

DG 03-226

NORTHERN UTILITIES, INC.

**Summary of Order Nisi Approving the
Petition for Approval of a Tariff Change
Modifying the Services & Mains Investment Test
Issued March 5, 2004**

Northern Utilities, Inc. (Northern), primarily engaged in the business of distributing natural gas in certain cities and towns in New Hampshire and Maine, on November 26, 2003 filed with the New Hampshire Public Utilities Commission (Commission) a Petition for Authority to Revise Tariff Sheets Regarding Section III - Line Extensions of NHPUC no. 10 - Gas Tariff. The tariff states that Northern reserves the right to reject an application for service if the estimated income from the service is insufficient to yield a reasonable rate of return, unless such application is accompanied by a cash payment. The revised tariff sheets incorporate a change from the current twenty-five percent net investment test (25% test) to an investment test subject to a net present value (NPV) analysis, also referred to as the Discounted Cash Flow (DCF) methodology, in determining whether a requested service will yield a reasonable return.

The 25% test was intended as a proxy for assessing whether an investment yielded a reasonable rate of return, by comparing the projected annual non-gas revenues (net revenues) with the projected capital costs (investment) of the requested line extension. If the annual net revenues equal or exceed 25% of the

investment, a customer contribution is not required. If annual net revenues are less than 25% of the capital cost, the difference must be paid by the customer(s) prior to the utility's installation of the requested extension.

The DCF analysis compares the revenue and cost streams on an NPV basis over the economic life of the investment (20 years for Residential and 10 years for Commercial and Industrial). While the net revenue calculation is the same under both the 25% test and the DCF methodology, the costs are more comprehensive under the proposed tariff change. The investment cost under the 25% test includes only the cost of the extension, whereas under the proposed tariff change the investment cost would also include meter installations. The proposed change also takes into account incremental operation and maintenance (O&M) expenses, depreciation, and taxes associated with the proposed line extension. The revenue and expense cash flows are discounted to a present value and if the NPV is zero or greater, then no contribution is required. However, if the NPV is negative, then the excess cost is required as a contribution by the initial customer(s).

Northern will use its updated weighted cost of capital (after-tax) as the discount rate in its DCF analysis. The cost of equity will be the Commission approved return on equity in effect at the time of the revenue test. Use of the approved return on equity will ensure that parties requesting line extensions will be

granted service if the return on investment is equal to or greater than that which the Commission has found to be fair and reasonable.

Use of the DCF methodology should protect existing customers from rate increases due to system expansions while not imposing a significant barrier to those customers desiring natural gas service in or near the areas served by Northern.

The proposed tariff change better balances the interests of both existing and potential customers than the 25% test currently in use and will be approved.

A copy of the Commission's entire order may be viewed on the Commission's website at www.puc.nh.gov or may be obtained from Northern by calling 508-836-7274.

Based upon the foregoing, it is hereby

ORDERED NISI, that subject to the effective date below, Revised Tariff Sheets Regarding Section III - Line Extensions of NHPUC No. 10 - Gas Tariff, is APPROVED; and it is

FURTHER ORDERED, that Northern will use its updated cost of capital as the discount rate over a period of 10 years for Commercial and Industrial customer classes and 20 years for residential customer classes when using the Discounted Cash Flow analysis as the investment test for new line extensions; and it is

FURTHER ORDERED, that Northern shall make a copy of this Order Nisi available to any customer that requests a copy; and it is

FURTHER ORDERED, that all persons interested in responding to this petition be notified that they may submit their comments or file a written request for a hearing on this matter before the Commission no later than March 26, 2004; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than March 30, 2004; and it is

FURTHER ORDERED, that this Order Nisi shall be effective April 1, 2004, unless Northern fails to satisfy the publication obligation or the Commission provides otherwise in a supplemental order issued prior to the effective date.

By order of the Public Utilities Commission of New Hampshire this fifth day of March, 2004.

Thomas B. Getz, Chairman
Susan S. Geiger, Commissioner
Graham J. Morrison, Commissioner
Attested by:
Debra A. Howland
Executive Director & Secretary