DG 02-045

ENERGYNORTH NATURAL GAS, INC. D/B/A KEYSPAN ENERGY DELIVERY NEW ENGLAND

2002 Summer Period Cost of Gas

Order Approving the Cost of Gas Rate and Local Distribution Adjustment Clause

O R D E R   N O. 23,951

April 19, 2002

APPEARANCES: McLane, Graf, Raulerson, and Middleton by Steven V. Camerino, Esq. on behalf of EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England; Office of the Consumer Advocate by Kenneth E. Traum on behalf of residential utility consumers; and Marcia A.B. Thunberg, Esq. for the Staff of the New Hampshire Public Utilities Commission.

1. PROCEDURAL HISTORY

On March 18, 2002, EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England (KeySpan), a public utility engaged in the business of distributing natural gas in southern and central New Hampshire and the City of Berlin in northern New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) for the 2002 Summer period. Accompanying its COG filing was a Motion for Protective Order and Confidential Treatment, which was granted by Commission Order No. 23,950 (April 12, 2002). KeySpan's filing included the direct testimony and supporting attachments of A. Leo Silvestrini, Director of Rates and Regulatory Affairs, and Theodore E. Poe, Senior Resource Planning Consultant with Boston Gas Company.

An Order of Notice was issued on March 19, 2002, and published in the *Union Leader* on March 25, 2002.

On April 3, 2002, the Office of the Consumer Advocate (OCA) filed a Notice of Intent to Participate in this docket on behalf of residential utility consumers pursuant to the powers and duties granted to the OCA under RSA 363:28,II. There were no other intervenors in this docket.

On April 8, 2002, KeySpan filed a revised Cost of Gas for the 2002 Summer Period updating cost forecasts, correcting errors and incorporating changes agreed to by KeySpan, Commission Staff (Staff) and the OCA during the COG technical session held on April 3, 2002.

A duly noticed hearing on the merits was held at the Commission on April 12, 2002.

II. POSITIONS OF THE PARTIES AND STAFF

A. <u>EnergyNorth Natural Gas, Inc.</u>

KeySpan witnesses A. Leo Silvestrini and Theodore E. Poe addressed the following issues: 1) calculation of the Firm Sales COG rate and the impact on customer bills; 2) factors contributing to the decreased rate; 3) reasons for the 2001 Summer COG over collection; 4) reasons for shifting certain credits to the Winter COG; and 5) reduction in the LDAC rate.

1. Calculation and Impact of the Firm Sales COG Rate

The proposed 2002 Summer COG average cost of gas (residential firm sales rate) of $0.3876 per therm is comprised of anticipated direct gas costs, indirect gas costs and various adjustments. Anticipated direct gas costs total $13,641,858 and are off-set by prior period adjustments of $1,253,137, a prior period over collection of $784,222 and related interest of $56,913. Anticipated indirect gas costs total $353,862, consisting of working capital, bad debt and overhead charges. The gas costs to be recovered over the 2002 summer period, (anticipated direct and indirect costs and adjustments based on the prior period reconciliation) total $11,901,448 for recovery over the 2002 summer period. The gas costs for recovery over the upcoming summer period are divided by projected sales of 30,704,855 (based on 2001 summer normalized sales and projected sales growth of 2.4%) to arrive at the average cost of gas rate.

KeySpan’s proposed 2002 Summer COG residential rate of $0.3876 per therm is a decrease of $0.2862 per therm from the 2001 Summer weighted Firm Sales COG rate of $0.6738 per therm.

The impact of the proposed firm sales COG rate is a decrease in the typical residential heating customer’s summer gas costs of $90, a 26% decrease compared to last summer.

2. Reason for the Decreased COG

Three factors are primarily responsible for the decrease in the proposed COG rate: 1) a decrease in the projected commodity gas costs; 2) a prior period over-collection; and 3) a substantial credit to the summer COG related to a change in billing.

The natural gas prices as quoted on the New York Mercantile Exchange (NYMEX) are significantly lower than the prices paid last summer. One reason for lower prices is that inventories in the natural gas storage areas that serve New York, New Jersey and New England are at higher-than-usual levels following an exceedingly warm winter in the Northeast and those high inventories will moderate the price of providing for the summer demand for natural gas.

A portion of the decrease can be attributed to a large prior period over-collection. The 2002 summer COG rate is designed to return a prior period over-collection of $784,222. Last summer’s rate was designed to recover a prior period under-collection of $3,168,471. The impact on gas costs to be recovered from last summer to this summer is a swing of almost $4,000,000, as last summer's rates were artificially high compared to this year's which are artificially low.

Also off-setting this summer's gas costs is a credit of $1,253,137 that resulted from a change in billing, which is described below.

3. Reasons for the 2001 Summer Over-Collection

Mr. Silvestrini testified that the primary reason for the over-collection from last summer was the drop in commodity prices throughout that period. Although KeySpan used monthly adjustments to reduce the gas rates during the summer, from an approved residential rate of $0.7553 per therm at the beginning to $0.6042 per therm at the end, the reductions did not fully keep up with the continued commodity cost decreases. The decrease in natural gas prices below those forecasted resulted in actual gas costs below projected costs.

4. Credits Shifted from Summer to Winter COG

Mr. Silvestrini testified that two credits that had been allocated to the summer COG in the original filing were reallocated to the winter period in the revised summer COG filing. The two credits, totaling close to $3,000,000, will be included in KeySpan's 2002/2003 winter COG.

A $1.6 million credit related to demand charges for pipeline capacity used for winter peaking service paid during the summer was reallocated to the winter period.

One half of a $2.5 million credit related to the November proration of gas revenues due to a change in billing from a bills-rendered basis to a service-rendered basis was assigned to the winter period. While the proration adjustment correctly allocates a portion of the November (winter) revenues to October (summer) usage, a similar proration allocating a portion of the May (summer) revenues to April (winter) sales would have normally off-set the November proration, but did not occur last summer due to a change in the summer period as a result of rate redesign. Summer 2001 included April, but under the approved rate redesign, effective May 1, 2001, the summer period was shortened from 7 to 6 months and now runs from May through October. As a result of the change, the off-setting allocation resulting from going to a service-rendered from a bills-rendered basis was not allocated to the winter. Assigning half the credit to the winter period avoids penalizing winter heating customers for this one-time occurrence.

5. LDAC Rate Reduction

Commission Order No. 23,882 (December 31, 2001) approved KeySpan's proposed 2001/2002 LDAC per therm rates effective through October 31, 2002, with the exception of the Rate Case Expense Surcharge, which was to expire on April 30, 2002. Effective May 1, 2002, KeySpan's LDAC per therm rate will be reduced to reflect the expiration of that surcharge. The Residential LDAC rate will be reduced by $0.0009 per therm and the Commercial and Industrial LDAC rate by $0.0027 per therm.

B. <u>OCA</u>

The OCA stated that it did not oppose KeySpan's proposed COG rates.

C. <u>Staff</u>

Staff did not oppose the proposed rates, stating that the errors and issues raised by Staff during discovery had been addressed during the technical session and corrected in the revised summer COG filing.

Staff informed the Commission that the 2001 summer period gas costs had not been audited as of the date of the hearing, but stated that the Audit Staff would be performing the audit shortly and the Commission would be notified of any material errors revealed in the preliminary investigation prior to issuing the summer COG order.

Staff added that while the filing was more comprehensive that previous filings, Staff intended to work with KeySpan to further refine the filing format into a more simplified, yet comprehensive, document.

III. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that KeySpan’s proposed COG rates will result in just and reasonable rates. As of the date of this Order, the Audit Staff’s preliminary investigation has not revealed any material errors as a result of its audit of the prior summer’s COG reconciliation. At hearing, KeySpan testified, that if the audit changes were significant, meaning any necessary change would be greater than that permitted by the parameters of the monthly CGA clause, KeySpan would propose a revised COG rate. If the audit changes were not significant, then KeySpan would make adjustments through the monthly adjustments allowed under the Cost of Gas Adjustment (CGA) clause. (Hearing Transcript at 47.) We accept and approve KeySpan’s proposed 2002 Summer Firm Sales COG rates with the condition that should changes be warranted as a result of issues raised by the Commission’s audit of the 2001 Summer Cost of Gas reconciliation, that those changes be made through either the monthly adjustments pursuant to the CGA clause or via a revised filing, whichever is appropriate.

In approving the 2002 COG rates, we are also approving the treatment of the two credits proposed in the original summer COG filing and reallocated to the winter period in the revised summer COG filing. We believe it more appropriate to assign the credit to the winter period for the reasons stated by KeySpan, and agreed to by Staff and the OCA, identified above. The reallocation of those credits will result in a recovery of gas costs during the summer period closer to projected gas costs and will help to reduce a possible increase in next winter’s COG rates as indicated by current natural gas futures prices for the period. The Commission believes keeping gas costs stable and low is a beneficial policy to pursue on behalf of customers.

Based upon the foregoing, it is hereby

ORDERED, that KeySpan's proposed Firm Sales Summer COG per therm rate for the period of May 1, 2002 through October 31, 2002, is APPROVED, effective for service rendered on or after May 1, 2002 as follows;

	Cost of Gas	Minimum COG	Maximum COG
Residential	$0.3876	$0.3101	$0.4651
C&I, low winter use	$0.3777	$0.3022	$0.4533
C&I, high winter use	$0.3947	$0.3158	$0.4736

FURTHER ORDERED, that KeySpan may, without further Commission action, adjust the COG rates upward or downward monthly based on KeySpan’s calculation of the projected over or under collection for the period, the minimum and maximum rates as set above; and it is

FURTHER ORDERED, that the over or under collection shall accrue interest at the Prime Rate reported in the Wall Street Journal. The rate is to be adjusted each quarter using the rate reported on the first date of the month preceding the first month of the quarter; and it is

FURTHER ORDERED, that should changes be warranted as a result of issues raised by the Commission’s audit of the 2001 Summer Cost of Gas reconciliation, that those changes be made through either the monthly adjustments pursuant to the CGA clause or via a revised filing, whichever is appropriate; and it is

FURTHER ORDERED, that KeySpan's proposed 2002 Local Distribution Adjustment Clause per therm rate for the period May 1, 2002 through October 31, 2002, is APPROVED effective for service rendered on or after May 1, 2002 as follows:

	Demand Side Mgmt.	Gas Holder Remed.	Envir. Remed.	Gas Restr. Costs	LDAC
Residential Heating	$0.0010	$0.0030	$0.0137		0.0177
Residential Non-heating	$0.0000	$0.0030	$0.0137		0.0167
Small C&I	$0.0000	$0.0030	$0.0137	$0.0020	0.0187
Medium C&I	$0.0000	$0.0030	$0.0137	$0.0020	0.0187
Large C&I	$0.0000	$0.0030	$0.0137	$0.0020	0.0187

FURTHER ORDERED, that KeySpan will provide the Commission with its monthly calculation of the projected over or under- calculation, along with the resulting revised COG rate for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. KeySpan shall include a revised tariff page 20 - Calculation of Cost of Gas Adjustment for firm sales and revised firm rate schedules if KeySpan elects to adjust the COG rate; and it is

FURTHER ORDERED, that the Commission waives N.H. Admin. Rules Puc 1203.05(b) and will allow Northern to implement its 2002 Summer COG rates on a service-rendered basis; and it is

FURTHER ORDERED, that KeySpan 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. Admin. Rules, Puc 1603.

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

Thomas B. Getz Chairman	Susan S. Geiger Commissioner	Nancy Brockway Commissioner

Attested by:

Kimberly Nolin Smith
Assistant Secretary