DG 06-038

NORTHERN UTILITIES, INC.

2006 Summer Season Cost of Gas

Order Approving Cost of Gas Rates

O R D E R N O. 24,615

April 28, 2006

APPEARANCES: Seth L. Shortlidge, Esq., of Pierce Atwood LLP, on behalf of Northern Utilities, Inc.; Kenneth Traum, of the Office of Consumer Advocate, on behalf of residential utility ratepayers; and Edward N. Damon, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On March 15, 2006, Northern Utilities, Inc. (Northern) filed with the New Hampshire Public Utilities Commission (Commission) proposed rate adjustments pursuant to the Cost of Gas (COG) Clause in its tariff for the period May 1, 2006 through October 31, 2006 (2006 Summer Season COG), applicable to Northern's natural gas operations in the Seacoast area of New Hampshire. The filing was accompanied by supporting schedules and the direct testimony of Joseph A. Ferro, Manager of Regulatory Policy, and Ronald D. Gibbons, Lead Regulatory Analyst. On March 16, 2006, Northern filed with the Commission a Motion for Protection from Public Disclosure and Confidential Treatment regarding identification of suppliers. On March 17, 2006, Northern filed with the Commission revised COG Clause tariff pages primarily in order to implement the Stipulation and Settlement filed in Docket No. DG 05-080 (Review of Reasonableness of Proportional Responsibility Formula), as approved by the Commission pursuant to the Deliberations Statement dated December 30, 2005.

On March 21, 2006, the Commission issued an Order of Notice scheduling a hearing for April 13, 2006. On March 28, 2006, the Office of the Consumer Advocate (OCA) filed with the Commission a notice of intent to participate in this docket on behalf of residential utility ratepayers consistent with RSA 363:28. There were no other intervenors in this docket. On April 12, 2006, Northern filed with the Commission further revised COG Clause tariff pages and a revised Motion for Protection from Public Disclosure and Confidential Treatment (Revised MPO). The hearing on Northern's COG filing and the Revised MPO was held as scheduled on April 13, 2006.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern witnesses Joseph A. Ferro and Ronald D. Gibbons addressed a number of matters, including the following: 1) calculation of the proposed COG rates; 2) reasons for the increase and customer bill impacts; 3) proposed changes to tariff provisions in connection with Commission approval of the Stipulation and Settlement Agreement in Docket No. DG 05-080; 4) proposed changes to Northern's method of calculating the COG rates of Commercial & Industrial (C&I) High Winter Use and Low Winter Use customer classes for the 2006 Summer Season, including the use of revised High Winter Use and Low Winter Use ratios, as well as proposed tariff changes to the method of calculating such rates and ratios in future periods consistent with how the rates and ratios were calculated for the 2006 Summer Season; and 5) proposed tariff changes to the determination of carrying costs applicable to over- or under-collection of COG costs. Also discussed at hearing were Northern's hedging policies and activities, its end of Winter Season storage levels and opportunities for obtaining capacity release revenues, its sales forecast, including the trend in reductions to expected future loads and use per customer statistics believed to result from higher natural gas prices, and the Revised MPO.

1. Calculation of the Firm Sales COG Rates

Pursuant to the COG Clause, Northern is allowed, subject to the Commission's jurisdiction, to adjust on a semiannual basis its firm gas sales rates in order to recover the costs of gas supplies, capacity and certain related expenses, net of applicable credits, as specified in Northern's tariff. The average COG rate, which is the COG rate payable by residential customers, reflects anticipated indirect gas costs and anticipated direct gas costs, as well as various adjustments, including the over- or under-collection of allowable prior period costs. Northern's filing proposes a Residential COG rate of $1.0104 per therm. Anticipated indirect gas costs, consisting of production and storage capacity, working capital, bad debt, and overhead charges, total $96,024. Anticipated direct gas costs total $10,390,196 and are decreased by adjustments totaling $438,422, consisting of a prior period over-collection of $419,065 and interest of $19,357. The net gas costs to be recovered in connection with the 2006 Summer Season total $10,047,798 and are divided by projected Summer Season sales of 9,944,800 therms to arrive at Northern's proposed Residential COG rate.

Northern calculated C&I Low Winter and High Winter COG rates using a new method, including the use of revised High Winter Use and Low Winter Use ratios, which are more fully described below. The resulting C&I High Winter Use COG rate is $1.0119 per therm and the resulting C&I Low Winter Use COG rate is $1.0088 per therm.

2. Reasons for the Increase in the Residential COG Rate and Customer Bill Impacts

According to Northern, the increase in the proposed Residential COG rate, as compared to last summer's rate, can be primarily attributed to increases in the actual and projected natural gas commodity prices. The impact of the increase in commodity prices was offset by a prior period over-collection and certain credits resulting from the approved

Stipulation and Settlement Agreement in Docket No. DG 05-080. In particular, Northern's 2005 Summer Season COG reconciliation determined a $419,065 over-collection. The over-collection is primarily due to two accounting adjustments at the end to the period, a $630,000 credit to New Hampshire associated with storage injections and a $155,000 credit resulting from the Stipulation and Settlement Agreement in Docket No. DG 05-080. Northern estimated that the 2006 Summer Season COG rates are approximately 4 to 5 percent lower than they would have been without these credits and the revised methodology for determining the capacity costs allocated to New Hampshire pursuant to the Stipulation and Settlement Agreement.[1]

Northern's proposed 2006 Summer Season Residential COG rate of $1.0104 per therm represents an increase of $0.0306 per therm from the average weighted 2005 Summer Season Residential COG rate of $0.9798 per therm. The combined impact of the proposed firm sales COG rate and a prior change in the Local Delivery Adjustment Clause rate is an increase in the typical residential heating customer's summer gas costs of $13, which represents a 2.6% increase above last summer's rates.

3. Tariff Revisions

Northern filed a number of new COG Clause tariff pages to achieve several different purposes. Changes include those necessary to reflect the Commission's approval of the Stipulation and Settlement Agreement in Docket No. DG 05-080. For example, the term Modified PR (Proportional Responsibility) Allocator[2] is defined, and capacity assignment, capacity release, and Capacity Reserve Charge[3] revenues are included as credits to capacity costs in the Summer Season and Winter Season COG formulas. In addition, the crediting of any

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[1] Northern also concurred with the OCA that, going forward, a reasonable estimate for the annual benefit to Northern's New Hampshire ratepayers of the Stipulation and Settlement Agreement is approximately $2.5 million.
[2] The Modified PR Allocator allocates capacity costs between Northern's Maine and New Hampshire Divisions,
[3] The question of which customer class(es) will be responsible to pay the Capacity Reserve Charges is currently before the Commission in a separate docket, DG 06-033.

revenues from the Re-entry Fee payable by grandfathered transportation customers returning to firm sales service, after July 1, 2006, is provided for in the section regarding reconciliation adjustments.

Northern also took this opportunity to revise or delete a number of outdated provisions of the COG Clause, including reducing the dollar amount of production and storage capacity from $734,134 to $686,673, to coincide with the lower figure actually being used by Northern and deleting references to firm standby gas supply service, which was closed out on November 1, 2002. Two other COG Clause changes proposed by Northern are described in more detail below.

4. Change in Calculating C&I High and Low Winter Use COG Rates

Northern discussed the ratios applicable to the C&I High Winter Use (low load factor) and C&I Low Winter Use (high load factor) rate classes[4] and the method for calculating the rates from such ratios developed in *Northern Utilities, Inc.*, 86 NH PUC 229, 208 PUR4th 540, in Docket No. DG 00-046 (2001). Northern noted that the Market Based Allocation (MBA) cost of gas analysis filed in that docket established the basis for different COG rates being charged to the C&I High Winter Use and Low Winter Use rate classes. Under the method established in Docket No. DG 00-046 and used until now, after first calculating the average COG rate applicable to residential customers, Northern calculated the COG rates applicable to the high and low load C&I customers by applying class-specific Winter Season and Summer Season ratios and a correction factor to the average COG rate. The determination of the applicable ratios was derived from conditions existing during the test year, including Northern's demand and

[4] These ratios are referred to in Mr. Ferro's testimony as unit demand cost ratios. For the C&I High Winter Use class, the proposed ratio for the 2006 Summer Season is 1.00318 and for the C&I Low Winter Use class, the proposed ratio for the 2006 Summer Season is 0.98199. Calculation of these ratios is set forth on Exhibit 1 attached to Mr. Ferro's pre-filed testimony.

design day requirements, and its resource mix and associated costs. When the C&I High Winter Use and Low Winter Use ratios were approved in 2001, it was understood that significant changes in certain variables, including the ratio of delivered costs of winter supplies to pipeline delivered supplies, would indicate the need to re-evaluate the COG ratios. *See Northern Utilities, Inc.*, *supra*, at 239.

According to Northern, this particular ratio was once much greater than unity but it now approaches unity. In addition, dramatic increases in natural gas prices have caused relatively high unit system gas costs in recent years. Northern stated that applying the ratios approved in Docket No. DG 00-046 to these high unit gas costs results in a significant difference between C&I High Winter Use and Low Winter Use rates when the difference between the cost of providing gas service to high load factor customers is very similar to the cost of providing gas service to low load factor customers. In addition, Northern stated that the difference between the overall COG rates between the two customer groups should be less than in the past. In Northern's opinion, the continued use of the ratios developed in Docket No. DG 00-046 results in artificially increasing the C&I low load factor (High Winter Use) rate and artificially decreasing the C&I high load factor (Low Winter Use) rate. Northern asserted that the unit commodity costs for the two customer groups are similar and indicated that it is inappropriate to apply the ratios to the unit commodity costs.

Primarily for these reasons, Northern concluded that the method for determining the ratios and the calculation of the resulting COG rates for the C&I rate classes should be changed to a more up-to-date, consistent and reasonable method. As explained by Northern, the ratios would be determined annually based on its Capacity Allocator schedule at Northern's Winter Season COG proceeding for both the upcoming Winter and Summer Seasons. The new method is intended to be similar to the method proposed by EnergyNorth Natural Gas Inc. for calculating its C&I High Winter Use and Low Winter Use COG rates.

For the 2006 Summer Season, the total anticipated COG adjustment presented on tariff page 39, *i.e.*, the total system average unit cost of gas of meeting firm sales load, is differentiated into demand and commodity COG rates. Only the demand COG rate[5] (not the total anticipated COG adjustment) is multiplied by the High Winter Use or the Low Winter Use ratios and the correction factor. This adjusted demand COG rate is then added to the COG rate and the indirect COG rate to determine the total COG rate for the C&I High Winter Use and Low Winter Use rate classes.

Northern testified that the 2006 Summer Season C&I High Winter Use (low load factor) rate calculated under the previous method would have been $1.087 per therm compared to the proposed rate of $1.0119 per therm, while the 2006 Summer Season C&I Low Winter Use (high load factor) rate calculated under the previous method would have been $0.948 per therm compared to the proposed rate of $1.0088 per therm. According to Northern, the largest rate impacts from changing the method will be experienced in the Winter Seasons. Northern stated that the previous method created a COG rate for high load factor customers that was significantly lower than market-based rates and a COG rate for low load factor customers that was significantly higher than market-based rates. In Northern's view, this could have resulted in a COG rate for Northern's high load factor customers that would have been difficult for an unregulated supplier to match and thus could possibly have dampened customer choice activity for those customers; on the other hand, a supplier should have had a relatively easy time

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[5] The demand COG rate is calculated by summing the product demand and pipeline reservation demand costs identified on tariff page 38 and dividing by firm sales forecasted for the 2006 Summer Season.

competing against Northern's COG rate for the low load factor customers. Northern stated that the change in the method helps level the playing field between Northern and suppliers.

5. Change in Carrying Cost Calculation

Northern supports a change in the interest calculation related to the over- and under-collection of gas costs. Currently, carrying costs are calculated on average monthly balances using the prime interest rate as reported by the *Wall Street Journal* on the first date of the month preceding the first month of the quarter. Under Northern's proposal, the interest rate used in calculating carrying charges would be the monthly prime interest rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates, effective May 1, 2006. Use of the monthly rate will better reflect changes in the lending market, as the prime rate will no longer be static over an entire quarter. In addition, the applicable rate can be easily referenced on the Federal Reserve's website, which also posts the historical monthly prime rates dating back to 1949.

6. Revised Motion

In its original Motion for Protection from Public Disclosure and Confidential Treatment, Northern sought confidential, treatment for the names of suppliers disclosed in its unredacted COG filing. Northern stated that the association of a supplier name with a cost constitutes a trade secret that is appropriate for protection from disclosure. According to Northern, removing one or the other and disassociating them is deemed by Northern's professional gas supply staff to protect the trade secret and allow Northern to continue to compete fairly and openly in the commodity markets. In addition, Northern asserted that disclosure of the confidential information would disadvantage Northern in negotiations with suppliers or other resource providers, and public knowledge of the confidential information would impair Northern's future bargaining position and thus its ability to obtain the best cost resources for its natural gas portfolio. Northern sought to redact supplier identifications or names from its filings and allow the cost information to remain.

In view of *Northern Utilities, Inc.*, Order No. 24,590 in Docket No. DG 05-147 (February 10, 2006), in which, consistent with past practice, the Commission granted a similar motion *except* with respect to the identities of the suppliers and resources, Staff suggested that Northern file the Revised Motion and describe in more detail at hearing the basis for granting confidential, treatment to the supplier identifications. Northern explained that in Maine, where Northern files COG rate adjustments based on some of the same information filed with the Commission in New Hampshire, the most important public information is deemed to be the cost or pricing information and thus the supplier identifications are redacted.

B. OCA

The OCA did not object to Northern's COG filing.

C. Staff

Staff did not object to the filing, noting that the Commission Audit Staff had reviewed the 2005 Summer Season reconciliation and found no exceptions and the sales forecast and supply planning were consistent with past practices. In addition, Staff stated that any concerns that may arise regarding the 2006 Summer Season COG will be addressed in Northern's 2007 Summer Season COG filing.

Staff stated that it had performed an initial review of the proposed COG Clause tariff changes and, in principle, supported the proposed revisions. Staff stated it will work with Northern to ensure clarity of intent and consistency with the tariff changes proposed by EnergyNorth Natural Gas Inc. where appropriate. Staff recommended approval of the proposed change in calculating the C&I High Winter Use and C&I Low Winter Use COG rates, noting that the significant difference between those rates is not reflective of the market and the proposed change would help to remedy that situation. Finally, Staff supported use of the monthly prime interest rates as reported by the Federal Reserve on its website, as the change would better reflect fluctuations in the lending market rate.

Regarding the Revised Motion, Staff stated that if supplier names are public information in New Hampshire, while at the same time the corresponding cost or pricing information is public information in Maine, it would be theoretically possible to establish the link between supplier names and cost information that Northern seeks to protect from public disclosure for the reasons set forth in the Revised Motion. Staff stated that, for this reason, it does not object to the Revised Motion.

III. COMMISSION ANALYSIS

Based on our review of the record in this docket, we approve the proposed COG rates as they result in just and reasonable rates pursuant to RSA 378:7.

Clearly, the natural gas market has undergone sweeping changes since the ratios used in calculating the C&I High Winter Use and Low Winter Use rates were first developed, not the least of which are substantial increases in natural gas prices. The proposed changes in calculating the C&I High Winter Use and Low Winter Use COG rates should result in rates that better reflect existing conditions in the natural gas market, the composition of Northern's demands and the costs associated with its resource mix. Accordingly, we accept the ratios and the method used in calculating the C&I High Winter Use and Low Winter Use COG rates for the 2006 Summer Season.

In addition, the proposal for modifying Northern’s tariff calls for adjusting the ratio annually based on updated market conditions, which means the rates will now be responsive to future changes. The proposal calls for C&I High Winter Use and Low Winter Use COG rates to be calculated by applying the load factor ratios determined in the Winter Season COG to the unit demand cost component, times the correction factor, and then adding the remaining average COG unit rate. Northern may use the new method for calculating the ratios and COG rates applicable to C&I High Winter Use and Low Winter Use customers in future periods unless and until the Commission orders otherwise. However, Northern is directed to keep Commission Staff informed on a continuing basis about its knowledge and experience regarding: (i) the impact of the new method on the functioning of the gas market in New Hampshire, and (ii) future changes in conditions that might render the new method unfair or unreasonable.

Using the monthly prime rate to calculate carrying costs on COG over- and under-collections will more accurately reflect market lending rates than adjusting the rate quarterly as has been done up to now. While the prime rate reported in the *Wall Street Journal* currently used in determining carrying costs should be identical to that reported by the Federal Reserve on its website, the rate reported on the Federal Reserve website is readily accessible and provides a complete history of lending rates. Accordingly, we accept the proposed change in calculating COG carrying costs.

Finally, the “house-keeping” tariff changes proposed and described by Northern in its testimony and at hearing are not objectionable. Northern is directed to work with Staff in preparing an appropriate compliance tariff filing that is consistent with its filing and testimony at hearing and with that being filed by EnergyNorth Natural Gas, Inc., where appropriate.

Regarding the Revised Motion, we have frequently granted confidential, protective treatment to sensitive, commercial and financial pricing information contained in COG filings. *See e.g., EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England*, Order No. 24,535 (October 28, 2005), slip op. at 10. Because Northern makes COG filings in Maine which contain some of the same information filed in New Hampshire and Maine allows redaction of supplier identifications but not pricing information, we are persuaded that there is reason in Northern's case to reach a result that is consistent with Maine's approach. Accordingly, we will grant the Revised Motion subject to the on-going 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 the protective order in light of RSA 91-A, should circumstances so warrant. In closing, we remind Northern that motions for protective orders are expected to be filed no later than the COG filing to which the motion relates.

Based upon the foregoing, it is hereby

ORDERED, that Northern's proposed 2006 Summer Season COG rates for the period of May 1, 2006 through October 31, 2006 are APPROVED, effective for service rendered on or after May 1, 2006 as follows:

	Cost of Gas	**Minimum COG**	**Maximum COG**
Residential	$1.0104	$0.8083	$1.2124
C&I, Low Winter Use	$1.0088	$0.8070	$1.2105
C&I, High Winter Use	$1.0119	$0.8095	$1.2143

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 vary more than twenty percent (20%) from the approved unit costs of gas; 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 revised tariff pages 38 & 39 - Calculation of Cost of Gas Adjustment and revised rate schedules under separate cover letter if Northern elects to adjust the COG rates; and it is

FURTHER ORDERED, that the over- or under-collection shall accrue interest at the Monthly Prime Lending Rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates; and it is

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 the Revised Motion is GRANTED to the extent set forth in this Order.

By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of April, 2006.

Thomas B. Getz Chairman	Graham J. Morrison Commissioner	Clifton C. Below Commissioner

Attested by:

ChristiAne G. Mason
Assistant Executive Director & Secretary