

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE
STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS**

IN THE MATTER OF

**The Application of New England)
Gas Company for an Increase)
In its Gas Cost Recovery Charge)**

Docket No. 3436

**DIRECT TESTIMONY OF WITNESS
BRUCE R. OLIVER**

On Behalf of

The Division of Public Utilities

MARCH 19, 2003

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1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.**

2 A. My name is Bruce R. Oliver. My business address is 7103 Laketree Drive, Fairfax
3 Station, Virginia, 22039.

4

5 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

6 A. I am employed by Revilo Hill Associates, Inc., and serve as President of the firm. I
7 manage the firm's business and consulting activities, and I direct its preparation and
8 presentation of economic, utility planning, and policy analyses for our clients.

9

10 **Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING?**

11 A. My testimony in this proceeding is presented on behalf of the Division of Public
12 Utilities (hereinafter "the Division").

13

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

15 A. This testimony addresses issues relating to the filing of New England Gas Company
16 (hereinafter "NEG" or "the Company") for an increase in its Gas Cost Recovery
17 (GCR) charge.

18

19 **Q. DO YOU AGREE WITH NEG THAT THERE IS A NEED FOR AN INCREASE IN**
20 **THE COMPANY'S GCR CHARGES AT THIS TIME?**

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1 A. Yes, I do. However, the reasons that I support an increase in the Company's GCR
2 charges at this time differ somewhat from those NEG suggests in the testimony it
3 filed on February 14, 2003.

4
5 **Q. WHAT REASONS DID THE COMPANY OFFER IN ITS FEBRUARY 14, 2003**
6 **TESTIMONY FOR INCREASING ITS GCR CHARGES AT THIS TIME?**

7 A. The reasons that NEG offers for its proposed increase in GCR charges are
8 essentially twofold. First, NEG cites significant changes in the costs of gas
9 compared to the gas costs that were forecasted at the time the present GCR rates
10 were established. Second, the Company seeks to eliminate the under-recovery of
11 gas costs that it now projects at the end of the current GCR period. As explained in
12 the testimony of witness Czekanski, NEG now projects a deferred gas cost balance
13 at the end of the current GCR period of approximately \$11 million. The intent of the
14 Company's February 14, 2003 testimony was to adjust its GCR charges to eliminate
15 that projected deferred gas cost balance.

16
17 **Q. WHAT ARE THE MAJOR FACTORS THAT HAVE PRECIPITATED THE NEED**
18 **FOR AN INCREASE IN THE COMPANY'S GCR CHARGES?**

19 A. Three key factors contribute to the current projected deferred gas cost balance and
20 the need for increases in GCR charges at this time. Those factors include:

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- 1 ➤ Significantly colder than normal weather during the current
2 winter heating season;
- 3
- 4 ➤ Sharp increases in gas costs; and
- 5
- 6 ➤ Significant migration of throughput volumes from transportation
7 service to sales service.
- 8

9 **Q. HOW MUCH COLDER THAN NORMAL IS THE CURRENT WINTER HEATING**
10 **SEASON?**

11 A. Mr. Beland has informed me that the current winter heating season has been
12 approximately 15% colder than normal.¹

13

14 **Q. WHAT IMPACT DID COLDER THAN NORMAL WEATHER HAVE ON THE**
15 **COMPANY'S THROUGHPUT FOR THE PERIOD FROM JULY 1, 2002 THROUGH**
16 **JANUARY 31, 2003?**

17 A. NEG's total throughput for the period from July 2002 through January 2003 is 6.7%
18 above the levels that the Company projected in its June 2002 GCR filing. However,

¹ My understanding of Mr. Beland's representation is that it reflects the Company's actual degree day experience through the middle of March 2003. That includes degree day data for February and roughly half of March 2003 for which actual sales and transportation throughput data are not yet available.

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1 throughput for NEG's Residential Heating customers was 9.7% above forecasted
2 levels over the same period, and throughput for Small Commercial customers was
3 10.7% above the Company's June 2002 projections. These increases in actual
4 throughput volumes are documented on page 1 of 2 of Schedule BRO – 1, attached
5 to this testimony.

6
7 **Q. HAS NEG EXPERIENCE SIMILAR INCREASES IN ITS FIRM GAS SALES**
8 **VOLUMES?**

9 A. Since Residential Heating and Small Commercial customers have no gas trans-
10 portation service alternatives, the increases in actual throughput requirements for
11 those classes above forecasted levels equal the increases in firm sales service
12 requirements for those classes. However, as shown in Schedule BRO – 1, page 2
13 of 2, the overall increase in NEG's firm gas sales volumes for the July 2002 through
14 January 2003 period is **12.3%**. That 12.3% increase comprises a **9.1%** increases
15 for all Residential and Small Commercial customers and a **26.2%** increase in firm
16 sales to the Company's Medium, Large and Extra Large C&I customers. Thus,
17 NEG's percentage increase in sales service volumes for its Medium, Large and
18 Extra Large C&I customers is nearly three times greater than the reported increases
19 for its Residential and Small Commercial customers.

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Q. HOW DO YOU EXPLAIN THE DRAMATIC INCREASES EXPERIENCED IN FIRM SALES VOLUMES FOR THE COMPANY’S MEDIUM, LARGE AND EXTRA LARGE C&I CUSTOMER CLASSES?

A. The observed increases in NEG's firm sales to Medium, Large and Extra Large C&I customers result primarily from migration of customers from transportation service to sales service. Although the Company does experience significant increases in both sales service volumes and transportation throughput for its Extra Large High Load Factor (Extra Large HLF) C&I class, it also reports a net decrease in throughput for the Extra Large Low Load Factor (Extra Large LLF) C&I class. Similarly, large percentage increases in sales service requirements for Medium and Large C&I customer groups are substantially offset by lower than forecasted actual transportation throughput requirements, thereby yielding small net increases in total throughput for those customer groups.

Q. PLEASE DETAIL THE OBSERVED DIFFERENCES BETWEEN FORECASTED AND ACTUAL SALES AND TRANSPORTATION THROUGHPUT FOR EACH MEDIUM, LARGE AND EXTRA LARGE C&I CUSTOMER CLASS?

A. For the Medium C&I class, the increase in actual sales service volumes for the July 2002 to January 2003 period is 319,012 Dth. However, that is offset by lower than

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1 forecasted transportation throughput for that class. Actual FT-2 Transportation
2 throughput is 129,489 Dth below the level that NEG forecasted for the same period,
3 and actual FT-2 Transportation throughput for the July 2002 to January 2003 period
4 is 169,887 Dth below NEG's forecast. Thus, the net increase in throughput for the
5 Medium C&I (transportation and sales combined) class is only 19,646 Dth, or **less**
6 **than 1.7%.**

7 Similarly, actual data for the Large High Load Factor (Large HLF) class
8 reflects an increase of 128,590 Dth (or 105%) in sales service volumes. Yet, the net
9 increase in overall throughput for that class for July 2002 through January 2003 is
10 only 37,476 Dth (or **3.3%**). Once again, a dramatic increase in sales volumes is
11 substantially offset by lower than forecasted transportation volumes.

12 Another similar, but less dramatic, shift is found for the Large Low Load
13 Factor (Large LLF) C&I class. For that class, a 30,115 Dth (or 6.7%) increase in
14 sales service requirements is almost totally offset by lower than forecasted
15 transportation throughput, leaving a net increase in total throughput for the class of
16 **0.1%.**

17 Somewhat different patterns are observed for the High Load Factor (HLF)
18 and Low Load Factor (LLF) subgroups of the Extra Large C&I class. The Company
19 reports Extra Large HLF class increases of 59,484 Dth (64.2%) and 137,240 Dth
20 (8.7%) for firm sales and transportation throughput, respectively. These increases

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1 combine to produce a significant **11.7% overall increase** in throughput for the Extra
2 Large HLF.

3 By contrast, a reported 63,938 Dth (290%) increase in actual sales service
4 requirements for the Extra Large LLF class is more than fully offset by a 120,289
5 Dth decline in forecasted transportation throughput requirements for that class.
6 Thus, the Company experiences a **net decline** of nearly 10%, or 56,350 Dth, in
7 forecasted total throughput for the Large LLF class.

8

9 **Q. WHAT IS THE SIGNIFICANCE OF THE OBSERVED DIFFERENCES BETWEEN**
10 **FORECASTED AND ACTUAL SALES VOLUMES AND THROUGHPUT FOR**
11 **CLASSES HAVING TRANSPORTATION SERVICE ALTERNATIVES?**

12 A. The observed differences between forecasted and actual sales and throughput
13 measures for the Medium, Large and Extra Large C&I classes have at least two
14 important influences on NEG's costs of gas. First, the migration of customers from
15 transportation to sales service causes programmed purchases of gas under the
16 Company's Gas Procurement Program to under-achieve the percentages of normal
17 weather service requirements that are targeted under that plan. As a result,
18 proportionately more storage gas, LNG and daily purchases must be used to supply
19 even normal weather requirements during winter heating months. Second, when
20 such migration is coupled with colder than normal weather in winter heating months

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1 the Company's efforts to optimize its gas supply portfolio to serve forecasted gas
2 sales requirements (with consideration of weather uncertainties) are significantly
3 undermined.

4
5 **Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE INCREASES NEG HAS**
6 **EXPERIENCED IN ITS GAS COSTS FOR THE CURRENT GCR PERIOD?**

7 A. The gas cost increases that NEG has experienced affect both its actual gas costs to
8 date and its forecasted gas costs for the remainder of the current GCR period. Due
9 to colder than normal weather, the Company's use of storage, LNG and daily
10 purchases during December 2002 and January 2003 were significantly above
11 anticipated normal weather levels. Those unusually large requirements for peaking
12 and supplemental gas supplies, caused NEG to utilize unexpectedly large quantities
13 of relatively expensive gas, thereby raising its average costs of gas for firm gas
14 sales customers. In addition, industry-wide increases in gas demand for peak
15 winter heating months, coupled with uncertainties relating to a possible war in Iraq,
16 have rapidly depleted storage gas inventories and driven up market prices for
17 current gas use as well as market prices for future gas deliveries. While NEG's
18 therm sales over the July 2002 to January 2003 period were 12.3% above
19 forecasted levels, its Supply Variable Costs of gas were **20.6%** above the Com-
20 pany's June 2002 forecast.

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1 On the other hand, NEG's actual Supply Fixed Costs for the July 2002 to
2 January 2003 period were nearly \$1.0 million below forecasted levels, and its actual
3 Storage Fixed Costs were roughly in line with its earlier projections. Thus, it is
4 important to note that the components of NEG's actual gas supply costs did not
5 increase proportionately over the levels that were anticipated when the present
6 GCR charges were initially established.

7
8 **Q. ARE THE CALCULATIONS THAT NEG USES TO DEVELOP ITS PROPOSED**
9 **GCR CHARGES REASONABLE AND APPROPRIATE?**

10 **A.** The calculations that the Company initially filed contained a number of minor errors.
11 NEG has subsequently corrected those errors and provided revised pages of its
12 exhibits to the Division. NEG's revised calculations parallel the calculations and
13 procedures that it used in its initial development of those charges for its June 2002
14 GCR filing. However, those calculations may not be appropriate on a going-forward
15 basis.

16 The currently effective GCR charges, as well as those that NEG now
17 proposes, are differentiated for six customer groupings. (See Attachment PCC-2,
18 page 1 of NEG's February 7, 2003 filing.) The six customer groupings employed
19 are as follows:

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- 1 1. Residential and Small Commercial
- 2 2. Medium C&I
- 3 3. Large Low Load Factor C&I
- 4 4. Large High Load Factor C&I
- 5 5. Extra Large Low Load Factor C&I
- 6 6. Extra Large High Load Factor C&I

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Each of these customer groupings is provided a different GCR charge to reflect the contribution of each grouping to fixed and variable components of the Company's gas costs. Given the newly differentiated GCR factors, it was the Division's presumption that NEG would reconcile actual gas costs and gas cost recoveries separately for each of the six customer groupings for which separate rates were established. In its current filing, however, NEG tracks deferred gas cost balances for each of the gas cost categories, but not by customer group. In this context, the Division notes that when the differentiation of gas costs by customer group was established in June 2002, no history of differentiated rates by customer group existed, and therefore, differentiation of deferred gas costs balances by customer group was not necessary. However, now after eight full months of experience using GCR charges that are differentiated by customer group, separate

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1 reconciliation of gas costs and gas cost recoveries by customer group may be an
2 appropriate, if not a necessary, requirement.

3 Moreover, the need for such reconciliations of gas costs and recoveries by
4 customer group appears to be accentuated by (1) the significant deviations between
5 actual and forecasted sales service and transportation throughput requirements by
6 customer group that are documented in Schedule BRO – 1 and (2) differences in
7 the changes NEG has experienced in the separately allocated components of its
8 gas supply costs. As previously noted, NEG's actual therm sales requirements
9 were **12.3%** above forecasted levels, while it's actual Supply Variable Costs were
10 more than **20% above** forecasted levels and it's actual Supply Fixed Cost were
11 nearly \$1.0 million, or about **6% below** the Company's June 2002 forecast. These
12 observations alone suggest a rather compelling need for separate reconciliation of
13 deferred gas cost balances by customer group.

14
15 **Q. HOW SHOULD THE COMMISSION ADDRESS THIS CONCERN REGARDING**
16 **THE NEED FOR SEPARATE RECONCILIATION OF DEFERRED GAS COST**
17 **BALANCES BY CUSTOMER GROUP?**

18 A. To stem the rate of growth in the Company's deferred gas costs, the Division
19 recommends that the Commission approve NEG's proposed GCR charges (as
20 computed in the Company's corrected exhibits) and implement that change as soon

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1 as possible. However, the Commission should also require the Company to
2 perform class specific reconciliations of its deferred gas cost balances for the entire
3 July 2002 through October 2003 period in it's next GCR filing. Furthermore, in that
4 process NEG may need to work with the Division to address the manner in which
5 rates are adjusted to reflect the affects of customer migration to and from trans-
6 portation service alternatives in (1) the adjustment of GCR charges and (2) planning
7 of NEG's gas procurement activities. The Commission may also wish to review its
8 policies with respect to customer migration and consider such alternatives as:

9
10 (a) Restrictions of the timing or frequency of customer transfers
11 between gas sales and transportation services;

12
13 (b) Charging premiums for transfers of customers between sales
14 and transportation service alternatives without reasonable
15 advance notice; and

16
17 (c) Establishing a separate gas cost rate for customers who
18 transfer to sales service either for short periods of time (e.g.,
19 between supplier contracts) or without advance notice during
20 or just prior to the Company's winter heating season.

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Q. SHOULD THE COMMISSION EXPECT THAT IMPLEMENTATION OF THE GCR CHARGES THAT NEG HAS PROPOSED WILL PRODUCE A ZERO DEFERRED GAS COST BALANCE BY THE END OF OCTOBER 2003?

A. No. By the time this proposed increase in GCR charges is applied the vast majority of the Company sales and throughput for the current GCR period will have been experienced. To attempt to recover approximately \$11 million of deferred gas costs from the limited usage anticipated over the remainder of the current GCR period would require a substantial additional increase in GCR charges that would unduly burden summer gas users and possibly yield significant “rate shock.” By implementing the GCR charges NEG proposes, little of the current deferred gas cost balance is likely to be eliminated prior to the end of the current GCR period, but gas users during the Company’s off-peak months will at least receive more accurate price signals and further growth in NEG’s deferred gas cost balances should be diminished, if not fully avoided.

Q. SHOULD THE COMMISSION BE CONCERNED BY THE DEFERRAL OF SIGNIFICANT GAS COSTS INTO THE NEXT GCR PERIOD?

A. Yes. A deferral of significant deferred gas cost balances into the next GCR period will necessarily yield higher gas costs for Rhode Island consumers for the next

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1 GCR period than would otherwise be required. Unfortunately, at this point there
2 appears to be no reasonable alternative. Hopefully, the extreme weather and high
3 gas costs experienced this winter will not be repeated next winter, but there are no
4 guarantees.

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6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 A. Yes, it does.

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