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THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

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April 19, 2007

Debra Howland
Executive Director & Secretary
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301

Re: DG 07-033 Northern Utilities, Inc.
2007 Summer Cost of Gas

Dear Ms. Howland:

Enclosed for filing with the Commission on behalf of Commission Staff is Staff's Objection to Northern Utilities, Inc.'s Motion to Defer Issues in the above captioned docket.

Thank you for your attention to this matter.

Sincerely yours,

Edward N. Damon (for Anne Ross)

Edward N. Damon
Staff Attorney

CC: Service List

STATE OF NEW HAMPSHIRE
Before the
PUBLIC UTILITIES COMMISSION

Northern Utilities, Inc.	)	DG 07-033
Summer 2007 Cost of Gas	)	

COMMISSION STAFF'S OBJECTION TO NORTHERN UTILITIES' MOTION TO DEFER

Commission Staff (Staff) objects to Northern Utilities, Inc.'s (Northern) motion to defer consideration of the accounting issues raised in Northern's 2006/2007 Winter Cost of Gas proceeding and further described in Staff's report filed on March 13, 2007, as well as Staff's testimony filed on April 16, 2007. In support of this objection Staff states as follows:

BACKGROUND

The accounting issues described in Staff's March 13, 2007 report and in Staff's testimony were first raised during Northern's 2006-2007 Winter Cost of Gas proceeding. In that docket Staff described its concerns with Northern's reconciliation mechanism and its cash working capital allowance for gas supply costs. In *Northern Utilities, Inc. 2006/2007 Winter Cost of Gas*, Order 24,684 at p. 6-8 (October 27, 2006) Staff's position was summarized as follows:

"Staff expressed concern regarding the possible double recovery of interest through the working capital allowance and the monthly interest earned on under-recoveries. Staff noted that this potential problem is not unique to Northern or to New Hampshire, as the state's other natural gas utility has the same COG mechanism and its electric utilities have a similar mechanism, as do the Maine and Massachusetts gas utilities.

Staff explained that regulatory agencies generally recognize that the level of investment required to operate a utility is not limited to the net plant in service and that there are other items that require investor-supplied capital. These non-plant items are generally referred to as working capital. There are typically two components that comprise working capital: items booked to capital accounts, such as inventories and prepayments; and the cash needed to support expense outlays due to timing differences between receipt of revenues from customers and payment of vendor bills. The latter component can be further subdivided into timing differences related to gas supply issues and non-gas supply issues.

Each New Hampshire gas utility is allowed a supply-related working capital allowance in its COG mechanism computed by performing a "lead-lag" study to determine the number of days between the provision of retail service and the receipt of revenue (lag days) and the number of days between the receipt of gas supply and the payment of gas supply bills (lead days). The net lag or lead in each month is then multiplied by the monthly gas supply cost to calculate the monthly supply-related working capital requirement. This requirement is then multiplied by an appropriate carrying charge rate to determine the working capital allowance to be recovered through the COG.

The COG mechanism also includes a reconciliation mechanism that compares on a monthly basis gas supply costs and revenues. The mechanism requires that interest be applied to the average monthly imbalance (over or under-recovery) at the prime interest rate. Gas supply costs are typically booked in the month in which the gas is consumed. Revenues can be booked in several ways. One way is to book revenues associated with, for example, May consumption in June if the customers who consumed that gas had their meters read in June. Another way is to book all revenues associated with May consumption to the month of May regardless of when meters were actually read. This is consistent with accrual accounting. Of concern in this proceeding is the potential mismatch of monthly costs and revenues due to the use of the first revenue accounting approach and the associated recovery of interest expense. The issue is whether such recovery would amount to double recovery, once through the reconciliation mechanism and a second time through the cash working capital allowance.

Staff stated that it would work with the OCA and the Company to determine if there is a double recovery of interest and, if so, how to resolve the issue. If such a situation exists, Staff indicated it would report its findings and recommendations to the Commission. Staff indicated that it may recommend a disallowance related to any double recovery of interest costs in the 2005-2006 winter period based on the outcome of discussions between the Staff, OCA and Northern."

In Order 24,684 at p. 8 the Commission ordered the parties to propose a resolution of the issues raised by Staff.

"We understand that Staff, the OCA and Northern intend to conduct further discussion of the process whereby Northern may be double charging interest costs through the COG mechanism, once through the reconciliation mechanism and a second time through the cash working capital allowance. Accordingly, we require the parties at the conclusion of their discussions to file a detailed report that explains any deficiencies with the existing methodology and how Staff and the parties propose to resolve them. Further, we will consider any future recommendations by the Staff, OCA or Northern regarding possible adjustments to the 2005-2006 interest costs that may be filed with the Commission in a future proceeding."

In accordance with the Commission's Order 24,684 the parties and Staff met on December 5, 2006, and again on March 1, 2007, to exchange data and attempt to reach agreement on the interest recovery issues. Northern continued to disagree with Staff's analysis although it could not present data sufficient to convince Staff or the OCA that double recovery was not occurring. On March 13, 2007, Staff and OCA submitted a report and recommended how Northern should handle its reconciliation calculation to eliminate double recovery of interest. Northern declined to file a separate report and recommendation with regard to its reconciliation mechanism. On April 16, 2007, Staff filed testimony in this docket summarizing its earlier report and recommendations for Northern's reconciliation calculations.

ARGUMENT

Staff's objection shall address the numbered paragraph's of Northern's motion to defer issues.

3. At the December 2006 and March 2007 technical sessions between Staff, OCA and Northern, Staff kept Northern informed of the progress on the same reconciliation issues with the electric utilities. In addition, Northern received Staff's report and spreadsheets relating to Unitil's electric reconciliation mechanism in early February 2007 and has had ample opportunity to ask questions or conduct discovery of Staff concerning the findings and recommendations in that report.

4. Northern claims that it has had insufficient time to conduct discovery. Northern had the same opportunity as Staff did for informal discovery at the technical sessions in December 2006 and March 2007. Staff's position and suggested change to Northern's gas reconciliation mechanism was no secret. Northern did query Staff repeatedly at the technical sessions on the

rationale for Staff's position and presented two spreadsheet analyses which Staff found to be incorrect. Northern has subsequently disavowed the positions reflected in the two analyses. With regard to Staff's discovery relating to cash working capital, these questions were asked to obtain information on Northern's lead/lag process so as to assist Staff in its investigation of KeySpan's recently updated lead/lag study. It is for this reason that the responses to those questions are not due until after the Summer COG hearing. Indeed, Northern's lead lag study has no bearing on Staff's recommendations in the current proceeding. Staff's only concern with Northern's cash working capital calculation is the interest rate applied to cash working capital. Staff recommends using Northern's short term borrowing rate and Northern currently uses its cost of capital rate.

5. Northern claims that it has only had a short period of time to review Staff's testimony. Nonetheless, Northern has had months to review Staff's analysis which was first raised in Northern's 2006/2007 Winter Cost of Gas docket. Northern has not conducted any discovery of Staff since the Staff report on Northern's reconciliation mechanism was filed mid-March. If Northern had been interested in learning more about Staff's analysis it has had numerous opportunities to conduct both informal and formal discovery during the discussions in December and March and well before Staff filed testimony on April 16, 2007.

6. and 7. Northern claims that its COG mechanism has been in place for 30 years and that it should not be changed. The fact that Northern and other gas utilities have used billed revenues in their reconciliation calculations for 30 years does not mean that method is correct or that it leads to reasonable rates. Nothing prevents the Commission from examining a public utility's rates at any time to determine whether they are reasonable. *See*, RSA 378:7. In this case Staff has identified an over recovery of certain carrying costs and it is now Northern's

burden to prove that its reconciliation method does not create an over recovery and that its COG rates are reasonable.

8. and 9. Northern claims that it is not fair that it be required to address these reconciliation issues in Northern's Summer COG docket while allowing another New Hampshire gas utility, KeySpan, to have the benefit of a separate docket for resolution of similar issues. Northern and KeySpan have very different circumstances. In KeySpan's case there are four separate issues being investigated, two of which relate to collection practices and their effect on working capital and bad debt costs. In Northern's case only the issues of accounting for costs in the reconciliation and the interest rate on cash working capital are at issue. As a result, Northern's case is more limited in scope and should proceed faster than KeySpan's. In addition, while Staff's report on KeySpan's gas reconciliation mechanism was issued two weeks after the Northern report the KeySpan Summer COG hearing was scheduled two weeks earlier than the Northern hearing. Thus, Keyspan would have had four weeks less time to respond to Staff's recommendations had a separate docket not been created.

10. Northern claims that Staff asserts that Northern's lead lag study was conducted improperly. Northern mischaracterizes Staff's testimony. Staff does not allege that Northern's lead lag study was conducted improperly. Instead, in several places Staff assumes that Northern's lead lag study was properly conducted. Rather, it is Northern who claims the lead lag study does not adequately compensate it for delays in receipt of revenues. Again, if that is Northern's position it has had the last six months, since the October hearings, to develop that position and it has not done so.

11. Northern claims that Staff simply applies its analysis of electric utilities to Northern. Staff's testimony on Northern does not rely upon decisions in the electric utility dockets. Rather,

Staff relied upon its own analysis of Northern's books and records in reaching its recommendations for Northern. Staff's analysis of Northern gas reconciliation mechanism is contained in its report and testimony and the accompanying exhibits. Staff merely referenced the Commission's adoption of accrual accounting for several electric utility reconciliation mechanisms .

12. and 13. Northern claims that it must conduct extensive discovery concerning the three electric utilities which have made changes to their reconciliation methods before it can file its rebuttal testimony in this docket. While Northern was free to conduct any discovery it believes appropriate regarding the electric companies, Staff believes the more relevant inquiry is with Northern's own accounting practices.

14. Northern claims that it has substantive objections to Staff's testimony which it needs time to develop further. Northern merely reiterates the need for its reconciliation mechanism without addressing the fact that the cash working capital recovery already provides recovery for timing issues related to gas costs and revenues. Northern has had six months to explore these issues and to develop its position.

15. Northern claims that the electric companies are allowed to use the prime interest rate in their cash working capital calculations and that is inconsistent with Staff's recommendation that Northern use its short term debt rate to calculate its cash working capital allowance. Northern may conduct discovery of Staff regarding Staff's position on the appropriate interest rate to be applied to cash working capital. Since there is only a week between the filing of testimony (April 16) on this issue and hearing (April 23) Staff recommends that Northern set up a telephone call to question Staff on this issue.

16. Northern claims that Staff has not provided the effect of its recommendations on the COG rates, however, Staff did provide an estimate of the cost impact of Staff's recommendation in its testimony. Northern has not submitted sufficient data to Staff for a full recalculation of the COG rate.

17. and 18. Northern argues that there is not sufficient time to consider the issues raised in Staff's testimony. Northern has had since November 2006 to work with Staff to reach a full understanding of Staff's position on the proper method for reconciling Northern's gas supply costs. Northern has failed to conduct meaningful discovery and has also failed to take a position and to demonstrate, with appropriate data and analysis, why its current COG rates are reasonable given Staff's analysis. The Staff cannot be blamed for Northern's failure to develop these issues fully before hearing.

19. Staff has agreed to allow Northern to file rebuttal testimony on April 20, 2007. Staff urges the Commission to deny Northerns's motion to defer issues and to hear these issues at the scheduled April 23, 2007, hearing. Following that hearing the Commission may then determine whether a change in Northern's COG reconciliation is appropriate.

Respectfully submitted,

Edward N. Damon (l. Anne Ross)

Edward N. Damon
Staff Attorney

Dated: April 19, 2007

Certificate of Service

I hereby certify that a copy of the foregoing Objection has on this 19th day of April, 2007 been sent by electronic mail and mailed first class mail to persons listed on the Service List.

By: Edward N. Damon

Edward N. Damon, Staff Attorney