STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 07-050

ENERGYNORTH NATURAL GAS, INC. d/b/a
KEYSPAN ENERGY DELIVERY NEW ENGLAND

Order Approving Partial Settlement Agreement

O R D E R N O. 24,858

May 23, 2008

APPEARANCES: Steven V. Camerino, Esq. of McLane, Graf, Raulerson, and Middleton, and Thomas P. O'Neill, Esq., on behalf of EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England; Kenneth E. Traum, of the Office of the Consumer Advocate, on behalf of residential utility ratepayers; and F. Anne Ross, Esq. for the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

In *EnergyNorth Natural Gas, Inc.*, Order No. 24,688 (October 27, 2006), the Commission reserved, pending further inquiry, a decision on the potential for double recovery of interest through the cost-of-gas reconciliation mechanism and through interest on cash working capital, as well as the appropriate bad debt percentage to be used for cost of gas calculations.

On March 29, 2007, pursuant to Order No. 24,688, Staff filed a memorandum with the Commission reporting the results of discussions with EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England ("EnergyNorth") regarding the reserved issues. Having failed to reach agreement with the parties, Staff recommended that the Commission open a new docket to address the reserved issues as well as an analysis of the lead/lag study used by EnergyNorth to calculate its cash working capital requirement and the interest rate applied to the cash working capital requirement.

On April 10, 2007, the Commission issued an order of notice scheduling a prehearing conference for May 3, 2007. On April 16, 2007, the Office of the Consumer Advocate (OCA) entered an appearance on behalf of residential ratepayers pursuant to RSA 363:28. The prehearing conference took place as scheduled.

On May 11, 2007, EnergyNorth filed a motion requesting that the Commission consolidate this proceeding with Docket No. DG 07-033, a proceeding opened to consider the summer-season cost-of-gas adjustment for Northern Utilities. In Order No. 24,743 issued on April 27, 2007 in that docket, the Commission stated that it intended to consider post-hearing briefs regarding: (1) over-collection of the cost of timing differences between the payment of gas supply costs and the receipt of gas revenues, and (2) the appropriate carrying charge rate used to calculate the cost of supply-related working capital. EnergyNorth argued that consolidation was appropriate because the two dockets involved the same issues. EnergyNorth subsequently withdrew its motion to consolidate on May 23, 2007.

On May 23, 2007, the Commission issued a secretarial letter notifying the parties that it would open a third docket to consider an appropriate carrying charge rates for supply-related working capital for both EnergyNorth and Northern.[1] The Commission also announced that it would resolve the remaining issues in two separate dockets, DG 07-050 (EnergyNorth) and DG 07-033 (Northern).

On June 22, 2007, Amanda O. Noonan, director of the consumer affairs division, and George R. McCluskey, a utility analyst, filed testimony on behalf of Staff. On August 31, 2007, Ann E. Leary, manager of rates and regulatory affairs, and Kimberly Ahern, manager of collections and payment processing, filed testimony on behalf of EnergyNorth. On October 19, 2007, Ms. Noonan and McCluskey filed surrebuttal testimony on behalf of Staff, and on November 1, 2007 Ms. Leary filed supplemental testimony on behalf of EnergyNorth.

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[1] That docket was subsequently opened as DG 07-072.

On November 2, 2007, Staff, OCA and EnergyNorth filed a partial settlement agreement. Hearings were held on November 5 and 8, 2007. The partial settlement resolved all of the issues in this proceeding except the issue of the use of accrued revenues instead of billed revenues for purposes of determining the level of over- or under-collection of gas costs through the cost of gas rates, which is the subject of a motion for rehearing filed by Northern in DG 07-033 and, depending on the final outcome of Docket DG 07-033, how a transition from one method to the other should be accomplished.

On November 20, 2007, Staff filed a motion to reopen the record and submit revised surrebuttal testimony concerning the contested issues pursuant to N.H. Code Admin. Rules Puc 203.30. On December 3, 2007, EnergyNorth filed a response to Staff's motion to reopen the record, noting that it did not object to Staff's request so long as EnergyNorth was allowed an opportunity to conduct discovery regarding the revised surrebuttal testimony as well as an opportunity to cross-examine Mr. McCluskey.

II. POSITIONS OF THE STAFF AND PARTIES

A. Staff

Mr. McCluskey's testimony dealt with: (1) the EnergyNorth lead/lag study that underlies the current allowance for supply related cash working capital filed September 2006 in DG 06-121, and (2) the calculation of the bad debt percentage which determines the amount of bad debt expense recovered through the cost-of-gas rate. On issues relating to possible over-collection of carrying costs on supply related cash working capital due to the interplay of two adjustments to the cost-of-gas (COG) rate, (one to recover/repay monthly under/over collection balances and the second to recover the allowance for cash working capital), Mr. McCluskey adopted as his written testimony his analysis contained in Staff's March 29, 2007 memorandum.

Mr. McCluskey explained that the cash working capital allowance included in EnergyNorth's COG rate is a function of the net lag between the receipt of gas supply revenues and the payment of gas supply costs. Mr. McCluskey disagreed with EnergyNorth's method for calculating the net lag in its lead/lag study which uses the year 2005 as a base (2005 study) and which formed the basis for the net lag proposed by EnergyNorth in DG 06-121. The 2005 study produced a total revenue lag of 60.28 days which was offset by an expense lead of 39.99 days resulting in a net lag (that is, revenue lag minus expense lead) of 20.2 days.

Mr. McCluskey noted that revenue lag typically is composed of four components: (a) the service lag, the billing lag, the collections lag, and the payment processing lag. Mr. McCluskey found three flaws in the method used by EnergyNorth to calculate the collections lag: (1) the use of gas costs as a proxy for gas revenues, (2) the use of rolling twelve- month gas costs instead of monthly gas revenues, and (3) the use of net write-offs instead of gross write-offs to adjust accounts receivable (A/R) balances. According to Mr. McCluskey, each of these flaws caused the collections lag to be longer than it would otherwise have been based upon the standard A/R turnover method.

Mr. McCluskey stated that his analysis did not support EnergyNorth's assumption that gas costs are a good proxy for gas revenues. Mr. McCluskey explained that EnergyNorth's use of a rolling twelve months of gas costs to calculate monthly collection lags created a mismatch with the end-of-month accounts receivable balances. According to Mr. McCluskey, this is because most of the revenues that make up the accounts receivable monthly balances relate to accounts that have been outstanding for less than 30 days. Thus, if the average gas price over the last twelve months is significantly higher or lower than the average for the current month, the ratios will overstate or understate the collection lags, according to Mr. McCluskey. He further disagreed with EnergyNorth's adjustment of accounts receivable balances by monthly net write-offs rather than gross write-offs. According to Mr. McCluskey, once an account has been written off, it can no longer be considered a receivable; when a payment is recovered on a written off account, the write-off balance should merely be reduced in the write-off account.

Mr. McCluskey noted that the net lag of 20.2 days produced by the 2005 study is: (1) almost 80 percent higher than the 11.3 net lag days used by EnergyNorth for cash working capital purposes prior to the 2005 study, and (2) significantly higher than the net lag used by other New Hampshire utilities such as National Grid, Northern Utilities and Unitil. In surrebuttal testimony, Mr. McCluskey recommended a 36.75-day collection lag, a 15.21-day service lag, and a 1.51 day billing lag, which together produce a 53.47 day revenue lag. When subtracting the expense lead of 39.99 days produced by EnergyNorth, Mr. McCluskey calculated a net lag of 13.48 days, a result he considered reasonable.

Mr. McCluskey also had concerns with the calculation of EnergyNorth's bad debt percentage. According to Mr. McCluskey, the $3.536 million cost that EnergyNorth used to calculate its proposed bad debt percentage is not the supply-related portion of the actual net write-off in 2005. The supply related portion of the actual net write-offs is much smaller, around $2.8 million. The $3.536 million cost is the supply-related portion of the uncollectible accounts expense, which EnergyNorth developed for financial reporting purposes and is an estimate of the amount related to consumption in 2005 that will be written-off in 2005 and in subsequent years. Mr. McCluskey recommended that EnergyNorth change its method for calculating bad debt percentage to use actual net write-offs rather than uncollectible account expense. Mr. McCluskey stated that if EnergyNorth had used the supply related portion of the actual net write offs in 2005, which is the method used by other New Hampshire utilities, the bad debt percentage would have been 2.37 percent instead of EnergyNorth's proposed 2.98 percent.

Ms. Noonan's testimony addressed EnergyNorth's bad debt allowance. Ms. Noonan noted that the consumer affairs division receives a few hundred calls a year from EnergyNorth customers, many of whom have large outstanding balances. According to Ms. Noonan, such large account balances are a symptom of an apparent lack of collection activity and illustrate problems with EnergyNorth's collections process. Ms. Noonan provided several examples of EnergyNorth customers contacting the Commission regarding bills which were years overdue and for which no prior disconnect notices had been received.

Ms. Noonan also noted that EnergyNorth's ratio of bad debt write-offs to revenue was significantly higher than those of several other utilities within the state. Ms. Noonan compared census data for the service territories of EnergyNorth and Northern Utilities and concluded that the demographics in both companies' service territories were similar. Having eliminated differences in service territories between EnergyNorth and Northern as a reason for their bad debt levels, Ms. Noonan looked at disconnection activity and noted that EnergyNorth's lagged behind that of Northern. Ms. Noonan attributed this to EnergyNorth's failure to send out and act upon disconnection notices. Ms. Noonan did note, however, that EnergyNorth had lowered its bad debt ratio from 2.98 percent in 2005 to 2.24 percent in 2006, adding that EnergyNorth needed to work to lower its bad debt ratio further.

In surrebuttal testimony, Ms. Noonan noted that, between April 1 and November 15, EnergyNorth's policy is to issue disconnection notices to heating customers with balances greater than $500.00 and to non-heating customers with balances greater than $125.00, with no disconnection notices issued for heating customers between November 16 and March 31. Ms.

Noonan stated that one possible reason EnergyNorth had a lower percentage of disconnection notices than Northern could be that EnergyNorth is not sending notices to every customer with a balance in excess of $500. Ms. Noonan also cited data on average arrearage balances for EnergyNorth customers compared to balances for Northern customers. The data showed that arrearage balances were 90 percent higher for EnergyNorth customers.

Mr. McCluskey recommended a bad debt percentage of 1.54 percent for EnergyNorth. Ms. Noonan stated that although EnergyNorth's actual bad debt percentage improved in 2006 to 2.24 percent, she supported the figure of 1.54 percent recommended by Mr. McCluskey as a suitable bad debt percentage for EnergyNorth given the problems with its collections performance outlined in her testimony.

B. Office of Consumer Advocate

While it did not file testimony in this proceeding, OCA is a party to the partial settlement. OCA shared Staff's concerns regarding EnergyNorth's cost-of-gas rate reconciliation mechanism, working capital calculation and bad debt percentage. OCA supported Staff's recommendations in this docket.

C. EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England

In her testimony regarding EnergyNorth's 2005 lead/lag study, Ms. Leary made several arguments relating to opinions of Staff witnesses McCluskey and Noonan. Ms. Leary stated that EnergyNorth used gas supply costs as a proxy for gas supply revenues because over time these two amounts will be quite close to one another. According to Ms. Leary, the Company's 2005 study used gas costs instead of revenues solely for the purpose of approximating the portion of total accounts receivable associated with the gas supply portion of customers' bills. In order to conduct a lead/lag study for the gas supply function only, Ms. Leary explained that one must know the portion of total receivables that arise from the sale of gas to customers, as opposed to the portion that arises from the provision of delivery service.

Ms. Leary also disagreed with Mr. McCluskey's criticism that EnergyNorth used rolling twelve-month periods of gas costs in the calculation of monthly collection lags. Ms. Leary stated that although Mr. McCluskey's simplified approach for calculating lag is used by some utilities, it is not a good measure of true lag under current conditions. Ms. Leary argued that EnergyNorth's method better reflects its collection lag by addressing issues of rising gas costs.

Ms. Leary had three major concerns with Mr. McCluskey's testimony regarding EnergyNorth's lead/lag methodology. The first was that Mr. McCluskey mixed and matched gas costs and gas revenues in his calculation of the collection lag which created a significant error. Secondly, Mr. McCluskey ignored the fact that his proposed use of the accounts receivable turnover method is confiscatory during a period of generally rising gas prices. Finally, Ms. Leary contended that Mr. McCluskey made an arbitrary downward adjustment to the collection lag in order to penalize EnergyNorth for collection issues discussed by Ms. Noonan.

Ms. Leary also disagreed with Mr. McCluskey's use of write-offs as a percentage of revenues to demonstrate EnergyNorth's poor collection practices. Ms. Leary found comparisons of EnergyNorth's write-offs to revenue ratios with other utilities inappropriate. Ms. Leary disagreed with Mr. McCluskey's testimony regarding the use of gross write-offs to calculate monthly accounts receivable balances. Ms. Leary claimed that EnergyNorth must use net and not gross write-offs in its calculations, otherwise the recovery portion would be double-counted and the accounts receivable balance would be understated.

Ultimately, Ms. Leary argued that the lead/lag study should not be considered in this docket because it was not specifically agreed to by the parties or reserved in Order No. 24,688.

Ms. Leary stated that EnergyNorth agreed to leave the issue of an appropriate bad debt ratio open as part of an agreement to allow the remainder of the Company's indirect gas costs to go into effect in Docket No. DG 06-121. Ms. Leary also requested that EnergyNorth be allowed to recover through its cost-of-gas rates the reasonable costs of litigating the lead/lag issue since the conclusion of DG 06-121.

Ms. Ahern of EnergyNorth also filed testimony responding to Ms. Noonan. Ms. Ahern stated that she did not agree with Ms. Noonan's conclusion that the Company had experienced an increase in its bad debt percentage because of problems with its collection process. Ms. Ahern asserted that Ms. Noonan relied on anecdotal evidence as well as an inappropriate comparison to Northern Utilities' bad debt performance. Ms. Ahern did not agree that Northern and EnergyNorth should have similar bad debt ratios on the ground that there is no evidence that this has ever been the case.

Ms. Ahern observed that EnergyNorth's bad debt percentage was approximately three times that of Northern when both companies' indirect gas costs were first established in 2000. Even during the 2000 era of lower gas prices, Northern has consistently had approximately one third of the bad debt percentage that EnergyNorth has had. Ms. Ahern also noted that the relationship between EnergyNorth and Northern's bad debt percentages is similar for 1999 through 2005. According to Ms. Ahern, a fair conclusion would be that the economic factors at work in the gas industry have affected their uncollectible expenses equally.

Ms. Ahern stated that the increase in write-offs experienced by EnergyNorth is a nationwide problem and has been experienced by many utilities. Ms. Ahern stated that there are demographic and other differences between the EnergyNorth and Northern service territories that have caused the historical disparity in bad debt levels. For example, low income discounts in

2006 applied to 7.5 percent of EnergyNorth's residential heating customers, but to only 3.5 percent of Northern's customers. In Ms. Ahern's opinion, this demonstrates that EnergyNorth's service territory has a substantially higher percentage of families with limited incomes.

Ms. Ahern noted that EnergyNorth found through discovery that the Commission actually received fewer calls from EnergyNorth customers relating to billing and collection issues than Northern customers, when those calls were shown as a percentage of customer base. Ms. Ahern argued that the customers Ms. Noonan included in her testimony were not typical EnergyNorth customers with overdue accounts, but were some of the more extreme cases. According to Ms. Ahern, those extreme examples demonstrate the significant collections efforts and obstacles EnergyNorth faces in many instances.

Ms. Ahern explained that EnergyNorth customers are assessed a "risk score" which is continually reevaluated and moves higher or lower based on customer behavior. EnergyNorth collections procedures generally begin with dunning notices, move to outbound collection calls, then to disconnection notifications. This process is followed by door-to-door field collections, leaving door hangers if customers are unavailable, and ultimately, locking meters for non-payment.. Finally, if necessary, EnergyNorth resorts to litigation to recover unpaid bills wherever a customer may have assets.

According to Ms. Ahern, a monthly collection report is generated and provided to the Commission. That report includes the number of terminations, reconnections, and number and dollar amounts of write-offs. EnergyNorth actively manages, reviews, and works its accounts receivable through its collection processes. Ms. Ahern stated that this collection performance reveals that EnergyNorth's experience is consistent with national trends and mirrors historical performance of EnergyNorth relative to Northern. She recommended that the Commission approve a bad debt percentage of 2.98.

On November 1, 2007, Ms. Leary filed additional testimony regarding the method used to determine the over/under collection. Ms. Leary stated that EnergyNorth intends to accept the final outcome of that issue as determined in the Northern proceeding Docket No., DG 07-033. Ms. Leary also indicated that, if the Commission ultimately determines in the Northern docket that gas utilities must use accrued rather than billed revenues for purposes of calculating the over/under collection of gas costs, EnergyNorth reserves the right to address the issue of how the transition from the old method to the new should be accomplished.

III. PARTIAL SETTLEMENT AGREEMENT

The partial settlement is intended to resolve all of the issues in this proceeding except the issue of the use of accrued instead of billed revenues for purposes of determining the level of over or under collected gas costs to be recovered through the COG, which is also the subject of a motion for rehearing filed by Northern Utilities, Inc. in Docket No. DG 07-033, and how the transition from one method of revenue accounting to the other should be accomplished.

A. Principal Terms of the Agreement

1. EnergyNorth will use a net lag of 13.48 days to calculate its cash working capital for purposes of determining its cost-of-gas rates effective May 1, 2007. The net lag of 13.48 days shall be used for such purpose until a different figure is approved by the Commission.

2. For purposes of calculating the indirect gas costs included for recovery through its COG rates, EnergyNorth will use a bad debt percentage of 2.00 percent for rates in effect for the period November 1, 2006 through October 31, 2007 and 1.75 percent for rates in effect from November 1, 2007 until a new bad debt percentage is determined in the base rate case

contemplated by the settlement in Docket No. DG 06-107 (regarding the proposed merger of EnergyNorth Natural Gas Inc. and National Grid USA, Inc.). The bad debt percentage determined in the base rate case will be effective, for delivery rate purposes, as of the same effective date as the change in delivery rates and, for cost-of-gas purposes, as of the effective date of the rates set based on the first cost-of-gas filing after the conclusion of the base rate case (which is expected to be May 1, 2009).

3. EnergyNorth will file a written plan setting forth its proposed collections process on a going-forward basis for review by Staff. The plan will be filed no later than the date of EnergyNorth's upcoming base rate case filing. The prudently incurred costs of the collections process described in the plan (including, on an annualized basis, any costs that are incremental to those reflected in the Company's test year) shall be recoverable through the rates set in the base rate case. EnergyNorth may include in its filing a plan for addressing the Staff's concerns regarding the practice of using a “soft off” process for terminating service to customers.

4. In its base rate case, EnergyNorth will adopt the Staff's accounts receivable turnover lead/lag method described in the direct testimony of Mr. McCluskey dated June 22, 2007 as modified by the Joint Surrebuttal Testimony of Ms. Noonan and Mr. McCluskey dated October 19, 2007.

5. In its base rate case, EnergyNorth will adopt Staff's recommendation on the method for calculating the bad debt percentage by replacing uncollectible accounts expense with actual net write-offs.

6. EnergyNorth and Staff will agree on an independent consultant to recommend an appropriate bad debt percentage for EnergyNorth that reflects the Company's particular circumstances. The recommendation of the consultant shall be non-binding, and EnergyNorth,

Staff and OCA each reserve the right to argue for a different percentage during the Company's base rate case proceeding.

At hearing on the partial settlement, EnergyNorth agreed to make any adjustments to the cost of gas rates caused by the terms of the partial settlement through the annual reconciliation of the cost-of-gas rates. EnergyNorth indicated at hearing that the base rate case was to be filed by February 24, 2008. At hearing, Staff supported the partial settlement as a fair resolution of the issues covered and recommended that the Commission approve the partial settlement as consistent with the public interest.

IV. COMMISSION ANALYSIS

In this order we address only the issues resolved by the partial settlement. We will resolve the remaining contested issues regarding the cost of gas reconciliation mechanism in a subsequent order.

Our rules provide for resolution of a contested case by settlement if we determine that the result is just, reasonable and serves the public interest. N.H. Code Admin. R. Puc 203.20. In this case all parties agreed to the terms of the partial settlement.

The partial settlement includes reductions in the Company's bad debt ratio as well as a commitment by the Company to develop a plan to further lower bad debt. We note that the Company has recently made some progress in reducing its actual bad debt ratio and we believe that this progress is likely to continue under the terms of the partial settlement. The terms of the partial settlement relating to changes in the method for calculating the Company's lead/lag and its bad debt percentage appear to be reasonable and are designed to make such calculations uniform for New Hampshire utilities.

We find the terms of the partial settlement to be just, reasonable and in the public interest and further find that implementing the partial settlement will facilitate final resolution of these issues in the base rate case, Docket No. DG 08-009. Therefore, we approve the terms of the partial settlement and direct the Company to implement them in its cost of gas filings as well as in the base rate case.

Based upon the foregoing, it is hereby

ORDERED, that the terms of the parties' partial settlement agreement are approved; and it is

FURTHER ORDERED, that EnergyNorth implement the terms of the partial settlement in its base rate case, Docket No. DG 08-009, and in its cost of gas reconciliation proceedings.

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

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

Attested by:

Debra A. Howland
Executive Director & Secretary