

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

**DG 07-033
DG 07-050**

NORTHERN UTILITIES, INC.

**ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH**

**2007 Summer Season Cost of Gas
Investigation of Indirect Gas Costs**

**Order Approving Settlement Agreements
Regarding Transition to Accrual Accounting**

ORDER NO. 25,038

October 30, 2009

I. PROCEDURAL HISTORY

A. Docket DG 07-033 Northern Utilities Inc.

On April 27, 2007, the Commission issued Order No. 24,743 adjusting the rates of Northern Utilities, Inc. (Northern) for the summer season (May 1, 2007 through October 31, 2007) pursuant to the cost of gas (COG) clause in the Company's tariff. However, the Commission reserved the right to revise those rates after it received briefs addressing two issues: (1) Northern's possible over-collection of costs associated with timing differences between payment by Northern of wholesale gas costs and the Company's receipt of associated revenues from its retail customers; and (2) the rate of interest earned on the cash working capital needed to finance that timing difference.¹ The timing difference at issue relates to Northern's use of billed revenues and accrued costs when calculating the monthly under/over-collection in its COG

¹ The issue of the rate of interest earned on the cash working capital allowance was subsequently transferred to Docket DG 07-072.

reconciliation mechanism. *Northern Utilities, Inc.*, Order No. 24,743, 92 NH PUC 94 (April 27, 2007).

EnergyNorth Natural Gas, Inc. d/b/a National Grid NH (EnergyNorth)² moved to intervene and to consolidate this docket with DG 07-050, but subsequently withdrew its motion for consolidation. The parties and Staff filed briefs on May 25, 2007. EnergyNorth supported Northern's brief. Following briefing, the Commission issued Order No. 24,786 determining that the monthly under/over-collection should be calculated using accrued revenues rather than billed revenues in Northern's COG reconciliation mechanism. In addition, the Commission provided that the change should take effect with the 2005-2006 winter COG reconciliation on November 1, 2005. *Northern Utilities, Inc.*, Order No. 24,786, 92 NH PUC 354, 361 (September 13, 2007). Order No. 24,786 did not address how the transition from billed revenue accounting to accrued revenue accounting would be accomplished.

On October 15, 2007, Northern filed a motion for rehearing and on the same day EnergyNorth filed a response to Northern's motion together with the testimony of EnergyNorth's witness Ann E. Leary. Staff filed an objection to Northern's motion on October 22, 2007. On September 25, 2008, the Commission issued Order No. 24,901 in both dockets (DG 07-033 and DG 07-050) and affirmed its determination that the new accounting method to be used in the cost of gas reconciliation is just and reasonable. The Commission went on to grant rehearing as to the method of transitioning to the new accounting method and invited the parties to attempt to reach

² At that time EnergyNorth Natural Gas, Inc. was doing business as KeySpan Energy Delivery New England. Subsequently, National Grid NH acquired EnergyNorth Natural Gas, Inc. See *National Grid Plc, National Grid USA, Granite State Electric Company and KeySpan Corporation*, Order No. 24,777 (July 12, 2007)

settlement on the transition issue. *Northern Utilities, Inc. and EnergyNorth Natural Gas, Inc.*, Order No. 24,901 (September 25, 2008).

B. DG 07-050 EnergyNorth Natural Gas, Inc. d/b/a National Grid NH

On April 10, 2007, the Commission issued an order of notice scheduling a prehearing conference to address certain issues reserved from the Commission's approval of EnergyNorth's 2006/2007 winter cost of gas proceeding. See *EnergyNorth Natural Gas, Inc.*, Order No. 24,688 (October 27, 2006).³ Among the issues reserved was the question of whether billed or accrued revenues were to be used in the cost of gas reconciliation mechanism. Staff filed testimony on June 22, and October 19, 2007. EnergyNorth filed testimony on August 31, and November 1, 2007. On November 2, 2007, the parties filed a partial settlement disposing of all issues in the docket except the issue of whether to implement accrued accounting and how to transition from billed to accrued revenue accounting for purposes of the cost of gas reconciliation. In testimony filed by Witness Ann E. Leary on November 1, 2007, EnergyNorth presented its proposed method to transition to accrued revenue accounting for gas reconciliation should the Commission's decision in Order No. 24,786, which was then subject to a rehearing request, become final.

On November 5, and 8, 2007, a hearing was held on the partial settlement and on the issue of how to transition to accrued accounting for revenues in the cost of gas reconciliation account. Following hearing, the Commission issued an order approving the partial settlement and reserving a decision on the method for transitioning to accrued revenue accounting for a subsequent order. See *EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England*, Order No. 24,858 (May 23, 2008).

³ See *EnergyNorth Natural Gas, Inc.*, Order No. 24,858 (May 23, 2008) for a more detailed procedural history.

II. SETTLEMENT AGREEMENTS

Order No. 24,901 granting rehearing on the issue of the appropriate transition to accrued revenue accounting states:

We agree with Northern that it has not received a full and fair opportunity to cross examine Staff so as to ascertain fully, for itself and for the record, the full basis for Staff's position on the appropriate transition. Accordingly, it is our determination that a good cause has been shown for rehearing on this question. Rather than schedule a pre-hearing conference and take other steps toward an evidentiary hearing at this time, we believe it is appropriate to determine whether the parties and Staff can achieve settlement on the transition question.

On April 3, 2009, following several meetings and continued negotiations, Staff filed a settlement agreement between Staff and Northern concerning the correct method to transition from billed revenue accounting to accrued revenue accounting (Northern Settlement). On July 31, 2009, Staff filed a similar settlement agreement between Staff and EnergyNorth (EnergyNorth Settlement). The transition mechanism dispute between Staff and the companies centered on the beginning balance in Northern's or EnergyNorth's reconciliation account at the time of the changeover from billed to accrued revenue accounting.

A. Northern Settlement

Northern agrees that the transition to accrual accounting for revenues in its COG reconciliation mechanism should take effect November 1, 2008 and that the beginning balance should be set at the October 31, 2008 ending balance in the reconciliation account under billed revenue accounting (i.e., \$3,964,047) less the revenue received in November, 2008 that relates to October 2008 consumption (i.e., \$1,506,169) for a net of \$2,457,878.

B. EnergyNorth Settlement

EnergyNorth agrees to implement accrual accounting for revenues in its COG reconciliation mechanism effective November 1, 2008 and to set the balance in the Peak (Off-Peak) account at the October 31, 2008 ending balance in the Peak (Off-Peak) account under billed revenue accounting (i.e., \$3,602,538 for the Peak account and \$2,954,698 for the Off-Peak account). EnergyNorth also agrees to include in the Off-Peak account in November 2008 revenue totaling \$4,924,183 related to October 2008 consumption billed in November 2008, as a one time adjustment to reflect the revenues received by the Company but not reflected in the November starting balance or the November accrued revenue. The parties attached a schedule to the settlement agreement illustrating the transition. The settlement also provided some detail concerning EnergyNorth's method of calculating monthly accrued revenues for purposes of reconciliation. Finally, EnergyNorth agreed to use accrued accounting as the basis of its reconciliation calculations for indirect gas costs and to make the transition in a manner that is consistent with the treatment of direct gas costs.

III. COMMISSION ANALYSIS

New Hampshire Code of Administrative Rules Puc 203.20(b) provides that the Commission shall approve the disposition of any contested case by settlement "if it determines that the result is just and reasonable and serves the public interest." *See also* RSA 541-A:31, V(a). In general, the Commission encourages parties to attempt to reach a settlement of issues through negotiation and compromise "as it is an opportunity for creative problem solving, allows the parties to reach a result more in line with their expectations, and is often a more expedient alternative to litigation." *Unitil Energy Systems, Inc.*, Order No. 24,677, 91 NH PUC 416, 425-

426 (2006) (quotation omitted). Even where all parties enter into a settlement agreement, however, the Commission cannot approve it “without independently determining that the result comports with applicable standards.” *Id.*

The Northern and EnergyNorth settlement agreements each establish a beginning balance that is consistent with the Commission’s determination that accrued revenue accounting should be used in both companies’ COG reconciliation mechanism. In each case, the beginning balance for accrued revenue accounting has been adjusted to account for revenue received in the first month of the new accounting period that relates to consumption in the last month of the old accounting period. Consequently, the monthly revenue in each company’s COG reconciliation mechanism following the transition will appropriately reflect accrued revenue for the month. Absent the adjustment to the beginning balance, the first month following the transition would have reflected a month and a half of revenue, a full month of accrued revenue and half a month of billed revenue (revenue earned in the month prior to the transition but billed in the month after the transition). Although the above described adjustment effectively results in a month and a half of revenues in October 2008 we find this is appropriate to ensure that all of the revenues received by each company are fully reflected in the reconciliation account.

The Northern and EnergyNorth settlement agreements also set the transition date as November 1, 2008, whereas Staff had argued for November 1, 2005 as the appropriate date for each company to begin using accrued revenue accounting in its COG reconciliation mechanism. Given that the transition question was reserved and that the parties were granted additional time to achieve a settlement, it is appropriate to suspend the transition date pending a full review of the issue. Staff testified that transitioning from the use of billed revenues to accrued revenues in

each company's COG reconciliation mechanism will result in a lower interest cost going forward. Staff estimated that the annual interest reduction for Northern would be approximately \$100,000 and for EnergyNorth the interest reduction for the six-month winter period would be approximately \$155,000. When questioned at hearing concerning the potential rate impacts of these accounting adjustments, both EnergyNorth and Northern testified that the resulting rate reductions would be a fraction of a percent and would not amount to a significant impact on customers.

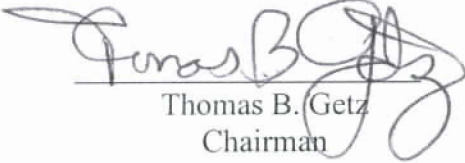
A November 1, 2008 effective date resolves the transition issue to the satisfaction of Staff, EnergyNorth and Northern while ensuring proper accounting going forward. We find that the rate impacts of this accounting change will be *de minimis* and that the terms of the settlement are reasonable. Therefore, we will approve the agreed transition method for effect November 1, 2008.


Based upon the foregoing, it is hereby


ORDERED, the settlement agreement between Northern and Staff filed with the Commission on April 3, 2009 is hereby approved; and it is

FURTHER ORDERED, the settlement agreement between EnergyNorth and Staff filed with the Commission on July 31, 2009 is hereby approved.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of
October, 2009.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Debra A. Howland
Executive Director & Secretary

