DG 06-040

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

2006 Summer Season Cost of Gas

Order Approving Cost of Gas Rates

O R D E R N O. 24,618

April 28, 2006

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 the Consumer Advocate by Kenneth E. Traum 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 17, 2005, EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England (KeySpan or the Company) 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 KeySpan's natural gas operations in southern and central New Hampshire and the City of Berlin in northern New Hampshire. The filing was accompanied by supporting attachments and the direct testimony of Ann E. Leary, Manager of Rates, and Theodore E. Poe, Manager of Energy Planning. The filing was preceded by KeySpan's filing with the Commission, on March 16, 2006, of a Motion for Protection from Public Disclosure and Confidential Treatment regarding certain information contained in the 2006 Summer Season COG filing.

On March 21, 2006, the Commission issued an Order of Notice scheduling a hearing for April 11, 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. The hearing was held as scheduled on April 11, 2006. On April 21, 2006, KeySpan filed its response to the record request made by Staff at the hearing and reserved as Exhibit 5.

II. POSITIONS OF THE PARTIES AND STAFF

A. KeySpan

KeySpan witnesses Ann E. Leary and Theodore E. Poe addressed a number of matters, including the following: 1) calculation of the proposed COG rates and customer bill impacts; 2) reasons for the rate increases; 3) KeySpan's end of Winter Season storage levels and its plans for marketing excess capacity pursuant to its Portfolio Management Plan; 4) proposed changes to KeySpan's method for determining Commercial and Industrial (C&I) High Winter Use (HW) and Low Winter Use (LW) COG rates, including changes to the existing ratios set forth in KeySpan's tariff; and 5) proposed changes to the determination of carrying costs applicable to over- or under-collection of COG costs. Also discussed at hearing were KeySpan's hedging policies and activities, its sales forecast, including the trend in reductions to expected future loads and use per customer statistics believed to be resulting from higher natural gas prices, and changes in KeySpan's supply portfolio.

1. Calculation of the Proposed Firm Sales COG Rates and Bill Impact

Pursuant to the COG Clause, KeySpan 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 KeySpan'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. KeySpan's filing proposes a Residential COG rate of $1.0022 per therm. Anticipated indirect gas costs, consisting of production and storage capacity, working capital, bad debt, and overhead charges, total $530,466. Anticipated direct gas costs total $23,724,151 and are increased by adjustments totaling $1,360,769, consisting of a prior period under-collection of $1,262,972 and interest of $97,797. The net gas costs to be recovered in connection with the 2006 Summer Season total $25,615,386 and are divided by projected Summer Season sales of 25,559,170 therms to arrive at KeySpan's proposed Residential COG rate.

KeySpan's proposed 2006 Summer Season Residential COG rate of $1.0022 per therm represents an increase of $0.0371 per therm from the average weighted 2005 Summer Season Residential COG rate of $0.9651 per therm. The combined impact of the proposed firm sales COG and Local Delivery Adjustment Clause rates is an increase in the typical residential heating customer's summer gas costs of $14.47, which represents a 3.3% increase above last summer's rates.

KeySpan calculated C&I LW and HW COG rates using a new method and revised High Winter Use and Low Winter Use ratios, which are more fully described below. The proposed LW COG rate is $0.9983 per therm and the proposed HW COG rate is $1.0043 per therm.

2. Reasons for the Increase in the COG Rates

According to KeySpan, the increase in the proposed COG rates, as compared to last summer's rates, can be primarily attributed to increases in gas costs of $200,000 and an increase in the prior period under-collection of $1.4 million compared to last summer.

The prior period under-collection resulted from a steep run-up in natural gas prices toward the end of the 2005 Summer Season after KeySpan had already raised rates through monthly adjustments to the maximum allowable without further Commission action. To have further increased rates at that time would have necessitated a filing and a substantial rate increase to recover the projected under-collection over the single remaining month, assuming Commission approval. KeySpan explained that under the circumstances such a course of action was not feasible.

3. Marketing of Excess Capacity

KeySpan maintains sufficient capacity in its resource portfolio to meet current and expected design day and design year customer requirements and therefore, at any given time, it may have resources that are temporarily under-utilized. In order to mitigate the cost of gas to firm ratepayers, who are paying for that capacity, it is KeySpan's responsibility to identify and sell excess capacity and credit resulting revenues to gas costs.

In compliance with *EnergyNorth Natural Gas, Inc., d/b/a KeySpan Energy Delivery New England,* Order No. 24,531 in Docket No.s DG 04-133 and DG 04-175 (October 21, 2005), effective April 1, 2006, following the expiration of its Gas Resource Portfolio Management and Gas Sales Agreement (Asset Management Agreement) with Merrill Lynch Commodities, LLC, the activities previously performed by Merrill Lynch became the responsibility of KeySpan. One of those activities is the optimization of capacity release and off-system sales revenues. Under KeySpan's Portfolio Management Plan (Plan) which was filed with the Commission on December 8, 2005, KeySpan's Gas Supply Planning Group located in Waltham, Massachusetts, is now responsible for identifying those resources that are not needed to meet firm sendout requirements and it is the responsibility of the Regulated Gas Transactions

Group, located in Hicksville, New York, to market those in an effort to maximize their value. The Plan states that KeySpan has undertaken to maintain the information necessary to provide reports that detail capacity releases and off-system sales. A KeySpan witness expressed KeySpan's willingness to periodically update Staff regarding these activities.

KeySpan testified that due to an extremely warm January its natural gas inventories in underground storage are well above normal. Whereas underground storage supplies are typically almost all used up by the end of the Winter Season, this year it is approximately 60% full. Consequently, summer injections utilizing upstream pipeline capacity to refill storage should be below normal this Summer Season, thereby increasing transportation capacity available for cost mitigation via capacity release and increasing opportunities for off-system sales of supply.

In response to a record request, KeySpan reported on its efforts to mitigate capacity costs since assuming that responsibility. The report stated KeySpan had not posted any capacity for release on the Tennessee Gas electronic bulletin board to date, but had entered into short-term off-system sales transactions when the opportunity had been available.

4. Change in Calculating LW and HW COG Rates

In recent years, KeySpan has calculated LW and HW COG rates pursuant to the method, including the High Winter Use and Low Winter Use ratios, described in its revenue-neutral rate redesign proceeding, *see EnergyNorth Natural Gas, Inc., dba KeySpan Energy Delivery New England* 86 NH PUC 248 (2001), Order No. 23,675.[1] Based on market conditions and other circumstances at that time, KeySpan determined that the costs to serve the LW and HW customer classes differed significantly. Ratios were calculated that when applied to the

[1] The method was the same for both KeySpan and Northern Utilities, Inc. although the calculated ratios for each company were specific to each.

average unit cost of gas (*i.e.*, the Residential COG rate) produced LW and HW COG rates that reflected how differences in gas costs result from variations in the customer's load profile.[2] Those ratios are still used to calculate LW and HW COG rates.

According to KeySpan, the price of natural gas has risen dramatically in recent years, quadrupling in the 2005-2006 period from the 1999-2000 period, and applying the High Winter Use and Low Winter Use ratios to a much higher cost of gas will increase the disparity between the LW and HW rates. KeySpan stated that too great a disparity does not accurately reflect how variations in costs result from different load factors. In addition, KeySpan stated that the real difference to be reflected in rates is based on demand and not commodity charges. Finally, KeySpan pointed out that most of the pipeline, underground storage and peaking commodity contracts are based on first of the month NYMEX pricing and thus there is not as much variation in the commodity cost for the different load factor customer class rates as there is for the demand costs.

Primarily for these reasons, KeySpan concluded that it is appropriate to change the method for determining the ratios and calculating the resulting COG rates for the LW and HW rate classes. KeySpan supported use of a new method that is the same as that recommended by Northern Utilities, Inc. in Docket No. DG 06-038.

KeySpan proposed to calculate the LW and HW rates in the following way: first, the direct cost of gas rate found on revised tariff page 84 will be differentiated into demand, commodity, and adjustment COG rates.[3] Only the demand cost of gas rate (instead of the total

[2] According to KeySpan, the basic concept was to assign to high load factor (LW) customer classes, which use gas more evenly throughout the year, a higher portion of the less expensive baseload supplies while weather sensitive, low load factor (HW) customer classes were assigned more of the higher unit cost remaining supplies.

[3] KeySpan calculates the demand factor by summing the purchased gas and storage gas demand costs identified on revised tariff page 83 and dividing by the projected prorated sales found on revised tariff page 84.

period average cost of gas rate) will be multiplied by either the High Winter Use ratio or Low Winter Use ratio[4] and then multiplied by the correction factor. This adjusted demand factor will then be added to the commodity factor, adjustment factor, and indirect cost of gas rate to determine the total COG rates for the LW and HW rate classes.

For purposes of determining the ratios for the 2006 Summer Season, KeySpan started with the calculation of the Capacity Allocators effective from November 1, 2005 through October 31, 2006, and proceeded as described above. The proposed ratios are 1.0045 for the HW classes and 0.9643 for the LW classes.

KeySpan asserted that deriving ratios from the capacity assignment calculations has the advantage of ensuring equality for sales and transportation customers and the ratios are computed on the same basis as the capacity that would otherwise be assigned to them as transportation customers. In addition, KeySpan expects that applying the proposed ratios to the unit demand costs will provide improved cost of gas price signals to its C&I customers, showing reasonably modest differentials between the two load factor classes. KeySpan stated that the resulting COG rates should be more consistent with how third-party suppliers price supply service to transportation customers, mainly reflecting how customers' load factors affect the cost of arranging for firm capacity to KeySpan's city-gate. Finally, KeySpan stated that the proposal allows for an updated assessment of its unit demand costs by the HW and LW rate classes, reflecting each group's current design day requirements and annual throughput, as well as KeySpan's current cost of all its capacity resources, and applying the resulting ratios to the calculated COG for the same period.

[4] Going forward, KeySpan would derive these unit demand cost ratios from its Capacity Allocators calculation filed with the Commission once a year with its Winter Season COG filing. KeySpan proposed to use these ratios for both the upcoming Winter Season and succeeding Summer Season COG filings.

5. Change in Carry Cost Calculation

KeySpan supported a change in the interest calculation related to the over- and under-collections 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 day of the month preceding the first month of the quarter. Under KeySpan'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. The change will better reflect market lending rates, as the prime rate will no longer be static over an entire quarter and 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. Motion for Protection from Public Disclosure and Confidential Treatment

KeySpan requested confidential, protective treatment for certain information contained in Schedules 1, 2, 5, 6, 7, and 14 of its 2006 Summer Season COG filing (as well as in data request responses) and, in particular, the commodity and demand charges associated with specific suppliers. KeySpan asserted that this information constitutes trade secrets and should be protected as confidential commercial information. KeySpan further stated that it does not disclose this information to anyone outside of its corporate affiliates and their representatives. According to KeySpan, release of this information is likely to result in competitive disadvantage for KeySpan in the form of less advantageous or more expensive gas supply contracts since gas suppliers possessing the information would be aware of KeySpan's expectations regarding gas supply costs and other contract terms and would be unlikely to propose to supply such goods and services on terms significantly more advantageous to KeySpan.

B. OCA

The OCA does not oppose KeySpan's proposed COG rate.

C. Staff

Staff witness Stephen P. Frink, Assistant Director of the Gas & Water Division, testified in support of KeySpan's 2006 Summer Season COG filing, stating that the Commission Audit Staff had reviewed the 2005 Summer Season reconciliation and found no exceptions; the sales forecast is consistent with past experience and expected growth; the supply plan is based on least cost planning; and costs are based on actual or hedged prices and projected pricing that reflects market expectations. Staff noted that there will be a reconciliation of forecast and actual gas costs for the period which will be filed prior to next summer's COG proceeding and any concerns that may arise related to the 2006 Summer Season gas planning and dispatch may be raised and addressed in the 2007 Summer Season COG proceeding.

Staff stated that it recommends approval of KeySpan's proposal for changing the method of calculating the LW and HW rates. Staff pointed out that although the discrepancy between KeySpan's LW and HW rates, while significant, is not as great as the difference in the LW and HW rates of Northern Utilities, Inc., the proposal will better reflect market prices and send a better price signal.

Staff also supported using the monthly prime interest rate as report by the Federal Reserve on its website. The current methodology uses a single rate for the entire quarter although the rate itself may change numerous times within that period. According to Staff, the recommended change will result in a prime rate that will no longer be static over an entire quarter and the applicable rate can be easily referenced on the Federal Reserve's website.

Staff further testified that although KeySpan has limited control over what the Summer Season cost of gas will be, KeySpan does have the opportunity to offset those costs through capacity releases and/or off-system sales. Staff noted that due to higher than normal natural gas inventories, the likelihood of greater surplus capacity than normal exists, and with the expiration of the Asset Management Agreement, KeySpan will be solely responsible for optimizing the opportunities that may be present and KeySpan will not have to share related profits with an asset manager. In addition, Staff noted that KeySpan and the Commission will be better able to identify the sources of the benefits of optimization.

III. COMMISSION ANALYSIS

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

For the same reasons set forth in the order we issue today regarding the 2006 Summer Season COG rates for Northern Utilities, Inc. in Docket No. 06-038, we accept the ratios and the method used to calculate the HW and LW COG rates for the 2006 Summer Season. In addition, Northern may use the new method for calculating the ratios and COG rates applicable to its HW and LW customers in future periods unless and until the Commission orders otherwise. However, KeySpan 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. Also for the reasons set forth in the order we issue today regarding the 2006 Summer Season COG rates for Northern Utilities, Inc., we accept the proposed change in calculating COG carrying costs.

KeySpan may take this opportunity to propose appropriate "house-keeping" tariff changes similar to those proposed by Northern Utilities, Inc. For any tariff changes, KeySpan 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 Northern Utilities, Inc., where appropriate.

The Asset Management Agreement and its predecessors were the subject of prior dockets, and one concern addressed in the Settlement Agreement approved in those dockets was the inability of the parties and Staff to identify savings under those agreements due to limited reporting. While the Settlement Agreement is expected to facilitate the identification and reporting of savings, there was testimony that the asset manager had a breadth of involvement in the market and knowledge about the market that KeySpan's personnel might not have. Nevertheless, we note the likelihood that there will be a greater than normal level of transportation capacity available for release this summer, since less capacity is needed to refill underground storage, and that high gas prices will persist. Accordingly, we remind KeySpan of its obligation to take all reasonable and prudent steps to maximize capacity release and off-system sales revenues for the benefit of its New Hampshire ratepayers.

KeySpan has only recently assumed those responsibilities and the EnergyNorth supply portfolio is relatively small in comparison to KeySpan's overall gas supply portfolio. This raises a potential question concerning KeySpan's deployment of the management resources necessary to maximize revenues through capacity releases and off-system sales. To help ensure that those revenues are being maximized, we direct KeySpan to work with Staff to develop reporting methods that will address that potential problem before it arises, and at the earliest date possible.

Regarding KeySpan's Motion for Protection from Public Disclosure and Confidential Treatment (Motion), the New Hampshire Right to Know Law provides each citizen with the right to inspect all public records in the possession of the Commission. *See* RSA 91-A:4, I. The statute contains an exemption, invoked here, for "confidential, commercial or financial information." RSA 91-A:5, IV. In most cases, a balancing test is used to determine whether confidential treatment should be granted. *See e.g., Union Leader Corporation v. New Hampshire Housing Finance Authority,* 142 N.H. 540 (1997).

We note that no parties have objected to the Motion and that the information for which protective treatment is sought is similar to information for which the Commission has granted protective treatment in the past. In balancing the interests for and against public disclosure of the information for which confidential treatment is sought, we are persuaded on the basis of the record in this docket that the interests of KeySpan and ultimately its ratepayers in non-disclosure outweigh the public's interest in obtaining access to the information. We will therefore grant the Motion. Consistent with our practice, the protective treatment provisions of this Order will be subject to the on-going rights of the Commission, on its own motion or on the motion of Staff, any party or any other member of the public, to reconsider in light of RSA 91-A, should circumstances so warrant.

Based upon the foregoing, it is hereby

ORDERED, that KeySpan's proposed 2006 Summer Season COG rates for the period 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	$1.0022	$0.8018	$1.2026
C&I, Low Winter Use	$0.9983	$0.7986	$1.1980
C&I, High Winter Use	$1.0043	$0.8034	$1.2052

FURTHER ORDERED, that KeySpan may, without further Commission action, adjust the approved COG rates upward or downward monthly based on KeySpan'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 cost of gas; and it is

FURTHER ORDERED, that KeySpan provide the Commission with its monthly calculation of the projected over- or under-collection, along with the resulting revised COG rate 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 Cost of Gas Adjustment for firm sales and revised firm rate schedules under separate cover letter if KeySpan elects to adjust the COG rate, with revised tariff pages to be filed as required by N.H. Code Admin. Rules Puc 1603; 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 the Motion for Protection from Public Disclosure and Confidential Treatment is GRANTED to the extent set forth in this Order; 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.

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