

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 09-162

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

Winter 2009-2010 Cost of Gas

Order Approving Cost of Gas Rates and Other Charges

ORDER NO. 25,032

October 29, 2009

APPEARANCES: Thomas P. O'Neill, 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 Matthew J. Fossum, Esq., for the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 1, 2009, EnergyNorth Natural Gas, Inc. d/b/a National Grid NH (National Grid or Company), a public utility distributing natural gas in 29 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 2009-2010 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. Also on September 1, National Grid filed a motion for confidential treatment of some information included in its COG filing.

On September 9, 2009, the Commission issued an order of notice scheduling a hearing for October 14, 2009. On September 14, 2009, the Office of Consumer Advocate (OCA) notified the Commission, consistent with RSA 363:28, of its participation in the docket on behalf of residential ratepayers. There are no other intervenors in the docket.

On September 16, 2009, National Grid informed the Commission that it had not published the order of notice by the deadline of September 14, but stated that it had “made arrangements” to have it published by September 16. National Grid, therefore, requested an extension of the publication deadline to September 16. In a secretarial letter of September 17, the Commission granted National Grid’s request for an extension. On September 29, 2009, National Grid provided an affidavit of publication stating that the order of notice had, in fact, been published on September 16. A hearing on the matter was held as scheduled on October 14, 2009.

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; and (5) the local distribution adjustment clause (LDAC). National Grid witness Leone testified about the status of site investigation and remediation efforts at various manufactured gas plant (MGP) sites in New Hampshire.

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 2009-2010 period, the proposed average COG rate, which is the COG rate payable by residential customers, was calculated by adding the anticipated direct costs of

\$78,151,613 less \$281,067 of adjustments related to prior periods to the anticipated indirect costs of \$3,573,460 and then dividing the total costs by the projected winter period sales volume of 84,282,098 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 filing proposes a winter 2009-2010 COG rate of \$0.9663 per therm for its non-fixed price option residential customers. This represents a \$0.1225 per therm decrease compared to the weighted average residential rate of \$1.0888 per therm last winter. The impact of the proposed firm sales COG rate, coupled with other changes in the LDAC and changes in the distribution rates recently approved by the Commission in Order No. 24,972 (May 29, 2009) in National Grid's rate case, Docket No. DG 08-009, is an overall decrease in the typical residential heating customer's winter costs of approximately \$142, or 10.3%, over last winter. National Grid's proposed commercial and industrial (C&I) low winter use (LW) and high winter use (HW) COG rates are \$0.9658 and \$0.9665 per therm respectively, both of which are decreases compared to last winter's rates.

For those customers electing the FPO, National Grid's filing proposes a rate of \$0.9863 per therm. The 2009-2010 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 \$0.9858 and \$0.9865 per therm respectively. These rates reflect a decrease of about 23% in each class. After accounting for other charges, the estimated

winter bill for a typical residential customer using the FPO would be about \$19, 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 \$15,400,000 and that supplemental costs relating to underground storage, liquefied natural gas and propane have dropped by about \$10,400,000. National Grid also stated that the decrease in rates is attributable to drops in demand resulting from the general decline in the economy as well as efforts at energy efficiency and conservation. *See* Transcript of October 14, 2009 Hearing (Tr.) at 23-24, 48.

These cost decreases are offset, partially, by other factors, including a prior period under-collection. Regarding the under-collection, in the 2008-2009 winter period the Company recorded a net under-collection of \$659,570. According to the Company's filing, this represents less than one percent of the total gas revenue billed, and was caused by lower than forecasted gas revenue billings.

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. In addition to already existing supply lines, the Company expects that it will begin using the recently completed Concord Lateral upgrade, a spur of the Tennessee Gas Pipeline (TGP), on November 1, 2009. This lateral upgrade is essentially a 30,000 MMBtu per day expansion of the existing pipeline capacity from Dracut, Massachusetts. National Grid stated that it intends to use this expanded pipeline capacity to offset the need for more expensive liquefied natural gas (LNG) and propane supplies. Tr. at 26, 48-50. 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. The Company noted at the hearing that it intended to complete its contracting process regarding the expanded Concord Lateral supply the following day, and that it would forward copies of the completed contracts to Commission staff thereafter. Tr. at 26-27, 48.

Regarding price stability and hedging, National Grid's filing indicates that it has hedged approximately 65% of its projected needs for the period. However, much of the hedged gas was locked in at prices above those in the current market. The Company intends to continue purchasing gas supply contracts with the goal of hedging more than 67% of its forecasted supply. It anticipates that the more recent purchases will be at lower prices, thus decreasing the average cost of the hedged volumes. Regarding supply reliability, the Company anticipates that it will have all of its available storage filled and all of its seasonal supply contracts executed by November 1, 2009.

4. Transportation Rates, Allocators and Other Charges

The proposed firm transportation COG rate is a credit of \$0.0003 per therm. This represents a decrease from last winter's rate, which was a credit of \$0.0001 per therm. The rate reduction is due to a decrease in peaking costs that resulted in a prior period over recovery that exceeds forecasted costs. 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 leave the supplier balancing charge unchanged at \$0.12 per MMBtu of daily imbalance volumes, but to increase the peaking service demand charge from \$10.02 per MMBtu of peak maximum daily quantity (MDQ) to \$16.43 per MMBtu of peak MDQ. The increase in the peaking service demand charge is based on an update of volumes and costs used in calculating the charges, as well as classification of the new 30,000 MMBtu per day of capacity on the Concord Lateral, 25,000 MMBtu per day of which is expected to be used for peaking supply. Tr. at 38-39. 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 filing proposes a per therm LDAC of: \$0.0410 for the residential non-heating class; \$0.0404 for the residential heating class; and \$0.0194 for the C&I classes to be billed from November 1, 2009 through October 31, 2010. 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, the residential low income assistance program (RILAP) charge, and the emergency response incentive charge. The LDAC also includes National Grid's rate case expenses netted against the true up of its temporary and final rates in its recent rate case, Docket No. DG 08-009.

Most of the above charges are, with the exception of the MGP remediation charge discussed below, subject to small adjustments from the rates in prior periods to reflect minor changes in the Company's programs. Specifically, as to the conservation charge, which is designed to recover lost margins in the Company's demand side management, the Company proposes a rate of (\$0.0006) per therm for the residential heating customer class. According to National Grid, with the implementation of new base rates effective August 24, 2008, this program is eliminated, and the proposed rate reflects a prior over-collection on this now-completed program. Regarding the energy efficiency charge, which recovers expenses associated with National Grid's energy efficiency programs, National Grid proposes a residential rate of \$0.0466 per therm, an increase over the \$0.0181 per therm rate last year, and a C&I rate of \$0.0250 per therm, an increase over the \$0.0205 per therm rate last year. At the hearing it was noted that Staff had identified changes to the energy efficiency calculation during its review of the energy efficiency charge and its program incentives, but that the review was not yet completed. Tr. at 46. The Company stated that it would deal with the changes identified by Staff in a future reconciliation. Tr. at 46.

For the RILAP, which recovers administrative and other costs relative to discounts provided low-income customers, National Grid is proposing a charge of \$0.0099 per therm, an increase over the \$0.0073 per therm rate last winter. Lastly, regarding the emergency response incentive charge, National Grid, pursuant to a settlement agreement in Docket No. 06-107, had the ability to earn a one-time incentive of \$600,000 if it was able to meet certain emergency response goals over the period of September 2007 to December 2008. *See National Grid plc, et al.*, Order No. 24,777 (July 12, 2007) at 36-37. The Company's filing indicates that it met its

goals and Staff has indicated that the Company's calculations are correct. Tr. at 54-55. National Grid, therefore, has included the incentive in the LDAC.

In addition to the above, the LDAC includes a 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 08-009. According to the Company, it netted its rate case expense of \$802,365 against an over-collection in the temporary and final rate reconciliation of \$3,740,913. The net of \$2,938,277 results in a credit of \$0.0195 per therm, which will be credited to customers over the coming year, from November 2009 through October 2010. At the time of the hearing the final amount of rate case expenses from Docket No. DG 08-009 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. Tr. at 36-37.

6. MGP Remediation Costs

National Grid is responsible for the remediation of contamination caused by activities related to MGP at various sites around New Hampshire. In performing the investigation and remediation of contamination at these sites, contractors and consultants generate costs for which the Company is responsible. The Company, however, has sought third-party recovery for much of these costs, and reports that to date its recoveries from insurance companies and other entities exceed its remediation costs. National Grid, therefore, proposes to set the MGP remediation surcharge at \$0.000, which is the same as prior periods.

National Grid noted that, despite the current recoveries of insurance proceeds, it will likely begin incurring substantial costs at its Liberty Hill site in 2010. Tr. at 15. In addition, National Grid noted that there are some costs – about \$1,200,000 worth – that it has incurred recently, but for which it has not yet sought recovery and which are not presently offset by

insurance recoveries. Tr. at 46-47. National Grid noted that this amount would be subject to final review and true up in the following year. Tr. at 47.

7. Motion for Confidential Treatment

As part of its COG filing, National Grid is required to file certain gas supply contract information with the Commission. National Grid, by way of a motion filed with its COG filing, requests that this information be granted confidential treatment. More specifically, the information National Grid seeks to protect is: (1) Schedule 1, Summary of Supply and Demand Forecast, pages 2, 3 and 4 of 4; (2) Schedule 2, Contracts Ranked on a per Unit Basis; (3) Schedule 4, Adjustments to Gas Costs; (5) Schedule 5A, Demand Costs; (6) Schedule 5C, Demand Rates; (7) Schedule 6, pages 1, 3, 4 and 5 of 5, Commodity Costs; (8) Schedule 7, pages 2, 3, and 4 of 4, NYMEX Futures at Henry Hub and Hedged Contracts; (9) Schedule 16, page 4 of 4, NYMEX Futures at Henry Hub and Underground Storage; and (10) Schedule 21, page 3 of 3, backup calculations to Tariff Page 153, Attachment B in worksheets showing peaking demand rate. Any pages of the above-identified schedules that are not specifically identified are part of the Company's non-confidential filing and are, therefore, not included in the motion.

National Grid argues that releasing this information will result in a competitive disadvantage to it in the form of less advantageous or more expensive gas supply contracts. According to National Grid, if gas suppliers possessed this information they would be aware of the Company's gas supply costs and terms and would not be likely to propose terms as beneficial as those in existence. As such, National Grid contends that disclosing its confidential commercial information would cause it competitive disadvantage and that the information should, therefore, be exempt from disclosure under RSA chapter 91-A, and otherwise be treated as confidential.

B. OCA

The OCA stated that it did not oppose the Company's COG rates as presented to the Commission. Tr. at 53. The OCA did, however, have concerns about National Grid's hedging program. Specifically, the OCA was concerned that, since the hedging for the current period began approximately 18 months ago, some of the larger customers have migrated from the system. Tr. at 43-44. The Company agreed with the OCA that since natural gas prices were higher 18 months ago, and since the Company's hedges were based upon a customer base that has decreased since that time due to migration, the impact on non-migrating customers, particularly residential customers, was an increase in bills of about \$4.00 per customer for the period. Tr. at 43-44.

C. Staff

Staff did not testify in this docket. Staff stated that it supported National Grid's COG rates as filed. Tr. at 53. Staff noted that the Commission's audit staff had reviewed last year's peak period reconciliation and found no exceptions. Tr. at 54. Also, Staff noted that the forecast for the coming year was consistent with the Company's prior practices and reflected a general decrease in gas usage due, in part, to the current economic climate. Tr. at 54. 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 54.

With regard to National Grid's hedging policy, Staff noted that while the Company does not have control over the volatility in the futures markets, the hedging policy has provided some price stability. Tr. at 54. Staff noted, however, that the current program had been in place for a number of years and that it should be reviewed to determine whether it is meeting its intended goals, or if it should be altered. Tr. at 54.

As to the LDAC, Staff stated that it appeared the Company had calculated the charges correctly and recommended approval of them. Tr. at 55. Staff did note that it had not yet completed its review of the environmental remediation costs or the rate case expenses, but that the rates related to these expenses should be permitted to go into effect, subject to later reconciliation, if necessary. Tr. at 55. Regarding the environmental remediation costs, Staff stated that any material errors in those costs would be resolved in the 2010/2011 winter COG filing. Tr. at 55. Staff also stated that it was close to completing its review of the rate case expenses and stated that recommendations would be placed before the Commission for a final determination in the near future. Tr. at 55. 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 55.

III. 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 2009-2010 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.

We note that all of the parties identified potential issues with National Grid's hedging policies and that they had agreed to a future meeting to discuss the policies and potential

amendments. The Company's hedging policy is intended to reduce price volatility, though this may result in supply that is not always obtained at the lowest possible cost. Over the years, the Commission has previously stated its support of the goals of such a policy. *See, e.g., EnergyNorth Natural Gas, Inc. d/b/a National Grid NH*, Order No. 24,909 (Oct. 29, 2008). We continue to support such policies and will await suggestions from the parties about improving National Grid's policy in order to avoid inequities for non-migrating customers.

As to the rate case expenses, we approve their inclusion in the LDAC at the stated amount, subject to final review and approval. We anticipate that the parties will provide proposals or a settlement in the near future so that any difference between the stated amount and the approved amount, if there is one, can be reconciled without significant delay.

As to National Grid's motion for confidential treatment, in determining whether commercial or financial information should be deemed confidential and private, we consider the three-step analysis applied by the New Hampshire Supreme Court. *Unitil Corp. and Northern Utilities, Inc.*, Order No. 25,014 (Sept. 22, 2009) at 3. First, we evaluate whether there is a privacy interest at stake that would be invaded by the disclosure; when commercial or financial information is involved, this step includes a determination of whether an interest in the confidentiality of the information is at stake. If no such interest is at stake, the Right-to-Know law requires disclosure. *Id.* Second, when a privacy interest is at stake, the public's interest in disclosure is assessed. *Id.* Disclosure should inform the public of the conduct and activities of its government; if the information does not serve that purpose, disclosure is not warranted. *Id.* Finally, when there is a public interest in disclosure, that interest is balanced against any privacy interests in non-disclosure. *Id.*

In furtherance of the Right-to-Know law, the Commission's rule on requests for confidential treatment, N.H. Code Admin. Rules Puc 203.08, is designed to facilitate the balancing test required by the relevant case law. *Id.* The rule requires petitioners to: (1) provide the material for which confidential treatment is sought or a detailed description of the types of information for which confidentiality is sought; (2) reference specific statutory or common law authority favoring confidentiality; and (3) provide a detailed statement of the harm that would result from disclosure to be weighed against the benefits of disclosure to the public. N.H. Code Admin. Rules Puc 203.08(b).

We note that similarly to previous COG hearings, no party has objected to the requests for confidential treatment. We begin our analysis by noting that the information National Grid seeks to protect relates to supply costs and availability. As noted by National Grid, gas suppliers who may obtain the information would be aware of the Company's gas supply costs, and the terms of its supply agreements. These suppliers may, then, be less likely to propose terms as beneficial as those in existence. Moreover, we note that protection of this information may redound to the benefit of ratepayers to the extent National Grid is able to negotiate more favorable arrangements. Accordingly, we conclude that there is a privacy interest at stake which would be invaded by disclosure.

As to the public's interest in disclosure, the information at issue concerns the contracts and cost information of the Company. This information relates to the Company's financial arrangements with various suppliers, but does not reveal anything about the functions of the Commission. *See Unitil Corp. and Northern Utilities, Inc.*, Order No. 25,014 (Sept. 22, 2009) at 3. While the information is, in some sense, informative about the finances of the utility, which are subject to the Commission's scrutiny, we nevertheless conclude that any public interest in

disclosure is slight. This is so because little if any information about the Commission, including the processes by which it reviews such information, or the conclusions drawn therefrom, would be discerned by disclosure. Balancing the above interests, we conclude that the Company’s interest in privacy outweighs the public’s interest in disclosure. Accordingly, we grant National Grid’s motion for confidential treatment. Consistent with Puc 203.08(k), our grant of the motions for confidential treatment is subject to our on-going authority, on our own motion, on the motion of Staff, or on the motion of any member of the public, to reconsider our determination.

Based upon the foregoing, it is hereby

ORDERED, that National Grid's 2009-2010 winter COG and FPO per therm rates for the period November 1, 2009 through April 30, 2010 are **APPROVED**, effective for service rendered on or after November 1, 2009 as follows:

	Cost of Gas	Maximum COG	Fixed Price
Residential	\$0.9663	\$1.2079	\$0.9863
C&I, low winter use	\$0.9658	\$1.2073	\$0.9858
C&I, high winter use	\$0.9665	\$1.2081	\$0.9865

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 it 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 2009-2010 LDAC per therm rates for the period November 1, 2009 through October 31, 2010, are APPROVED effective for service rendered on or after November 1, 2009 as follows:

	DSM	Emergency Response	Rate Case	Envir.	Energy Efficiency	Low Income	LDAC
Residential Heating	(\$0.0006)	\$0.0040	(\$0.0195)	\$0.0000	\$0.0466	\$0.0099	\$0.0404
Residential Non-heating	\$0.0000	\$0.0040	(\$0.0195)	\$0.0000	\$0.0466	\$0.0099	\$0.0410
Commercial & Industrial	\$0.0000	\$0.0040	(\$0.0195)	\$0.0000	\$0.0250	\$0.0099	\$0.0194

and it is

FURTHER ORDERED, that National Grid's proposed firm transportation winter COG rate of (\$0.0003) per therm for the period November 1, 2009 through April 30, 2010, is APPROVED; and it is

FURTHER ORDERED, that National Grid's proposed transportation supplier balancing charge of \$0.12 per MMBtu of daily imbalance volumes, is APPROVED; and it is

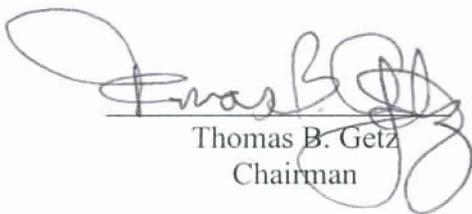
FURTHER ORDERED, that National Grid's proposed transportation peaking service demand charge of \$16.43 per MMBtu of peak MDQ, is APPROVED; and it is

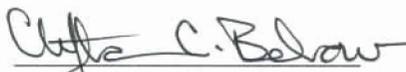
FURTHER ORDERED, that National Grid's proposed transportation capacity allocators as filed in Proposed First Revised Page 155, Superseding Original Page 155, are APPROVED; and it is

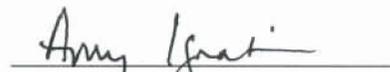
FURTHER ORDERED, that National Grid shall file properly annotated tariff pages in compliance with this order no later than 15 days from the issuance date of this order, as required by N.H. Code Admin. Rules Puc 1603; and it is

FURTHER ORDERED, that National Grid's motion for confidential treatment is GRANTED, as set forth above.

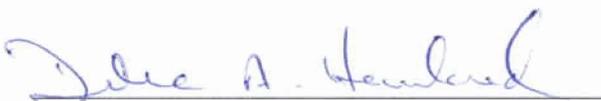
By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of October, 2009.


 Thomas B. Getz
 Chairman


 Clifton C. Below
 Commissioner


 Amy Ignatius
 Commissioner

Attested by:


 Debra A. Howland
 Executive Director