan’s proposed COG rates and surcharges will result in just and reasonable rates pursuant to RSA 378:7. Accordingly, we accept and approve KeySpan’s proposed 2002/2003 Firm Sales Winter COG rates, FPO rates, Firm Transportation Winter COG rate, Conservation Charges, Environmental Cost Recovery Charge, Transportation Supplier Balancing Charge, Transportation Peaking Demand Charge and Transportation Capacity Allocators.

In response to Staff’s and the OCA’s concerns regarding service to the Tilton/Laconia area, KeySpan agreed at the hearing to meet with the Staff and OCA to discuss KeySpan’s long term plans for providing reliable service in the Tilton/Laconia area. Accordingly, we direct KeySpan and Staff to work together in formulating a plan for the continued provision of safe and reliable service and direct KeySpan to file a long term plan for Tilton/Laconia as part of KeySpan’s 2003 Summer COG filing.

Based upon the foregoing, it is hereby

ORDERED, that KeySpan's 2002/2003 Winter COG and FPO per therm rates for the period 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**	**Fixed Price Option**
Residential	$0.5289	$0.4231	$0.6347	$0.5553
C&I, low winter use	$0.4711	$0.3769	$0.5653	$0.4946
C&I, high winter use	$0.5389	$0.4311	$0.6466	$0.5658

FURTHER ORDERED, that KeySpan may, without further Commission action, adjust the COG rates upward or downward monthly based on KeySpan's calculation of the projected over or under collection for the period, the minimum and maximum rates as set above; and it is

FURTHER ORDERED, that KeySpan 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. KeySpan shall include a revised tariff page 84 - Calculation of Firm Sales Cost of Gas Rate and revised rate schedules if KeySpan 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*, 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 KeySpan's proposed 2002/2003 Local Distribution Adjustment Clause 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.	Gas Restr. Costs	LDAC
Residential Heating	$0.0004	$0.0114		0.0118
Residential Non-heating	$0.0000	$0.0114		0.0114
Small C&I	$0.0001	$0.0114	($0.0002)	0.0113
Medium C&I	$0.0001	$0.0114	($0.0002)	0.0113
Large C&I	$0.0001	$0.0114	($0.0002)	0.0113

FURTHER ORDERED, that KeySpan's proposed Firm Transportation Winter COG rate of $0.0029 per therm for the period November 1, 2002 through April 30, 2003, is APPROVED; and it is

FURTHER ORDERED, that KeySpan's proposed Transportation Supplier Balancing Charge of $0.14 per MMBtu of Daily Imbalance Volumes, is APPROVED; and it is

FURTHER ORDERED, that KeySpan's proposed Transportation Peaking Demand Charge of $15.25 per MMBtu of Peak MDQ, is APPROVED; and it is

FURTHER ORDERED, that KeySpan’s proposed Transportation Capacity Allocators as filed in Proposed Second Revised Page 155, Superseding First Revised Page 155, is APPROVED; and it is

FURTHER ORDERED, that KeySpan 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 KeySpan file a long term plan for ensuring safe and reliable service to the Tilton/Laconia service area as part of its 2003 Summer COG filing.

By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of October, 2002.

Thomas B. Getz	Susan S. Geiger	Nancy Brockway
Chairman	Commissioner	Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary