STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 08-106

ENERGYNORTH NATURAL GAS, INC. D/B/A
NATIONAL GRID NH

2008/2009 Winter Cost of Gas

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

O R D E R N O. 24,909

October 29, 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 National Grid NH; Meredith Hatfield and Rorie Hollenberg, of the Office of the Consumer Advocate, on behalf of residential utility ratepayers; and Edward N. Damon, Esq. for the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

On August 29, 2008, EnergyNorth Natural Gas, Inc. d/b/a National Grid NH (EnergyNorth), a public utility that distributes natural gas in 29 cities and towns in southern and central New Hampshire and the City of Berlin, filed its cost of gas (COG) and other rate adjustments for the 2008-2009 winter period. EnergyNorth's filing included the direct testimony and supporting attachments of Ann E. Leary, manager of pricing – New England, Theodore E. Poe, Jr., lead analyst, and Michele V. Leone, manager of the New England site investigation and remediation program. The previous day, EnergyNorth had filed a motion for confidential treatment regarding specific schedules in the 2008-2009 cost of gas filing.

On September 4, 2008, the Commission issued an order of notice scheduling a hearing for October 21, 2008. On September 11, 2008, the Office of Consumer Advocate (OCA) notified the Commission of its participation in the docket on behalf of residential ratepayers consistent with RSA 363:28. There are no other intervenors in this docket. On October 17, 2008, EnergyNorth filed a revised cost of gas filing with supporting testimony and schedules. On October 20, 2007, Staff filed the direct testimony of Robert J. Wyatt, Utility Analyst III and a hearing on the revised COG was held on October 21, 2008.

II. POSITIONS OF THE PARTIES AND STAFF

A. EnergyNorth

EnergyNorth witnesses Leary and Poe testified about: (1) calculation of the firm sales COG and fixed price option (FPO) rates and customer bill impacts; (2) supply reliability and price stability; (3) firm transportation COG rate; (4) transportation supplier balancing charge, peaking service demand charge and capacity allocators; and (5) local distribution adjustment clause (LDAC) rates.

EnergyNorth witness Leone testified regarding the status of site investigation and remediation efforts at the various manufactured gas plant (MGP) sites in New Hampshire and EnergyNorth's efforts to seek reimbursement of its MGP-related costs from third parties in order to reduce the costs recovered from EnergyNorth's customers. The costs associated with these efforts and the amounts recovered from third parties are detailed in testimony and supporting schedules and other data supplied by Ms. Leary.

1. Calculation and Impact of the Firm Sales COG & FPO Rates

The revised proposed 2008-2009 winter COG average residential firm sales rate of $1.1837 per therm is composed of anticipated direct gas costs, indirect gas costs and various adjustments. Unadjusted anticipated direct gas costs total $103,728,258, and adjustments collectively comprise an additional cost of $2,101,582. Anticipated indirect gas costs total

$3,038,592, consisting of working capital, bad debt, production and storage capacity, and overhead charges. The gas costs proposed for recovery over the 2008-2009 winter period (the anticipated direct and indirect costs and adjustments) total $108,868,432 and are divided by projected winter period sales of 91,973,236 therms to arrive at the average proposed COG rate of $1.1837 per therm.

Using the method approved in *EnergyNorth Natural Gas, Inc.*, Order No. 24,618, 91 NH PUC 192 (2006), EnergyNorth applied updated load factor ratios to the unit demand cost component, multiplied by the correction factor, and added the remaining average COG unit rate to determine the proposed C&I low winter use COG rate of $1.1826 per therm and the C&I high winter use COG rate of $1.1839 per therm.

The 2008-2009 winter FPO rates are set $0.02 above the COG rates proposed in EnergyNorth's initial COG filing, in accordance with the method approved in *EnergyNorth Natural Gas, Inc*., Order No. 24,529, 90 NH PUC 441 (2005). The proposed per therm FPO rates are as follows: residential, $1.2835; commercial and industrial (C&I) low winter use, $1.2830; and C&I high winter use, $1.2836.

Assuming no subsequent adjustment to the initial rate, the combined estimated impact of the proposed firm sales COG rate, LDAC rate and temporary delivery rates produces winter gas costs for a typical residential heating customer comparable to last year.

2. Supply Reliability and Price Stability

EnergyNorth testified that it holds a diverse gas supply portfolio, with winter supplies coming from three major sources – Canada, the Gulf of Mexico and underground storage, primarily in Pennsylvania and New York. In addition to those supplies, EnergyNorth has secured liquefied natural gas (LNG) and propane for use in its local peakshaving facilities, as well as pipeline peaking contracts with Virginia Power Energy Marketing and AES Londonderry, LLC for additional supplies to be delivered directly to EnergyNorth’s city gates.

EnergyNorth testified that along with pre-purchased supplies in storage, a substantial volume of index-priced supplies has been hedged for this winter pursuant to its hedging plan, effectively locking in prices for approximately 73 percent of its winter supply. As a result of EnergyNorth's storage supplies and hedging practices, the remaining 27 percent of its forecasted winter supply is subject to changes in the natural gas commodity market.

EnergyNorth also expressed its support for the modified monthly adjustment mechanism proposed by Staff in its testimony. EnergyNorth noted that the mechanism has changed over time to accommodate changes in the energy markets and implementing the proposal will allow for more timely adjustments with reduced administrative costs.

Regarding Staff’s testimony encouraging EnergyNorth’s late winter use of available storage supply to optimize costs within the COG period, rather than relying on the NYMEX forward strip prices beyond the COG period to make resource decisions seeking to optimize costs on an overall basis, EnergyNorth stated that reasonable minds could differ on the issue, but it did not object to Staff’s proposal. The Company, however seeks the Commission’s feedback from a prudence review standpoint.

3. Firm Transportation COG Rate

The proposed firm transportation COG rate of ($0.0001) per therm is a decrease of $0.0043 from last winter’s rate of $0.0042 per therm. This decrease is largely a result of a prior period over-collection of $76,753 to be credited through this year’s rate, compared to a prior period under-recovery of $4,474 recovered through last year’s rate.

4. Revised Transportation Rates and Allocators

In *Gas Restructuring-Unbundling and Competition in the Natural Gas Industry,* Order No. 23,652, 86 NH PUC 131 (2001), 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 relate to daily imbalances in each supplier’s resource pool at EnergyNorth delivery points (city gates). The suppliers pay EnergyNorth supplier balancing charges as compensation for costs incurred by EnergyNorth to stay within daily operational balancing tolerances on the Tennessee Gas Pipeline. Peaking service demand charges reflect EnergyNorth’s peaking resources and associated costs. EnergyNorth proposes to increase the supplier balancing charge from $0.10 per MMBtu to $0.12 per MMBtu of daily imbalance volumes and decrease the peaking service demand charge from $14.41 per MMBtu of peak maximum daily quantity (MDQ) to $10.02 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 EnergyNorth’s supply portfolio for the upcoming year.

5. LDAC Rates

The LDAC rates that EnergyNorth proposes to bill from November 1, 2008 through October 31, 2009 include charges for demand-side management (DSM) lost revenues, energy efficiency programs, certain environmental remediation costs for the clean up of MGP sites in New Hampshire, and lost revenues and program costs associated with the Residential Low Income Assistance Program (RLIAP). EnergyNorth proposes a $0.0006 per therm DSM charge for residential heating customers to recover lost revenues that resulted from discontinued DSM programs. EnergyNorth proposes a $0.0000 per therm DSM charge for its non-heating residential and C&I customers. (The calculation for the C&I customers rounds to zero at the fourth decimal.)

In *Energy Efficiency Programs for Gas Utilities*, Order No. 24,109, 87 NH PUC 892 (2002), the Commission approved the implementation of energy efficiency programs for New Hampshire's natural gas utilities. *EnergyNorth Natural Gas, Inc.*, Order No. 24,636, 91 NH PUC 273 (June 8, 2006), authorized the continuation of energy efficiency programs for an additional three years. The proposed LDAC rate includes a proposed energy efficiency charge of $0.0181 per therm for residential customers and $0.0205 per therm for C&I customers. There is an increase of $0.0158 per therm for C&I customers compared to energy efficiency rates currently in effect. The proposed energy efficiency and demand side management charges, which together comprise the conservation charge, represent an increase of $0.0048 per therm for residential non-heating customers and $0.0049 per therm for residential heating customers compared to rates currently in effect.

In *Residential Low-Income Assistance Program for Natural Gas Customers*, Order No. 24,669, 91 NH PUC 390 (2006), the Commission approved continuation of the Residential Low Income Assistance Program, originally approved as a pilot program in *New Hampshire Natural Gas Utilities*, Order No. 24,508, 90 NH PUC 358 (2005). The LDAC rate includes a proposed

RLIAP charge of $0.0073 per therm for all firm sales and transportation customers effective November 1, 2008 through October 31, 2009. The proposed charge is an increase of $0.0019 from the current RLIAP charge of $0.0054 per therm.

In *EnergyNorth Natural Gas, Inc*., Order No. 23,303, 84 NH PUC 489 (1999), the Commission approved a recovery mechanism for environmental remediation costs, including legal costs incurred in connection with the pursuit of recoveries from third parties (i.e., plant operators and insurance carriers) associated with MGP sites. These costs are filed during EnergyNorth's winter COG proceeding for Commission review and are recovered over a seven-year period. Third-party recoveries are credited against unamortized balances authorized for recovery and used to reduce the amortization period. Additional environmental remediation costs of $3,688,264 and litigation costs related to third party recoveries of $639,811 have been incurred over the past year, which were offset by third party recoveries of $1,033,751, resulting in costs that exceed recoveries by $3,294,324; applying the 2007-2008 under-recovery to last year's net remediation over-recovery balance results in a total environmental remediation over-recovery of $376,794. EnergyNorth has proposed an environmental charge for the upcoming year of $0.0000 per therm, with the relatively small over-recovery to be applied against future environmental remediation costs. There is no net impact on the total environmental charge compared to the currently effective rate.

6. Motion for Confidential Treatment

EnergyNorth requests that the Commission determine that certain information provided to the Commission be treated as confidential. In the motion for confidential treatment filed on August 28, 2008, EnergyNorth seeks such treatment in connection with the following information, which, according to EnergyNorth, identifies specific suppliers and commodity and demand charges or provides information from which such identification can be made: Schedule 1, summary of supply and demand forecast; Schedule 2, contracts ranked on a per unit cost basis; Schedule 4, summary of adjustments to gas costs; Schedule 5A, demand costs; Schedule 5C, demand rates; Schedule 6, supply and commodity costs, volumes and rates; Schedule 7, hedged contracts; and tariff page 153, Attachment B worksheets showing the peaking demand rate calculation.

EnergyNorth asserts that this information constitutes trade secrets of EnergyNorth and should be protected as confidential commercial information. EnergyNorth states that it does not disclose this information to anyone outside of its corporate affiliates and their representatives. EnergyNorth further asserts that release of this information would likely result in competitive disadvantage for EnergyNorth in the form of less advantageous or more expensive gas supply contracts and that gas suppliers possessing the confidential information described above would be aware of EnergyNorth's expectations regarding gas supply costs and other contract terms, and would therefore be unlikely to propose to supply such goods and services on terms significantly more advantageous to EnergyNorth.

B. OCA

The OCA did not object to the proposed revised rates and stated that it is important for EnergyNorth, Staff and the OCA to have a common understanding of the hedging policy and its purpose. However, the OCA expressed concerns regarding Staff's proposed modification to the monthly adjustment mechanism. The OCA was unsure if the proposed change was properly noticed, if monthly changes beyond the approved bandwidth would require additional notice and if the monthly adjustment filing deadline of 5 business days prior to the effective date of the proposed change provided sufficient time for an adequate review of the adjustment filing. The OCA expressed its willingness to work with the Staff and EnergyNorth to finalize the concept.

C. Staff

Mr. Wyatt's testimony noted that Staff had completed its review of the cost of gas forecast for the upcoming winter period and recommended approval of the proposed rates. Staff noted that the forecast is consistent with those filed and approved in previous winter periods. Also, Staff stated that it had reviewed and audited the 2007-08 COG reconciliation and found the costs to be reasonable and accurately reported, with the understanding, however, that Audit Staff had not completed its review of the environmental remediation annual costs and recoveries. Staff reviewed the forecasts and schedules used to calculate the other proposed tariff changes and surcharges, and recommended approval of the proposed rates.

Finally, as further explained below, Staff recommended a modification to the monthly over/under adjustment mechanism and asked that the Commission confirm Staff's understanding of the intended goals of the monthly over/under adjustment mechanism and hedging policy.

1. Proposed modification to the Monthly Over/Under Adjustment

Mr. Wyatt testified that currently, without further Commission action, EnergyNorth can adjust the COG rates upward or downward within a +/- 20 percent bandwidth of the initially approved COG rate in order to reduce monthly over- or under-collections in the period. He explained that during the 2008 summer period, EnergyNorth experienced substantial fluctuations in actual and projected natural gas costs. In response, EnergyNorth increased the rate to the maximum allowed and filed a revised COG to establish a rate that would eliminate the projected under collection. Following a duly noticed hearing, the Commission approved the proposed rate increase effective August 1, 2008. Subsequent to the filing, actual and projected gas costs dropped to such an extent that reducing the approved rate by the maximum allowed without further Commission action was insufficient to eliminate the projected over collection. Because of the limited time remaining in the summer period, there was insufficient time to file and process a second revised COG.

Staff's proposed modification would allow for monthly adjustments beyond the 20 percent with Commission approval. EnergyNorth would file its required monthly report five business days before the effective date of the proposed increase and, if beyond 20%, would request Commission approval. The request would be docketed and Staff and the parties would have the opportunity to file comments and recommendations with the Commission. The Commission could then rule on the request or require a hearing. It would no longer be necessary to file a completely revised cost of gas filing. Instead, the Company would file a letter similar to the regular monthly letters it has been filing with summary information supporting the proposed change in the COG rate. However, if the proposed adjusted COG rate was outside the 20% bandwidth, the Company would not be authorized to implement the rate until it received an authorizing letter from the Commission. The Commission would decide if a hearing would be needed. Once outside the bandwidth, the Company could further change the rate to move closer to the originally approved COG rate for that period, but not further away, without additional Commission action.

Staff testified that the modification ensures limited changes in rates without further action by the Commission but allows for more substantive changes on a timely basis when merited, without necessarily requiring a full blown proceeding and hearing. In cases where a revised COG filing could be avoided, it would reduce administrative costs while increasing administrative efficiency.

2. Monthly Over/Under Adjustment Mechanism and Hedging Policy Goals

Staff explained that the monthly over/under adjustment mechanism has evolved over the past several years and is used as a tool to minimize monthly over/under collections and associated carrying costs. In addition, monthly over/under adjustments better match gas costs with gas cost revenues in the same period, more accurately reflecting market prices in order to send proper price signals which allow customers to react accordingly by possibly reducing consumption or pursuing alternative energy sources. Such adjustments also reduce inter-generational subsidies as customers either migrate to transportation service or leave the system and new customers come on the system.

Staff testified that when monthly over/under reports are filed, the reports should reflect the most economic/least cost dispatch for the remainder of the approved COG period, given pricing information for currently available supply at that point in time. To do otherwise could result in harm to non-FPO customers. Non-FPO customers have a reasonable expectation that the Company will make current winter period dispatch decisions resulting in a least cost non-FPO rate. If storage supply is available and less costly than spot supplies, then, subject to the rule curve, the Company should utilize its storage. If currently available spot supplies are cheaper than storage supply, spot supplies should be utilized.

Staff testified that the hedging plan for EnergyNorth has evolved over the past 12 years or so, but the goal has remained basically the same, that is, to reduce price volatility, even though that may mean supply is not always obtained at the lowest possible cost.

Staff stated that under the approved EnergyNorth hedging policy, underground storage is an asset to be used to mitigate price volatility during the winter period, and thus the Company should use its underground storage to mitigate price volatility as intended, unless it can be replaced with less expensive spot gas supply in the same period.

III. COMMISSION ANALYSIS

Based upon our review of the record in this docket, we find that EnergyNorth's proposed adjustments will result in just and reasonable rates as required by RSA 378:7. Specifically, we approve the proposed 2008-2009 COG and FPO rates as well as EnergyNorth's proposed firm transportation winter COG rate, LDAC rate components (including the conservation charge, environmental cost recovery charge, and residential low income assistance program charge), transportation supplier balancing rate, transportation peaking service demand rate, and transportation capacity allocators. Our approval is subject to the Commission Audit Staff's review of environmental remediation costs and the results of Docket No. DG 07-050. Since the COG rates are reconciled year over year, any adjustments needed as a result of further inquiry into these matters can be made in EnergyNorth's next winter COG proceeding.

One issue raised by Staff in this docket merits further inquiry. Given the timing of EnergyNorth's filing and the need to have rates in place by November 1, 2008, we defer the issue of Staff's proposal to modify the monthly over/under adjustment to the summer 2009 cost of gas docket. In the interim, we request that the parties meet prior to the summer cost of gas filing to further discuss and refine Staff's proposal. We anticipate that any change applicable to EnergyNorth, Northern Utilities, Inc. and New Hampshire Gas Corporation would be made in a consistent manner.

Regarding the request for Commission confirmation of intended policy goals of the monthly over/under adjustment mechanism and the hedging policy, we believe the record is clear. Both policies have evolved over the years but the goals have remained basically the same. The monthly over/under adjustment mechanism is used to minimize monthly over/under collections and associated carrying costs, thereby better matching gas costs with gas cost revenues in the period. This helps to achieve a COG rate that more accurately reflects market prices and allows customers to react accordingly by, for example, reducing consumption or pursuing alternative energy sources. Finally, the monthly over/under adjustment mechanism helps ensure that the customers who use gas during a particular period pay for it.

The EnergyNorth hedging policy is intended to reduce price volatility, notwithstanding the fact that this policy may result in supply that is not always obtained at the lowest possible cost. Over the years, the Commission has reiterated its support of this goal in numerous orders approving the original and modified hedging plans. For example, the primary objective is reflected in *Northern Utilities, Inc.*, Order No. 24,037, 87 NH PUC 576 (2002) (approving Northern Utilities, Inc.'s petition to terminate its fixed price program and modify its hedging policy), where the Commission stated, "[w]e continue to believe that an important component of any energy supply portfolio is hedging risks related to a sharp run-up in prices." In short, the Commission seeks to protect against sudden, severe rate increases. We agree with Staff that underground storage is an asset that should be used to mitigate price volatility during the winter period, and thus the Company should use its underground storage to mitigate price volatility as intended, unless it can be replaced with less expensive spot gas supply in the same period.

Regarding EnergyNorth'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. N.H. Code Admin. Rules 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 Corp. v. New Hampshire Housing Fin. Auth.*, 142 N.H. 540 (1997).

We note that no parties have objected to the motion 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 balancing the interests for and against public disclosure of the information at issue, we are persuaded on the basis of the record in this docket that the interests of EnergyNorth and ultimately its ratepayers in non-disclosure outweigh the public's interest in obtaining access to the information. We will therefore grant confidential treatment to the material described in the motion. Consistent with Puc 203.08(k), our grant of the motions for confidential treatment is subject to our on-going authority, on our own motion, on the motion of Staff or on the motion of any member of the public, to reconsider our determination.

Based upon the foregoing, it is hereby

ORDERED, that EnergyNorth's 2008-2009 winter COG and FPO per therm rates for the period November 1, 2008 through April 30, 2009 are APPROVED, effective for service rendered on or after November 1, 2007 as follows:

	Cost of Gas	**Minimum COG**	**Maximum COG**	**Fixed Price**
Residential	$1.1837	$0.9470	$1.4204	$1.2835
C&I, low winter use	$1.1826	$0.9461	$1.4191	$1.2830
C&I, high winter use	$1.1839	$0.9471	$1.4207	$1.2836

FURTHER ORDERED, that EnergyNorth may, without further Commission action, adjust the COG rates upward or downward monthly based on EnergyNorth's calculation of the projected over- or under-collection for the period, but the cumulative adjustments shall not exceed 20 percent of the approved unit COG, *i*.e., the minimum and maximum rates as set above; and it is

FURTHER ORDERED, that EnergyNorth shall provide the Commission with its monthly calculation of the projected over- or under-collection, along with the resulting revised COG rates for the subsequent month, not less than five business days prior to the first day of the subsequent month. EnergyNorth shall include a revised tariff page 84, Calculation of Firm Sales Cost of Gas Rate, and revised rate schedules if EnergyNorth 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 EnergyNorth 's proposed 2008-2009 LDAC per therm rates for the period November 1, 2008 through October 31, 2009, are APPROVED effective for service rendered on or after November 1, 2008 as follows:

	Demand Side Management	Environmental Remediation	Energy Efficiency	Residential Low Income	LDAC
Residential Heating	$0.0006	$0.0000	$0.0181	$0.0073	0.0260
Residential Non-heating	$0.0000	$0.0000	$0.0181	$0.0073	0.0254
Commercial & Industrial	$0.0000	$0.0000	$0.0205	$0.0073	0.0278

FURTHER ORDERED, that EnergyNorth's proposed firm transportation winter COG rate of ($0.0001) per therm for the period November 1, 2008 through April 30, 2008, is APPROVED; and it is

FURTHER ORDERED, that EnergyNorth's proposed transportation supplier balancing charge of $0.12 per MMBtu of daily imbalance volumes, is APPROVED; and it is

FURTHER ORDERED, that EnergyNorth's proposed transportation peaking service demand charge of $10.02 per MMBtu of peak MDQ, is APPROVED; and it is

FURTHER ORDERED, that EnergyNorth's proposed transportation capacity allocators as filed in Proposed Eighth Revised Page 155, Superseding Seventh Revised Page 155, are APPROVED; and it is

FURTHER ORDERED, that EnergyNorth 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; and it is

FURTHER ORDERED, that EnergyNorth's motion for confidential treatment is GRANTED, as set forth above.

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

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

Attested by:

Debra A. Howland
Executive Director & Secretary