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September 10, 2007

Mary L. Cottrell, Secretary  
Department of Public Utilities  
One South Station, 2<sup>nd</sup> Floor  
Boston, MA 02110

Re: Investigation by the Department of Public Utilities on its own Motion into Rate Structures that will Promote Efficient Deployment of Demand Resources- D.P.U. 07-50

Dear Ms. Cottrell:

Enclosed herewith for filing with the Department of Public Utilities (the "Department") are the Initial Comments of New England Gas Company (the "Company") in the above-referenced proceeding. Consistent with the Department's directives, the Company does not currently anticipate participating in the panels directly; however, it does presently intend to jointly sponsor the testimony of the following panelists at the Department's hearing:

John J. Reed, Chairman and Chief Executive Officer of Concentric Energy Advisors

James D. Simpson, Vice President, Concentric Energy Advisors

Lawrence Kaufmann, Ph.D., Partner, Pacific Economics Group, LLC

In addition, the Company reserves the right to amend its decision not to offer a Company representative following a review of the comments filed by other participants today.

Please contact me or Jody Stiefel if you have any questions regarding this request. The Company greatly appreciates the opportunity to comment on this important policy matter.

Very truly yours,



Kevin F. Penders

Enclosures

cc: Jeanne Voveris, Senior Counsel  
Department Service List, D.P.U. 07-50

**COMMONWEALTH OF MASSACHUSETTS**  
**DEPARTMENT OF PUBLIC UTILITIES**

Investigation by the Department of Public Utilities on its Own Motion into Rate Structures that Will Promote Efficient Deployment of Demand Resources	) ) ) ) )	D.P.U. 07-50
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**INITIAL COMMENTS OF NEW ENGLAND GAS COMPANY**

**I. INTRODUCTION**

On June 22, 2007, the Department of Public Utilities (the "Department") issued a notice of inquiry opening an investigation into rate structures and revenue recovery mechanisms that may reduce disincentives to the efficient deployment of demand resources in Massachusetts (the "NOI"). NOI at 1. The Department's proposal to implement a revenue-decoupling mechanism recognizes that, under current ratemaking practice, electric and gas companies have a strong incentive to take actions to maintain or increase sales in order to ensure an adequate flow of revenues between base rate proceedings. Id. at 2. The Department's NOI also recognizes that there is an inherent conflict between the incentive to increase sales and the existence of important state, regional and national goals to increase end-use efficiency and minimize the environmental impacts of energy production and consumption. Id. 2-3. Accordingly, the Department's NOI finds that this inherent conflict "must be addressed expeditiously" through the implementation of a revenue-collection mechanism that renders utility revenue levels immune to changes in sales

volumes between rate proceedings, in order to eliminate barriers to the deployment of cost-effective demand resources. Id. at 3.

To facilitate the implementation of revenue decoupling, the Department presented a “straw proposal” for a base revenue adjustment mechanism, which would “render electric and gas companies’ revenue levels immune to changes in sales between rate proceedings.” Id. at 3. According to the Department, the objective of the base revenue adjustment mechanism is to “eliminate the current financial disincentive that electric and gas companies face regarding the deployment of customer-sited, cost-effective demand resources in their service territories.” Id. at 11. As delineated in the NOI, there are two principal elements of the Department’s straw proposal, which are (1) the conduct of future base rate proceedings to set “just and reasonable” revenue targets; and (2) the implementation of an annual reconciliation methodology to ensure recovery of the revenue target set in that proceeding. Id. at 4-5. New England Gas Company (“NEGC” or the “Company”) appreciates the opportunity to participate in this proceeding and address the Department’s efforts with regard to the prospect of decoupling in Massachusetts.

The Company, a local natural gas distribution company as defined in G.L. c. 164, § 1, provides gas distribution service to approximately 54,000 residential and commercial industrial customers in the six Massachusetts communities of Fall River, North Attleboro, Plainville, Swansea, Somerset, and Westport. Given the demographics of much of the Company’s service territory, NEGC understands the motivation behind and appreciates the Department’s efforts to implement decoupling for Massachusetts utilities in order to eliminate ratemaking incentives that work

against energy efficiency and demand response initiatives. Under existing Massachusetts utility ratemaking practice, electric and gas distribution companies have a strong incentive to maintain and/or increase sales in order to generate the revenues necessary to offset increasing operations and maintenance (“O&M”) expenses and fund needed system reliability and capital expansion projects between rate cases. The implementation of a workable decoupling mechanism would render utilities “immune” to changes in sales volumes occurring as a result of conservation, and therefore, will eliminate a potential barrier to the cost-effective implementation of conservation and load-management strategies on distribution systems. In that regard, the Company believes that the annual reconciliation methodology presented in the second element of the Department’s straw proposal is reasonable and appropriately designed to achieve the objective of rendering a utility immune to changes in sales volumes.

The Company does, however, have significant practical and policy concerns with the first element of the Department’s straw proposal, specifically, the proposition that it will be necessary to complete a fully litigated base rate proceeding for every utility in the Commonwealth before revenue decoupling can be instituted on a statewide basis. From a practical perspective, having just received its first base rate increase from the Department since the mid-1990’s, the Department’s Order in D.P.U. 07-46, approving the Settlement Agreement filed jointly by the Company, the Office of the Attorney General, and the Low-Income Energy Affordability Network, would render meaningless the collaborative efforts undertaken to achieve the new base rates instituted in the Company’s service territory on August 1, 2007. For

obvious cost considerations, as well as logistical concerns, the Company cannot reasonably incur additional and unnecessary rate-case related costs associated with another base rate proceeding so closely after having incurred costs associated with its recent settlement approval. In light of the Department's Order establishing new base rates in D.P.U. 07-46, it would seem unnecessary to impose further cost recovery obligations on the Company's customers for what will amount to a duplicative rate proceeding.

From a policy perspective, resetting base rates or eliminating existing cost-recovery mechanisms in order to accommodate revenue decoupling is simply unnecessary. In fact, proceeding with decoupling through the conduct of future base rate proceedings will be extremely disruptive, costly and time consuming, without any offsetting benefit in terms of achieving a greater level of "effectiveness" or accuracy in the revenue-decoupling mechanism.

The implementation of revenue decoupling requires the Department to set a revenue target consistent with the rates in effect and already determined by the Department to be just and reasonable under G.L. c. 164, § 94. Companies like NEGC have rates in effect that have recently been determined to be "just and reasonable" by the Department following an investigation and adjudicatory process. Under these plans, an "allowed" revenue target should be discernible and reviewable, if presented by the companies with supporting documentation. Such an alternative method will allow the Department to set a revenue target outside of a base-rate proceeding, and such an alternative is within the Department's statutory authority and ratemaking expertise. This approach, rather than conducting base rate

proceedings for all Massachusetts local distribution companies, would allow for the expeditious implementation of a revenue-decoupling mechanism on a statewide basis in order to eliminate barriers to increased conservation.

## **II. CONCLUSION**

New England Gas Company understands the motivation behind and appreciates the Department's efforts to implement decoupling for Massachusetts utilities in order to eliminate ratemaking incentives that work against energy efficiency and demand response initiatives. In joining with the Department's efforts on decoupling, the Company believes that the annual reconciliation methodology presented in the second element of the Department's straw proposal is reasonable and appropriately designed to achieve the objective of rendering a utility immune to changes in sales volumes.

With regard to the first element of the Department's straw proposal, however, the Company encourages the Department to allow each company to implement the Department's proposed annual reconciliation mechanism based on approved "target revenues," which are consistent with existing rate plans. Doing so will avoid the potential for delay in implementation resulting from potential legal challenges to a decision to nullify existing rate plans, while ensuring that the Department has a valid basis upon which to commence revenue decoupling.

Lastly, the Company has reviewed the comments filed by James Simpson and John Reed of Concentric Energy Advisors, as well as those filed in this proceeding by Lawrence Kaufman of Pacific Economics Group. The Company believes that these consultants have adequately researched and comprehensively

addressed the issues surrounding the implementation of decoupling in the Commonwealth, and therefore with this filing the Company endorses their comments and the concerns raised therein.