DG 06-129

NORTHERN UTILITIES, INC.

2006/2007 Winter Cost of Gas

Order Regarding the Cost of Gas Rates and Local Distribution Adjustment Clause and Other Rates

O R D E R N O. 24,684

October 27, 2006

APPEARANCES: Seth L. Shortlidge, Esq. of Pierce Atwood LLP, and Patricia M. French, Esq., on behalf of Northern Utilities, Inc.; Rorie E.P. Hollenberg, Esq., of the Office of the Consumer Advocate, on behalf of residential ratepayers; and F. Anne Ross, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 15, 2006, Northern Utilities, Inc. (Northern) filed with the New Hampshire Public Utilities Commission (Commission) its proposed Cost of Gas (COG) rate adjustment for the period November 1, 2006, through April 30, 2007, applicable to Northern's natural gas operations in the Seacoast area of New Hampshire. The filing was accompanied by supporting attachments and the Direct Testimony of Ronald D. Gibbons, Manager of Regulatory Accounting, and Francisco C. DaFonte, Director of Energy Supply Services. Accompanying Northern's COG filing was a motion for protective order and confidential treatment regarding supplier pricing, contract quantity and cost information.

On September 22, 2006, the Commission issued an Order of Notice scheduling a hearing for October 18, 2006. On October 2, 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 ratepayers consistent with RSA 363:28. There were no other intervenors in this docket.

On October 18, 2006, Northern filed with the Commission a revised 2006-2007 Winter COG, including supporting attachments. The hearing before the Commission was held as scheduled on October 18, 2006.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern witnesses Gibbons, DaFonte and Joseph A. Ferro, manager of regulatory policy, addressed the following issues: (1) calculation of the COG rates, (2) reasons for the increase and customer bill impacts, (3) supply reliability and price stability, (4) the Local Distribution Adjustment Clause (LDAC) charges and rates, and (5) the transportation supplier balancing charge, peaking service demand charge and capacity allocators.

1. Calculation and Impact of the Firm Sales COG Rates

According to Northern's revised COG filing, the proposed 2006-2007 winter average residential firm sales COG rate of $1.2984 per therm comprises anticipated direct gas costs, indirect gas costs and various adjustments. Anticipated direct gas costs total $40,050,094 and are increased by adjustments totaling $2,264,135 (for a prior period under-collection of $2,248,403 and interest of $15,732). Anticipated indirect gas costs total $1,033,741, consisting of production and storage capacity, working capital, bad debt and overhead charges. The gas costs to be recovered over the 2006/2007 winter period (anticipated direct and indirect costs and adjustments) total $43,347,970 and are divided by projected winter period sales of 33,385,510 therms to arrive at Northern's proposed average COG rate.

Using the methodology approved in Order No. 24,615 (April 28, 2006), Northern applied updated load factor ratios to the unit demand cost component, times the correction factor, and added the remaining average COG unit rate to determine the proposed commercial and industrial

(C&I) low winter use COG rate of $1.2965 per therm and the C&I high winter use COG rate of $1.3119 per therm.

Northern's proposed 2006/2007 Winter COG residential rate of $1.2984 per therm represents an increase of $0.0884 per therm from the average weighted 2005/2006 Winter COG rate of $1.2100 per therm. The combined impact of the proposed firm sales COG and LDAC rates is an increase in the typical residential heating customer's winter gas costs of $80, which represents a 5.3% increase above last winter's rates.

2. Reasons for the Increase

According to Northern, the increase in the proposed COG rate, as compared to last winter's rate, is attributed to increases in the actual and projected natural gas commodity prices and demand charges, in addition to an increase in the prior period under-collection.

3. Supply Reliability and Price Stability

Northern testified that its gas supply portfolio focuses on supply and resource diversity, so there is not too much reliance on any one resource, as well as on economic efficiencies and resource flexibility.

Northern testified that along with pre-purchased supplies in storage, under its hedging plan a substantial volume of index-priced supplies have been hedged for this winter, effectively locking in prices for approximately 77 percent of its winter period supply. As a result of Northern's diverse supply portfolio and hedging, only 23 percent of its forecasted winter period supply is subject to the extremely volatile natural gas commodity market, thereby ensuring a greater level of price stability than would otherwise be the case.

4. LDAC Charges and Rates

Under Northern's proposal, surcharges and credits to be included in the LDAC rate for the winter period are related to environmental costs to remediate Manufactured Gas Plant (MGP) sites, energy efficiency programs and the Residential Low-Income Assistance Program (RLIAP).

In *Northern Utilities, Inc.*, 83 NH PUC 580 (1998), the Commission approved a recovery mechanism for environmental response costs associated with former MGP sites. These costs are filed during Northern's winter COG proceedings for Commission review and are recovered over a seven-year period. Northern filed for recovery of unamortized deferred environmental response costs of $441,746, incurred from July 1, 2005, through June 30, 2006. The response expense, increased by a prior period under-collection of $56,395, and combined with environmental response costs approved for recovery in prior years, results in $498,141 to be recovered from ratepayers over the upcoming year. This yields a proposed environmental response cost rate of $0.0083 per therm to be applied from November 1, 2006, through October 31, 2007.

In *Energy Efficiency Programs for Gas Utilities,* 87 NH PUC 892 (2002), the Commission approved the implementation of energy efficiency programs for New Hampshire's natural gas utilities for a three-year period. Commission Order No. 24,630 (June 8, 2006) approved the continuation of energy efficiency programs for an additional three years. The LDAC rate includes a proposed energy efficiency surcharge of $0.0128 per therm for residential customers and $0.0101 per therm for C&I customers, effective November 1, 2006, through October 31, 2007.

In *New Hampshire Natural Gas Utilities*, Order No. 24,508 (September 1, 2005), the Commission approved implementation of a pilot RLIAP for New Hampshire's natural gas utilities. Commission Order No. 24,669 (September 22, 2006) approved continuation of the RLIAP. The LDAC rate includes a proposed RLIAP surcharge of $0.0050 per therm for all firm sales and transportation customers, effective November 1, 2006, through October 31, 2007.

5. Revised Transportation Charges and Allocators

In *Gas Restructuring-Unbundling and Competition in the Natural Gas Industry,* Order No. 23,652, *supra*, the Commission approved a supplier balancing charge and peaking service demand charge to be updated once a year, commencing with the November billing month. Supplier balancing charges are the charges that suppliers are required to pay Northern for balancing services as Northern attempts to meet the shifting loads for the supplier's customer pools. Peaking service demand charges reflect Northern's peaking resources and associated costs.

Northern proposes to increase the supplier balancing charge from $0.77 per MMBtu to $0.78 per MMBtu of daily imbalance volumes and to decrease the Peaking Service Demand Charge from $22.49 per MMBtu of peak maximum daily quantity (MDQ) to $18.97 per MMBtu of peak MDQ. The changes are based on an update of volumes and costs used in calculating the charges. Finally, the capacity allocator percentages, which are used to allocate pipeline, storage and local peaking capacity to a customer's supplier under the mandatory capacity assignment required by New Hampshire for firm transportation service, have been updated to reflect Northern's supply portfolio for the upcoming year.

B. OCA

The OCA supported Northern's proposed cost of gas but raised questions involving the interplay between interest on monthly reported over- and under-collections and Northern's working capital costs. OCA stated that it wished to reserve the right to request a disallowance related to any double recovery of interest costs in the 2005-2006 winter period, based on the outcome of discussions with the Northern following this docket.

C. Staff

Staff witnesses Robert Wyatt and Stephen Frink testified that Staff had reviewed the cost of gas forecast for the upcoming winter period and found the proposed cost of gas to be reasonable. Further, Staff expressed support for Northern's supply portfolio changes that provide access to the Dawn, Ontario and Chicago natural gas markets and storage fields, as those supply market areas are fed by several pipelines with access to gas supplies from the Gulf of Mexico, Western Canada, the Rocky Mountains and Mid-Continent sources, thereby providing greater supply diversity for improved reliability and pricing opportunities.

Staff expressed concern regarding the possible double recovery of interest through the working capital allowance and the monthly interest earned on under-recoveries. Staff noted that this potential problem is not unique to Northern or to New Hampshire, as the state's other natural gas utility has the same COG mechanism and its electric utilities have a similar mechanism, as do the Maine and Massachusetts gas utilities.

Staff explained that regulatory agencies generally recognize that the level of investment required to operate a utility is not limited to the net plant in service and that there are other items that require investor-supplied capital. These non-plant items are generally referred to as working capital. There are typically two components that comprise working capital: items booked to capital accounts, such as inventories and prepayments; and the cash needed to support expense outlays due to timing differences between receipt of revenues from customers and payment of vendor bills. The latter component can be further subdivided into timing differences related to gas supply issues and non-gas supply issues.

Each New Hampshire gas utility is allowed a supply-related working capital allowance in its COG mechanism computed by performing a "lead-lag" study to determine the number of days between the provision of retail service and the receipt of revenue (lag days) and the number of days between the receipt of gas supply and the payment of gas supply bills (lead days). The net lag or lead in each month is then multiplied by the monthly gas supply cost to calculate the monthly supply-related working capital requirement. This requirement is then multiplied by an appropriate carrying charge rate to determine the working capital allowance to be recovered through the COG.

The COG mechanism also includes a reconciliation mechanism that compares on a monthly basis gas supply costs and revenues. The mechanism requires that interest be applied to the average monthly imbalance (over or under-recovery) at the prime interest rate. Gas supply costs are typically booked in the month in which the gas is consumed. Revenues can be booked in several ways. One way is to book revenues associated with, for example, May consumption in June if the customers who consumed that gas had their meters read in June. Another way is to book all revenues associated with May consumption to the month of May regardless of when meters were actually read. This is consistent with accrual accounting. Of concern in this proceeding is the potential mismatch of monthly costs and revenues due to the use of the first revenue accounting approach and the associated recovery of interest expense. The issue is whether such recovery would amount to double recovery, once through the reconciliation mechanism and a second time through the cash working capital allowance.

Staff stated that it would work with the OCA and the Company to determine if there is a double recovery of interest and, if so, how to resolve the issue. If such a situation exists, Staff indicated it would report its findings and recommendations to the Commission. Staff indicated that it may recommend a disallowance related to any double recovery of interest costs in the 2005-2006 winter period based on the outcome of discussions between the Staff, OCA and Northern.

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 approve Northern's proposed 2006-2007 winter COG rates, LDAC rate components (including environmental cost recovery surcharge, energy efficiency surcharge, and residential low income assistance program surcharge), transportation supplier balancing rate, transportation peaking service demand rate, and transportation capacity allocators.

We understand that Staff, the OCA and Northern intend to conduct further discussions of the process whereby Northern may be double charging interest costs through the COG mechanism, once through the reconciliation mechanism and a second time through the cash working capital allowance. Accordingly, we require the parties at the conclusion of their discussions to file a detailed report that explains any deficiencies with the existing methodology and how Staff and the parties propose to resolve them. Further, we will consider any future recommendations by the Staff, OCA or Northern regarding possible adjustments to the 2005-2006 interest costs that may be filed with the Commission in a future proceeding.

IV. MOTION FOR CONFIDENTIAL TREATMENT

In connection with its COG filing, the Company moved for confidential treatment of its resource, supplier identity and cost information contained in its cost of gas adjustment materials provided in support of NHPUC No. 10, Nineteenth Revised Page 38, as well as in the update to

Northern's Model Delivery tariff . The Company asserts that this material contains confidential information, in the nature of a trade secret.

The 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. Our applicable rule, Puc 203.08, is designed to facilitate the implementation of the statute as it as been interpreted by the courts. 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, 553-554 (1997).

We note that no parties have objected to the motions for confidential treatment and that the information for which such treatment is sought is similar to information for which the Commission has granted confidential treatment in the past. In this case there is a possibility that the identification of suppliers and costs will make it difficult for Northern to negotiate with other suppliers in the future. Conversely, public disclosure of this information would shed relatively little light on how the Commission discharges its responsibilities in COG proceedings. In balancing the interests for and against public disclosure of the information for which confidential treatment is sought, we find, on the basis of the record in this docket, that the interests of Northern in non-disclosure outweigh the public's interest in obtaining access to the information. We therefore grant the motions for confidential treatment at this time. Consistent with our practice, the confidentiality 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 Northern's proposed 2006/2007 Winter period COG rates for the period of November 1, 2006 through April 30, 2007 are APPROVED, effective for service rendered on or after November 1, 2006 as follows:

	Cost of Gas	Minimum COG	Maximum COG
Residential	$1.2984	$1.0387	$1.5581
C&I, Low Winter Use	$1.2965	$1.0372	$1.5558
C&I, High Winter Use	$1.3119	$1.0495	$1.5743

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, *i.e.*, 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 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 Monthly Prime Lending Rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates; and it is

FURTHER ORDERED, that Northern's proposed 2006/2007 Local Distribution Adjustment Clause per therm rates for the period of November 1, 2006 through October 31, 2007 as filed in Proposed Eighth Revised Page 56, Superseding Seventh Revised Page 56, are APPROVED effective for service rendered on or after November 1, 2006 as follows:

	Energy Efficiency	Envir. Response Costs	Residential Low Inc. Assistance	LDAC
Residential Heating	$0.0128	$0.0083	$0.0050	$0.0261
Residential Non-heating	$0.0128	$0.0083	$0.0050	$0.0261
Small C&I	$0.0101	$0.0083	$0.0050	$0.0234
Medium C&I	$0.0101	$0.0083	$0.0050	$0.0234
Large C&I	$0.0101	$0.0083	$0.0050	$0.0234

FURTHER ORDERED, that Northern’s proposed transportation supplier balancing charge of $0.78 per MMBtu of daily imbalance volumes, as filed in Proposed Sixth Revised Page 154, Superseding Fifth Revised Page 154, is APPROVED; and it is

FURTHER ORDERED, that Northern’s proposed transportation peaking service demand charge of $18.97 per MMBtu of peak MDQ, as filed in Proposed Sixth Revised Page 154, Superseding Fifth Revised Page 154, is APPROVED; and it is

FURTHER ORDERED, that Northern’s proposed transportation capacity allocators as filed in Proposed Fifth Revised Page 169, Superseding Fourth Revised Page 169, are APPROVED; and it is

FURTHER ORDERED, that the parties and Staff shall file a report prior to Northern's Summer COG filing on the results of their discussions regarding the calculation of over/under collections and associated interest; 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.

FURTHER ORDERED, that the motions of Northern for confidential treatment of certain information contained in the filing and submitted to Staff in discovery is GRANTED; and it is

FURTHER ORDERED, that the determination as to protective treatment contained herein shall be subject to the ongoing authority of the Commission, on its own motion or on the motion of Staff, any party or any other person, 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-seventh day of October, 2006.

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

Attested by:

Debra A. Howland
Executive Director & Secretary