

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: September 13, 2006

AT (OFFICE): NHPUC

FROM: Stephen P. Frink ^{SPF}
Assistant Director, Gas & Water Division

SUBJECT: DG 06-120, Natural Gas Utilities
Residential Low Income Assistance Program

TO: Commissioners

On September 1, 2006, EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England (KeySpan), Northern Utilities, Inc. (Northern), the New Hampshire Community Action Association, Pamela Locke by her attorney, New Hampshire Legal Assistance, the New Hampshire Office of Energy and Planning, the Office of Consumer Advocate (jointly, the Settling Parties) and the Staff (Staff) of the New Hampshire Public Utilities Commission (Commission) filed a Settlement Agreement with the Commission. With certain modifications, the Settlement Agreement proposes the continuation of the Residential Low Income Assistance Program (RLIAP) for natural gas customers which has been operated on a pilot program basis (Pilot Program) since November 1, 2005 pursuant to Order No. 24,508 (September 1, 2005) (the Order). The Order contained a provision for the parties to "meet no later than June 30, 2006 to review the data provided by the quarterly reports and the status of the Pilot Program and discuss any program modifications for the 2006-2007 program year to be proposed to the Commission for its review and approval." The Staff and parties met in accordance with that provision and proposed modifications to the Pilot Program, as detailed in the Settlement Agreement.

This memorandum explains Staff's rationale for supporting the Settlement Agreement and recommends Commission approval of the Settlement Agreement.

The Commission Analysis in the Order (p. 10-11) states in part, "[r]egarding the merits of the Pilot Program, all parties affirmed the need for a low-income assistance program for natural gas customers at this time. Such a program benefits low income residential heating customers who are impacted by escalating gas costs. Although the benefits provided to these customers under the Pilot Program are modest, the record indicates they are meaningful for the customers eligible to receive them. At the same time, there is only a nominal impact on non-participating customers."

Low income customers continue to be impacted by gas costs. On September 1, 2006, KeySpan filed its 2006-2007 Winter Season COG with a proposed residential COG rate of \$1.2464 per therm, as compared to the proposed residential COG rate of \$1.1172

per therm contained in its 2005-2006 Winter Season COG filing made on September 1, 2005, the day the Commission issued its order approving the Pilot Program. (Northern has not yet filed its 2006-2007 winter COG.)

The RLIAP has only a nominal rate impact on non-participating customers. The projected cost of the Pilot Program as a percentage of gross revenues was 0.78% for KeySpan and 0.42% for Northern. With the majority of costs having already been incurred, the final cost of the Pilot Program is now estimated to be 0.45% of gross revenues for KeySpan and 0.34% of gross revenues for Northern, primarily due to lower than anticipated customer participation. Sensitivity analyses performed by the gas utilities that increased the Pilot Program participation by 10% and raised the customer discount from 50% to 60% result in a projected program cost as a percentage of gross revenue for the 2006-2007 program year of 0.71% for KeySpan and 0.31% for Northern. The projected cost of the modified program as a percentage of gross revenues for the 2006-2007 program year is less than that approved in the Pilot Program.

Lower than anticipated participation numbers resulted in the actual cost of the Pilot Program being below estimated costs; however, the surcharge implemented to recover the projected program costs was not adjusted during the year. Consequently, the RLIAP revenues exceeded the RLIAP costs, resulting in an over-collection by both KeySpan and Northern. In the 2006-2007 RLIAP program year, this over-collection will further lessen the rate impact on non-participating customers as the over-collection, including carrying costs, will be applied against the forecasted cost for the upcoming program year when determining the surcharge.

Although participation in the Pilot Program has been significant, the quarterly RLIAP reports show that customer participation has been well below what had been anticipated. KeySpan estimated RLIAP customer participation of 6,034 and experienced actual participation of 4,894 while Northern estimated customer participation of 1,022 and experienced actual participation of 725. Pilot Program participation estimates were largely based on KeySpan's and Northern's experience with similar programs offered by their Massachusetts affiliates, as the Companies did not have New Hampshire specific experience at that time. As a result of the lower than anticipated participation, a modest increase in the delivery rate discount for eligible customers (from 50% to 60%) keeps the cost of the program as a percentage of gross revenues consistent with that approved in for the Pilot Program, while increasing the savings to the average KeySpan RLIAP customer from 12.8% of the total annual gas bill to 15.4% and the average Northern RLIAP customer savings from 14.7% to 17.6%.

cc Service List