

**STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DG 08-041**

**NORTHERN UTILITIES, INC.**

**2008 Summer Season Cost of Gas**

**Order Approving Cost of Gas Rates**

**ORDER NO. 24,853**

**April 23, 2008**

**APPEARANCES:** Patricia M. French, Esq., on behalf of Northern Utilities, Inc.; Rorie E.P. Hollenberg, Esq., 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 14, 2008, Northern Utilities, Inc. (Northern or the Company) filed proposed rate adjustments pursuant to the Cost of Gas (COG) clause in its tariff for the period May 1, 2008 through October 31, 2008 (2008 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 Ronald D. Gibbons, manager of rate and regulatory services.

On March 19, 2008, the Commission issued an order of notice scheduling a hearing for April 16, 2008. Also on March 19, the Office of Consumer Advocate (OCA) entered an appearance on behalf of residential ratepayers pursuant to RSA 363:28. There were no intervention requests. On March 25, 2008, Northern filed a motion for confidential treatment of certain materials pursuant to N.H. Code Admin. Rules Puc 203.08(d).

On April 14, 2008, Northern filed a revision to its March 14 proposed COG rate adjustment and on April 16, 2008 the hearing was held as scheduled.

## **II. POSITIONS OF THE PARTIES AND STAFF**

### **A. Northern**

Northern witnesses Gibbons and Francisco C. DaFonte, director of energy supply services, addressed (1) calculation of the proposed COG rates, (2) reasons for the proposed rate increase and customer bill impacts, (3) unaccounted-for gas system losses, and (4) interstate pipeline issues related to Northern's pipeline capacity contract negotiations with Granite State Gas Transmission System (Granite) and recent Federal Energy Regulatory Commission (FERC) filings by Portland Natural Gas Transmission System (PNGTS).

#### **1. Calculation of the Firm Sales COG Rates and Bill Impacts**

Pursuant to its COG clause, Northern may, subject to the Commission's jurisdiction, 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, is calculated by dividing total costs of approximately \$16 million by projected summer season sales of approximately 14 million therms. Costs include: anticipated indirect gas costs, consisting of working capital, bad debt, and overhead charges; anticipated direct costs, consisting of pipeline transportation capacity, storage capacity and commodity charges; and adjustments, consisting of a prior period under-collection, interest and anticipated savings from price hedging.

Northern proposes a 2008 summer season residential COG rate of \$1.1315 per therm which represents an increase of \$0.3031 per therm from the average weighted 2007 summer season residential COG rate of \$0.8284 per therm. The impact of the proposed firm sales COG

rate is an increase in the typical residential heating customer's summer gas costs of \$94, which represents a 21 percent increase above last summer's rates.

Northern proposed commercial and industrial (C&I) low winter use (LW) and high winter use (HW) COG rates that were determined using the simplified market-based allocation (SMBA) methodology as follows: \$1.1143 per therm for the LW COG rate and \$1.1822 per therm for the HW COG. (C&I LW customers have high load factors while C&I HW customers have low load factors.) The Company incorporated some changes into the SMBA schedules that allow for a more efficient review of how the allocations are utilized in determining the COG rates for these customer classes.

## **2. Reasons for the Increase in the Residential COG Rate**

The increase in the proposed residential COG rate, as compared to last summer's rate, can be primarily attributed to an increase in projected commodity costs.

## **3. Unaccounted-for gas system losses**

Northern is involved in a highly technical investigation and negotiation involving the incorrect metering of gas volumes received by Granite at the Newington meter from PNGTS, due to a programming error on the PNGTS meter. This error resulted in Northern's volumes received at this point being over-stated and, consequently, over-billed by its suppliers. The problem also increased Northern's unaccounted-for gas system losses. Staff questioned Northern about the unaccounted-for increases during the prior winter period cost-of-gas proceedings. This prompted Northern to launch an internal investigation to determine the cause of this increase. The investigation now involves multiple pipelines, suppliers and other entities, making a timely

resolution difficult. Northern will continue to report to the Commission regarding progress of the negotiations.

#### **4. Granite and PNGTS pipeline issues**

Northern's current special contract for firm pipeline capacity with Granite expires on October 31, 2008. The Company reported that it was in negotiations with Granite for a new capacity agreement and had submitted a proposal, to which Granite had not yet responded. The Company indicated it expects to have a new agreement in place prior to November 1, 2008, the beginning of the winter COG season.

Northern contracts for a significant portion of its pipeline capacity from PNGTS. PNGTS has recently made two filings with the FERC that may impact Northern. First, PNGTS filed a petition for declaratory order<sup>1</sup> that its certificated capacity be reduced from approximately 210,000 to 168,000 dekatherms per day. Northern has intervened in this docket and is taking an active role in protecting the interests of its customers. The Company is concerned that this reduction, if approved, could have future rate implications for existing contract holders on PNGTS. Also, Northern has intervened in the PNGTS FERC rate filing<sup>2</sup> for a 90 cent per unit demand rate, a 7 cent increase over the current rate of 83 cents. A 90 cent per unit rate would increase Northern's annual gas costs by \$700,000 (for both Maine and New Hampshire), almost all of which would be recovered through winter COG rates.

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<sup>1</sup> FERC docket no. CP 08-070-000.

<sup>2</sup> FERC docket no. RP 08-306-000.

## **5. Motion for Confidential Treatment**

Northern requested confidential treatment of certain information contained in its discovery responses, i.e., Attachment Staff 1-14(b) (contract negotiations with a supplier to address Northern's future capacity needs), Attachment Staff 1-3 (contract MDQs and applicable unit demand costs), Attachments 1-6(a) and 6(b) (delivered commodity costs reflecting negotiated pricing provisions), and Attachment 1-6(c) (contract containing such delivered commodity costs). The Company asserted that this information contains confidential trade secrets and competitively sensitive commercial information that the Company does not disclose to anyone outside of its corporate affiliates and authorized representatives. According to Northern, release of this information would likely result in competitive disadvantage for the Company in its bargaining position with its suppliers of gas commodity, transportation, peaking and related services, which could result in more expensive contracts or less advantageous contract terms as gas suppliers possessing the information would know the Company'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 favorable than those which the Company seeks to protect, which could ultimately result in higher prices and associated costs to customers.

### **B. Office of Consumer Advocate**

The OCA supported Northern's proposed COG rates in this case. The OCA awaits the final report from the Company related to the unaccounted for and metering error investigation. The OCA also commended the Company for its active role in the open FERC dockets related to PNGTS.

### **C. Staff**

Staff supported the Northern proposed summer 2008 COG rates as presented in the revised filing. Staff also supported Northern's updates to the tariff which relate to the SMBA methodology and the cost of gas calculation. The Company stated those tariff revisions will be filed as part of the compliance filing. Staff noted that the Commission's audit Staff had reviewed the 2007 summer season reconciliation and found no substantive exceptions and that the sales forecast is generally consistent with prior forecasts and reflects market expectations.

According to Staff, the SMBA method of assigning various pipeline, supply, storage and peaking resource costs to C&I customer classes based on load shapes of those groups seems to match resources more closely with actual load patterns. Staff continues to work with the Company to make the SMBA schedules used to develop the cost of gas rate as transparent as possible. Residential customers continue to be allocated gas costs based on the system average cost of gas.

Staff reserved judgment on Northern's prior period unaccounted-for discrepancies until the Company completes its internal investigation and files its report with the Commission. Staff encouraged the Company to advance its negotiations with the Granite State pipeline group to secure essential pipeline capacity prior to next winter's COG filing. Staff commended the Company for its active role in the PNGTS dockets.

### **III. COMMISSION ANALYSIS**

Based on our review of the record in this docket, including Staff's investigation and sound recommendations, we approve Northern's proposed COG rates as just, reasonable and

lawful pursuant to RSA 378:7, subject to resolution of the outstanding issues in Docket No.s DG 07-033 and DG 07-072.

Regarding Northern's motion for confidential treatment, 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. In most cases, a balancing test is used to determine whether confidential treatment should be granted. *See e.g., Union Leader Corp. v. New Hampshire Housing Fin. Auth.*, 142 N.H. 540 (1997).

We note that no parties have objected to the motions and that the information for which confidential, protective treatment is sought is the same or similar to information for which the Commission has granted such treatment in the past. *See e.g., EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England*, Order No. 24,842 (April, 4, 2008). In balancing the interests for and against public disclosure of the information for which confidential, protective treatment is sought, we are persuaded on the basis of the record in this docket that the interests of Northern and ultimately its ratepayers in non-disclosure outweigh the public's interest in obtaining access to the information. We 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.

We encourage the Company to continue working with Staff and the OCA when updates to schedules in the COG filing are necessary, in order to allow for a more transparent and

efficient review. We support updates to the tariff which will clearly reflect the SMBA method used to allocate costs to the C&I HW and C&I LW customer classes.

We encourage the Company to complete its internal investigation on the unaccounted for issue. This issue was first reported during the previous winter period COG proceedings and the winter 2006-2007 and summer 2007 COG reconciliations will likely be impacted by its resolution. We would like to see it resolved prior to the 2008-2009 winter COG.

As for the Granite State pipeline contract negotiations, we expect that the Company will do what is necessary to move the negotiations along and resolve this issue in a way that provides safe and reliable service at the least cost, prior to the November 1, 2008. Finally, we commend the Company for its active involvement in the FERC dockets addressing PNGTS capacity and rates.

**Based upon the foregoing, it is hereby**

**ORDERED**, that Northern’s proposed 2008 summer season COG rates for the period of May 1, 2008 through October 31, 2008 are **APPROVED**, effective for service rendered on or after May 1, 2008 as follows:

	<b>Cost of Gas</b>	<b>Minimum COG</b>	<b>Maximum COG</b>
<b>Residential</b>	\$1.1315	\$0.9052	\$1.3578
<b>C&amp;I, Low Winter Use</b>	\$1.1143	\$0.8914	\$1.3372
<b>C&amp;I, High Winter Use</b>	\$1.1822	\$0.9458	\$1.4186

; and it is



**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 the pending motion for confidential treatment is GRANTED as set forth in this Order; 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. Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-third day of  
April, 2008.

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Thomas B. Getz  
Chairman

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Graham J. Morrison  
Commissioner

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Clifton C. Below  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director & Secretary