STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 11-192

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

Winter 2011-2012 Cost of Gas

Order Approving Cost of Gas Rates and Other Charges

O R D E R N O. 25,286

October 31, 2011

APPEARANCES: Steven V. Camerino, Esq., for EnergyNorth Natural Gas, Inc. d/b/a National Grid NH; Meredith Hatfield, Esq., of the Office of the Consumer Advocate, on behalf of residential ratepayers; and Alexander F. Speidel, Esq., for the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 1, 2011, EnergyNorth Natural Gas, Inc. d/b/a National Grid NH (National Grid or Company), a public utility distributing natural gas in 28 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 2011-2012 winter period. National Grid's filing included the direct testimony and supporting attachments of Ann E. Leary, manager of pricing, Theodore E. Poe, Jr., lead analyst, and Michele V. Leone, manager of the New England site investigation and remediation program for National Grid.[1]

On September 7, 2011, the Commission issued an order of notice scheduling a hearing for October 17, 2011. On September 16, 2011, the Office of Consumer Advocate (OCA) notified the Commission, consistent with RSA 363:28, of its participation in the docket on behalf

[1] National Grid also submitted, as part of its COG filing, certain information as confidential exhibits, filed pursuant to N.H. Admin. Rules, Puc 201.06(a)(25). This information comprised supplier commodity pricing and special terms of supply agreements, and other non-public financial information.

of residential ratepayers. There are no other intervenors in the docket; however, Mr. D. Dickinson Henry, Jr., Executive Director of The Jordan Institute of Concord, New Hampshire, filed a comment letter regarding energy efficiency programs at National Grid on October 16, 2011.

On September 26, 2011, National Grid provided an affidavit of publication stating that the order of notice had been published on September 12, 2011. On October 6, 2011, Mr. James J. Cunningham, Jr., Staff Utility Analyst at the Commission, filed testimony regarding National Grid's energy efficiency programs. National Grid submitted updates to its COG on October 14, 2011. A hearing on the matter was held as scheduled on October 17, 2011.

II. POSITIONS OF THE PARTIES AND STAFF

A. National Grid

As set out more fully below, National Grid witnesses Leary and Poe addressed: (1) the calculation of the proposed firm sales COG rate and fixed-price option (FPO) rate and the resulting customer bill impacts; (2) the reasons for the change in COG rates; (3) supply reliability and price stability through the Company's hedging; (4) transportation rates, allocators and other charges; (5) the local distribution adjustment clause (LDAC); and (6) adjustments related to the COG Company gas allowance. National Grid witness Leone testified about the status of site investigation and remediation efforts at various manufactured gas plant (MGP) sites in New Hampshire. *See* Hearing Exhibit 1, Direct Testimony of Michele Leone. Also, at the October 17, 2011 hearing, National Grid set forth its position regarding cost recovery for its energy-efficiency programs.

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

Pursuant to the COG clause, National Grid may, subject to the Commission's jurisdiction, adjust semi-annually its firm gas sales rates to recover the costs of gas supplies, capacity and certain related expenses, net of applicable credits, as specified in National Grid's tariff. For the winter 2011-2012 period, the proposed average COG rate, which is the COG rate payable by residential customers, was calculated by adding the anticipated direct costs of $59,683,067 plus $2,193,271 of adjustments related to prior periods to the anticipated indirect costs of $3,616,575 and then dividing the total costs by the projected winter period sales volume of 82,632,661 therms. Direct costs are those costs relating to pipeline transportation capacity, storage capacity and commodity charges, while indirect costs include working capital, bad debt, and overhead charges. These costs are also subject to certain allowed adjustments including prior period over- or under-collections, interest and fuel financing costs.

National Grid's updated filing proposes a winter 2011-2012 COG rate of $0.7926 per therm for its non-fixed price option residential customers. This represents a $0.0103 per therm decrease compared to the weighted average residential rate of $0.8029 per therm last winter. The impact of the proposed firm sales COG rate, coupled with other changes in the LDAC and increases in the distribution rates recently approved by the Commission in Order No. 25,244 (June 29, 2011) in Docket No. 11-106 and in the implementation of permanent rates approved by Order No. 25,202 (March 10, 2011) in Docket No. 10-017, in National Grid's rate case, is an overall decrease in the typical residential heating customer's winter costs of approximately $5, or less than 1 percent, over last winter. National Grid's proposed commercial and industrial (C&I)

low winter use (LW) and high winter use (HW) COG rates are $0.7911 and $0.7929 per therm respectively, both of which are decreases compared to last winter's rates.

For those customers electing the FPO, National Grid's updated filing proposes a rate of $0.8126 per therm. The 2011-2012 FPO rate is set at $0.02 above the COG rate proposed in the COG filing, consistent with the method approved in *EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England*, Order No. 24,529 (Oct. 14, 2005). For C&I low winter and high winter use the proposed FPO rates are $0.8111 and $0.8129 per therm respectively. These residential rates reflect a decrease of about 3.5%. After accounting for other charges, the estimated winter bill for a typical residential customer using the FPO would be about $13, or 1.5%, higher than under the proposed COG rate, presuming no later adjustments are made to the COG rate.

2. Reasons for the Decrease in the COG Rates

According to National Grid's filing, the decrease in the COG rates for this winter compared to last year is driven, in large part, by a substantial decrease in commodity costs. The filing indicates that pipeline commodity costs have decreased by about $7.5 million, as offset by an increase of approximately $300,000 in supplemental costs relating to underground storage, liquefied natural gas and propane. *See* Hearing Exhibit 1, Direct Testimony of Ann Leary at 7-8.

These cost decreases are offset, partially, by other factors, including a prior period under-collection. Regarding the under-collection, in the 2010-2011 winter period the Company recorded a net under-collection of $3,780,233. According to the Company's filing, this was caused by higher-than-forecasted gas commodity costs and a revision to COG unbilled revenues. *See* Hearing Exhibit 1, Direct Testimony of Ann Leary at 10-11.

3. Supply Reliability and Price Stability - Hedging

National Grid testified to the availability of supply from Canadian and Gulf coast sources as well as its own storage capacity. With regard to those supplies, National Grid stated that it maintains sufficient facilities capable of utilizing LNG and propane in the event sufficient other gas supplies are not available. *See* Hearing Exhibit 1, Direct Testimony of Theodore Poe, at 3-11.

Regarding price stability and hedging, National Grid indicates that it has hedged approximately 62% of its projected needs for the period. *See* Transcript of October 17, 2011 Hearing (Tr.) at 39. However, much of the hedged gas was locked in at prices above those in the current market, with a weighted average fixed price of $5.1608 per Dekatherm. It anticipates that the more recent purchases will be at lower prices, thus decreasing the average cost of the hedged volumes to approximately $5.017 per Dekatherm. *See* Hearing Exhibit 1, Direct Testimony of Ann Leary at 12-13. Regarding supply reliability, the Company anticipates that it will have all of its available storage filled by December 1, 2011. *See* Hearing Exhibit 1, Direct Testimony of Theodore Poe at 9.

4. Transportation Rates, Allocators and Other Charges

The proposed firm transportation COG rate is $0.0000 per therm. This represents a decrease from last winter's rate, which was a charge of $0.0009 per therm. As to other charges, in *Gas Restructuring-Unbundling and Competition in the Natural Gas Industry*, Order No. 23,652 (March 15, 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

National Grid delivery points (city gates). The suppliers pay National Grid's supplier balancing charges as compensation for costs incurred by National Grid to stay within daily operational balancing tolerances on the Tennessee Gas Pipeline. Peaking service demand charges reflect National Grid's peaking resources and associated costs. National Grid proposes to increase the supplier balancing charge from $0.11 per MMBtu to $0.22 per MMBtu of daily imbalance volumes, and to increase the peaking service demand charge from $18.48 per MMBtu of peak maximum daily quantity (MDQ) to $18.96 per MMBtu of peak MDQ. 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 non-grandfathered firm transportation service, have been updated to reflect National Grid's supply portfolio for the upcoming year.

5. LDAC

The Company's updated filing proposes a per therm LDAC of: $0.0694 for the residential classes; and $0.0370 for the Commercial and Industrial classes; to be billed from November 1, 2011 through October 31, 2012. The LDAC is a combined rate of various surcharges by the Company including the conservation charge, the energy efficiency charge, the environmental surcharge for MGP remediation, and the residential low income assistance program (RILAP).

Regarding the environmental surcharge for MGP remediation, the updated Company filing (updated in response to findings by Commission Audit Staff) proposes that the environmental surcharge remain at zero from November 1, 2011 until October 31, 2012. At the hearing, it was noted that Staff had not finalized its review of the environmental surcharge-related costs; however, Staff would be able to address any further errors uncovered in the environmental remediation cost calculations in next winter's cost of gas filing. Tr. at 128-129.

Regarding the energy efficiency charge, which recovers expenses associated with National Grid's energy efficiency programs, National Grid proposes, in its updated filing, a residential rate of $0.0498 per therm, a decrease from the $0.0525 per therm rate last year, and a C&I rate of $0.0174 per therm, a decrease from the $0.0306 per therm rate last year.

For the RILAP, which recovers administrative and other costs relative to discounts provided to low-income customers, National Grid is proposing a charge of $0.0092 per therm, a decrease from the $0.0116 per therm rate last winter.

In addition to the above, the LDAC includes a charge associated with the true-up of the temporary and final rates, as well as rate case expenses, in relation to National Grid's recent rate case, Docket No. DG 10-017, and reconciliations from earlier rate cases. According to the Company, in Proposed Fourth Revised Tariff Page 92, it added its rate case expense of $1,112,811 in Docket No. DG 10-017 to an under-collection in the temporary and final rate reconciliation, for a net recovery of $1,899,706, resulting in a rate case expense factor of $0.0116 per therm, which will be charged to customers over the coming year, from November 2011 through October 2012. *See* Hearing Exhibit 1, Direct Testimony of Ann Leary at 20-21. At the time of the hearing, the final amount of rate case expenses from Docket No. DG 10-017 was not yet approved by the Commission. The Company stated that it would reconcile the amount it included in calculating the LDAC, with the final and approved amount as soon as it was able to do so. *See* Hearing Exhibit 1, Direct Testimony of Ann Leary at 20-21; *see also* Tr. at 131-132.

6. Company Gas Allowance

In response to inquiries by Staff in the context of the COG proceeding, the Company proposes an adjustment factor for inclusion in the LDAC to incorporate the reallocation of gas costs between the bundled sales and transportation customers resulting from the application of a fixed Company gas allowance as required by the tariff. *See* Hearing Exhibit 1, Direct Testimony of Ann Leary, at 21-23. During the November 2010-October 2011 period, the Company gas allowance percentage should have been 1.7%; a 1.2% Company gas allowance was applied in error. To reconcile the allocation for this period, the Company proposes to include a one-time adjustment factor in the LDAC which will credit bundled sales customers and surcharge unbundled transportation customers. This reallocation factor will reflect the gas costs associated with the variance between the actual 1.7% and the erroneous 1.2% Company gas allowance. Since this amount is based on an estimated throughput and commodity cost for the 2011 Off-Peak COG period, National Grid will update and reconcile this amount in its 2012 Off-Peak COG filing. *See* Hearing Exhibit 1, Direct Testimony of Ann Leary at 22-23. National Grid confirmed that it did not profit from this inadvertent error. Tr. at 45. National Grid also confirmed that it would include, as it had for the current COG filing, its calculation of the Company gas allowance factors in all future Peak Period COG filings, with clear identification of the factor on the supplier balancing Tariff Page 155. Tr. at 46.

7. Energy Efficiency

With regard to the energy efficiency LDAC charge issue raised by OCA, The Jordan Institute, and Staff (discussed *passim* below), National Grid generally supported the position that, for the residential program component of the energy LDAC charge, any remaining over recoveries associated with the 2010 program year (that is, monies collected through the energy efficiency charge during that year and remaining unspent) would be applied as a credit to residential customers through the LDAC through this COG proceeding. Tr. at 123. For residential energy efficiency over recoveries associated with the 2011 program year, the Company supported the remedy agreed to by Staff and OCA at the October 17, 2011 hearing (discussed below), specifically, a commitment by the Company to spend the 2011 monies before the end of the next Off-Peak COG period (October 31, 2012), with any remaining 2011 program over recoveries addressed in the 2012 Peak Period COG filing. Tr. at 36 and 132-133. For the C&I component of National Grid's energy efficiency programs, the Company, without making specific recommendations, argued in favor of crediting some portion of C&I energy efficiency over recoveries associated with the 2011 program year to C&I customers as part of the LDAC approved in this COG proceeding. Tr. at 133-135.

B. OCA

The OCA stated that it did not oppose the overall Company's COG rates as presented to the Commission. Tr. at 126. The OCA did, however, object to the Company's proposal to recover rate case expenses incurred as part of Docket No. DG 10-017 as, at the time of hearing, these rate case expenses had not yet been approved by the Commission. Tr. at 126-127. OCA also opposed a credit of C&I energy efficiency charge over recoveries associated with the 2011 program year within the LDAC approved as part of this COG proceeding, on the basis of OCA's, and The Jordan Institute's, position that National Grid could feasibly spend these monies on qualified programs. Tr. at 126-127. For residential energy efficiency over recoveries associated with the 2011 program year, OCA supported the remedy of carrying over these funds into 2012, for use in energy efficiency programs. Tr. at 126.

C. Staff

Staff, on October 6, 2011, filed testimony in this docket regarding National Grid's energy efficiency programs, as funded by the energy efficiency charge component of the LDAC. On the basis of significant projected over recoveries generated by both the residential and C&I energy efficiency LDAC rate components associated with the 2011 program year, Staff, in its testimony, recommended adjustment of the LDAC in this COG to reflect credits of $1.2 million each to residential and C&I customers. *See* Hearing Exhibit 5, Direct Testimony of James Cunningham.

At the hearing, Staff testified that, together with the Company and OCA, it had accepted the position that residential energy efficiency LDAC over recoveries associated with the 2011 program year should be carried over into 2012, until the next Peak Period COG filing, for spending on qualified energy efficiency programs. Tr. at 67, 76-77 and 130. Staff stated that any unspent residential energy efficiency funds associated with the 2011 program year, remaining as of the close of the 2012 Off-Peak COG period, should be credited to customers as part of the 2012 Peak Period COG. Tr. at 130. For C&I energy efficiency LDAC over recoveries associated with the 2011 program year, Staff supported a credit to C&I customers as part of this COG proceeding, as outlined in Staff's pre-filed testimony of October 6, 2011. Tr. at 130.

For the general matters related to the COG filing, Staff stated that it supported National Grid's COG rates as filed. Tr. at 128. Staff noted that the Commission's audit staff had reviewed last year's peak period reconciliation and found no exceptions. Tr. at 128. Also, Staff noted that the forecast for the coming year was consistent with the Company's prior practices. Tr. at 128. Additionally, Staff pointed out that any issues regarding the Company's forecasts would be reconciled at the time next year's peak period filing is made. Tr. at 128.

With regard to National Grid's supply plan, Staff noted that direct gas costs are based on actual or hedged prices and projected pricing that reflect market expectations. Tr. at 128.

As to the LDAC, Staff recommended approval of the revised LDAC charges. Tr. at 129. Staff noted that Audit Staff had submitted a draft of its review of the Company's environmental remediation costs that included one issue that the Company had addressed, resulting in an adjustment that resulted in the proposed environmental remediation surcharge of zero. Tr. at 129. Regarding the Company's proposed remedy for the Company gas allowance allocation issue, the 12-month retroactive adjustment as associated credits/charges, Staff expressed its support for this remedy, and noted that it would monitor the calculations of the Company gas allowance factors being presented in COG filings going forward. Tr. at 129. Finally, Staff noted that the Company's supplier balancing charges and capacity allocator percentages appeared to be accurate and reasonable and recommended that they be approved. Tr. at 129.

III. THE JORDAN INSTITUTE (Comments Regarding Energy Efficiency)

On October 16, 2011, Mr. D. Dickinson Henry, Jr., Executive Director of The Jordan Institute, filed a comment letter with the Commission recommending that all C&I energy efficiency LDAC charge over recoveries associated with the 2010 and 2011 program years be carried forward into 2012, for use in qualified C&I energy efficiency programs. *See* Hearing Exhibit 6, The Jordan Institute Comment Letter dated October 16, 2011. The Jordan Institute did not have the status of an intervenor in this proceeding; however, at the suggestion of OCA, with the assent of Staff and the Company, and with the approval of the Commissioners, Mr. Henry testified at the October 17, 2011 hearing regarding The Jordan Institute's recommendations. Tr. at 5-9. Mr. Henry testified regarding The Jordan Institute's position that a number of opportunities existed for National Grid to expend existing LDAC energy efficiency over recoveries on qualified C&I projects throughout New Hampshire, as identified through The Jordan Institute's outreach efforts among the business community. Tr. 88-124. Mr. Henry also reiterated The Jordan Institute's position that energy efficiency over recoveries associated with both the 2010 and 2011 program years should be carried over into 2012 for expenditure by National Grid. Tr. at 124.

IV. COMMISSION ANALYSIS

Based upon our review of the record presented in this docket, we find that National Grid's proposed adjustments will result in just and reasonable rates as required by RSA 378:7. Specifically, we approve the proposed 2011-2012 winter period COG, FPO and Transportation COG rates. We also approve National Grid's 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. 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 National Grid's next winter COG proceeding. With regard to the rate case expense factor component of the LDAC, we note that we have recently approved in Order No. 25,280 (October 25, 2011) the recovery of $1,112,811 in rate case expenses in Docket No. DG 10-017. Thus, we approve the recovery of these expenses through this LDAC component.

With regard to the LDAC energy efficiency component, we note that National Grid's energy efficiency budgets are examined in the 2011 CORE Electric Programs and Natural Gas Energy Efficiency Programs proceeding (CORE Docket), Docket No. DE 10-188, and note that the CORE Docket is the proper forum for the examination of energy efficiency budgeting by National Grid. The proposed energy efficiency rate reflects a charge for National Grid's 2012 energy efficiency budget and a credit for a projected over recovery, or under spending, related to prior years. The 2011 National Grid energy efficiency recoveries and spending related to the 2011 budget approved in the CORE Docket will not be final until after year end. Because the final result of the 2011 energy efficiency recoveries and spending is not known and measurable, we will not reflect the projected outcome in the 2011-2012 LDAC charge. Any over or under recovery related to the 2011 energy efficiency reconciliation can be readily addressed in next year's winter COG filing.

Furthermore, by not crediting the projected over recovery in this proceeding, the actual over or under recovery related to the 2011 budget can be addressed in the CORE Docket, which involves all interested parties. Prior to National Grid's 2012-2013 winter COG we will expect a recommendation from the parties in the CORE docket regarding the 2011 program over or under recovery, which we will consider in setting the 2012-2013 LDAC rate. If the parties are unable to reach an agreement on treatment of the over or under recovery, or fail to file a recommendation, we instruct the Company to reflect the over or under recovery as of December 31, 2011 in its energy efficiency rate calculation. Accordingly, we agree with Staff and the Company that over recoveries associated with the 2010 residential and C&I energy efficiency program year should be credited to customers. At the same time, we agree with the Jordan

Institute and the OCA that it is premature to credit projected over recoveries from 2011 to the 2012 LDAC charge. We are aware that the Company has significantly underspent its budget over the past two years, and based on that experience and Company expectations, it will be a challenge for the Company to spend both its 2012 budget and the 2011 over recovery. Nevertheless, the Company anticipated, in its initial filing, being able to meet that challenge and the energy efficiency rate calculation reflected that spending level. We conclude that benefits would accrue to customers if the Company were able to make cost effective use of already budgeted energy efficiency funds over the upcoming months and we encourage the Company to partner with the Jordan Institute and others where feasible in achieving this goal. As a result, we approve the energy efficiency surcharge as calculated in Exhibit 1, thereby increasing the C&I LDAC rate by $0.0124 per therm, to $0.0529 per therm.

With regard to the gas allocation LDAC factor proposed by the Company, we find it to be an appropriate remedy for the misallocation of the past 12-month period, and approve it.

Based upon the foregoing, it is hereby

ORDERED, that National Grid's 2011-2012 winter COG and FPO per therm rates for the period November 1, 2011 through April 30, 2012 are APPROVED, effective for service rendered on or after November 1, 2011 as follows:

	Cost of Gas	**Maximum COG**	**Fixed Price**
Residential	$0.7926	$0.9908	$0.8126
C&I, low winter use	$0.7911	$0.9889	$0.8111
C&I, high winter use	$0.7929	$0.9911	$0.8129

and it is

FURTHER ORDERED, that National Grid may, without further Commission action, adjust the COG rates upward by no more than 25 percent and downward so far as is necessary based upon its projected over- or under-collection, consistent with *EnergyNorth Natural Gas, Inc. d/b/a National Grid NH*, Order No. 24,963 (April 30, 2009); and it is

FURTHER ORDERED, that National Grid shall provide the Commission with its monthly calculation of its projected over- or under-collection, along with resulting revised COG rates for the subsequent month, if applicable, not less than five business days prior to the first day of the subsequent month. National Grid shall include a revised tariff page 84, Calculation of Firm Sales Cost of Gas Rate, and revised rate schedules if it elects to adjust the COG rates; and it is

FURTHER ORDERED, that any 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 National Grid's proposed 2011-2012 LDAC per therm rates for the period November 1, 2011 through October 31, 2012, are APPROVED effective for service rendered on or after November 1, 2011 as follows:

	Allowance Adjustment	Rate Case	Envir.	Energy Efficiency	Low Income	LDAC
Residential	($0.0013)	$0.0116	$0.0000	$0.0498	$0.0092	$0.0693
Commercial & Industrial	($0.0013)	$0.0116	$0.0000	$0.0298	$0.0092	$0.0493
Transportation	$0.0023	$0.0116	$0.0000	$0.0298	$0.0092	$0.0529

and it is

FURTHER ORDERED, that National Grid's proposed firm transportation winter COG rate of $0.000 per therm for the period November 1, 2011 through April 30, 2012, is APPROVED; and it is

FURTHER ORDERED, that National Grid's proposed transportation supplier balancing charge of $0.22 per MMBtu of daily imbalance volumes, is APPROVED; and it is

FURTHER ORDERED, that National Grid's proposed transportation peaking service demand charge of $18.96 per MMBtu of peak MDQ, is APPROVED; and it is

FURTHER ORDERED, that National Grid's proposed transportation capacity allocators as filed in Proposed Third Revised Page 156, Superseding Second Revised Page 156, are APPROVED; and it is

FURTHER ORDERED, that National Grid 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 thirty-first day of October, 2011.

Thomas B. Getz
Chairman

Amy Ignatius
Commissioner

Attested by:

Debra A. Howland
Executive Director