

DE 98-124

NORTHERN UTILITIES, INC.

Gas Restructuring

**Order Approving the Use of Effective Degree Days and
Peak and Off-Peak Period Cash-Out Calculations**

O R D E R N O. 23,944

April 1, 2002

I. BACKGROUND

In Order No. 23,652 (March 15, 2001), the New Hampshire Public Utilities Commission (Commission) approved a model tariff for natural gas delivery service (Model Delivery Tariff). Section 2 of the tariff includes a definition of Heating Degree Days (HDD) and Section 10.7 includes an annual cash-out calculation to reconcile differences between forecasted gas usage and actual billed usage for non-daily-metered delivery service customers.

On March 5, 2002, Northern Utilities, Inc. (Northern), a public utility engaged in the business of distributing natural gas in New Hampshire, filed with the Commission two proposed revisions to the tariff: 1) replacing the definition of HDD with Effective Degree Days (EDD) and changing all references from HDD to EDD, and; 2) requiring a Peak and Off-Peak Cash-Out calculation for non-daily-metered delivery service to replace the annual cash-out calculation,

thereby establishing a six month period to account for differences in forecast versus billed gas usage. The filing provided supporting information along with the proposed revised tariff pages of the Tariff for Gas Service NHPUC No. 10 for Northern.

Northern has used EDDs for all customer billing purposes, supply planning and forecasting functions for many years. The EDDs are a more refined version of the HDDs, incorporating heat loss due to wind as well as temperature, while HDDs are based solely on temperatures. EDDs are used in Northern's determination of COG rates and all weather normalization calculations.

Under the current tariff, customers taking non-daily-metered delivery service are provided with firm delivery for 365 days without recording gas usage on a daily basis. Based on a consumption algorithm and forecasted degree-day information, Northern's supplier is required to deliver a specific quantity of gas for that day. At the close of the day, the difference between the amount Northern ordered based on the forecasted degree days is reconciled with the amount used based on the actual degree day. Northern's supplier is required to cash out (i.e., account for any differences) based on those two figures. In addition,

Northern reconciles any differences between the gas delivered based on the consumption algorithm and actual degree days versus metered (actual) usage on an annual basis. The difference is cashed out using the average of the twelve monthly indices weighted by actual degree days over the same period.

The proposed change would replace the annual cash-out with a cash-out that is calculated twice annually, once for the Peak Period (November 1 through April 30) and once for the Off-Peak Period (May 1 through October 31).

Northern stated that under the current tariff, a customer may receive gas that Northern's supplier did not deliver to the system and the amount of the reimbursement (i.e., cash-out) from the supplier to Northern would be calculated based on the annual weighted average of gas prices. If the actual cost of gas incurred during the Peak Period was higher than the average annual gas price (after weighting for degree days), Northern would not be fully reimbursed for the costs incurred to meet the gas needs of non-daily-metered delivery service customers during the Peak Period, and the difference would be recovered from firm sales customers through the cost of gas.

The filing also stated that Northern had consulted

with both the Commission Staff and the Office of the Consumer Advocate, both of which support the proposed tariff changes.

II. COMMISSION ANALYSIS

The Commission has long accepted the use of Effective Degree Days to reasonably determine the effects of weather on heating loads. The proposed change in the Gas Delivery Service Terms and Conditions from HDDs to EDDs is both reasonable and consistent with Commission and industry practice. Accordingly, we approve the change from Heating Degree Days to Effective Degree Days.

Because normal daily variations in the price of gas may not be fully captured using an annual weighted average, we believe the twice-annual calculation will more closely reflect the actual cost of gas delivered to the non-daily-metered delivery service customers and allow for recovery from those customers, thereby, reducing the risk of subsidization by the firm sales customers. Accordingly, we approve the proposed tariff change allowing for Peak and Off-Peak cash-out calculation for non-daily-metered delivery service customers.

Based upon the foregoing, it is hereby

ORDERED, that the following tariff page of Northern is APPROVED: First Revised Page 104, 121, 122 and 122-a Superseding Original Page 104, 121, 122 and 122-a of Tariff No. 10 - Gas, Delivery Service Terms and Conditions, effective April 1, 2001.

By order of the Public Utilities Commission of New
Hampshire this first day of April, 2002.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary