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November 15, 2002

BY HAND

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02210

Dear Ms. Cottrell:

Enclosed, in accordance with the procedural schedule established for this proceeding, is an original and nine (9) copies of the Reply of Fitchburg Gas and Electric Light Company ("FG&E") to the Brief filed on November 8, 2002 by the Division of Energy Resources ("DOER").

Please do not hesitate to telephone me with any questions.

Very truly yours,

Patricia M. French

cc: Jody Steiffel, Esq., Hearing Officer
Andreas Thanos, Director Gas Division
Stephen Venezia, Esq., DOER

CERTIFICATION

I, Patricia M. French, certify that I have served a copy of the within on each of the individuals on the service list on file for DTE 02-55 with the Secretary of the Department of Telecommunications and Energy.

Dated at Boston, Massachusetts, this 15th day of November, 2002.

Patricia M. French

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

FITCHBURG GAS AND ELECTRIC LIGHT COMPANY) D.T.E. 02-55

REPLY OF FITCHBURG GAS AND ELECTRIC LIGHT COMPANY TO INITIAL BRIEF OF THE DIVISION OF ENERGY RESOURCES

I. INTRODUCTION

On September 18, 2002, Fitchburg Gas and Electric Light Company ("FG&E" or "the Company") filed with the Department of Telecommunications and Energy ("the Department") a petition for approval of a Firm Gas Transportation Agreement with Tennessee Gas Pipeline Company ("Tennessee") for firm short haul service from Dracut, Massachusetts ("Dracut") to the Fitchburg city gate ("the Replacement Contract") . The proceeding was docketed D.T.E. 02-55.

On or about October 7, 2002, the Division of Energy Resources ("DOER"), an intervenor in the proceeding, filed information requests of FG&E with regard to its petition. On October 29, 2002, the Department held hearings in its offices in Boston. At those hearings, FG&E presented the testimony of David B. Doskocil, under oath, who was then made available for questioning by the DOER and the Department. In addition, FG&E marked the following exhibits: Exh. FGE-DBD-1 (Prefiled Testimony of David B. Doskocil, dated September 18, 2002); Exh. FGE-DBD-2 (Contract No. 252); Exh. FGE-DBD-3 (Contract No. 38927); Exh. FGE-DBD-4 (FG&E's 2000 Integrated Gas Resource Plan); Exh. FGE-DBD-5 (Delivered Cost Analysis); Exh. FGE-DBD-6 (Confirmation of Sprague Supply Agreement). The Department also marked the responses provided by FG&E to the information requests propounded by the

DOER as Exh. DOER-1 through Exh. DOER-18.[1] Upon motion, all the marked exhibits were accepted into evidence. Tr. 10/29/02 at 43. Finally, two record requests were issued, one by the DOER (DOER-RR-1) and one by the Department (DTE-RR-1) that were accepted into the record when received on November 5.

II. THE REPLACEMENT CONTRACT SHOULD BE APPROVED BECAUSE IT IS CONSISTENT WITH THE PUBLIC INTEREST

FG&E requests the Department's approval of its Tennessee Replacement Contract No. 38927 for Firm FT-A short haul transportation service from Dracut to the Fitchburg city gate. Contract No. 38927 replaces Contract No. 252, which FG&E elected to terminate effective January 15, 2003. Exh. FGE-DBD-1 at 10. The Company has demonstrated that FG&E's Replacement Contract meets the Department's standard of review for the acquisition of a capacity resource. See Key Span Energy Delivery New England, D.T.E. 02-18 at 9 (June 28, 2002). The Replacement Contract is consistent with the portfolio objectives established in FG&E's IRP approved by the Department in D.T.E. 00-42 and compares favorably to the range of alternatives reasonably available to FG&E and its customers. Exh. FGE-DBD-1 at 6, 7; Exh. DOER-1; Exh. DOER 14; see also, Exh. FGE-DBD-4. The DOER, the only intervenor in the proceeding, supports the Department's approval of the Replacement Contract.. DOER Br. at 1. Accordingly, the Department should approve the Replacement Contract because FG&E's acquisition of capacity under the contract is consistent with the public interest.

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[1] The Department also granted FG&E's request that protective treatment be given to Attachments B and C of Exh. DOER 1-14. Tr. 10/29/02 at 43.

III. REPLY TO THE DIVISION OF ENERGY RESOURCES

While DOER supports FG&E's request that the Department approve its petition, DOER makes several process-related recommendations. FG&E will address each of these recommendations in turn.

1) The recommendation by DOER that FG&E's distribution tariffs include a condition to hold an annual face-to-face meeting with marketers to discuss the resource portfolio, resource plans and any future supply and capacity resource decisions, should be addressed by the Department generically for all LDCs.

It is apparent from DOER's Brief that DOER believes FG&E received no input from marketers relative to its disposition of the Tennessee capacity subject to review in this proceeding. DOER Br. at 2 (because the web postings and letters sent to marketers did not reach certain contacts for the marketers). DOER recommends that each natural gas local distribution company ("LDC") be required by the Department to hold one mandatory annual face-to-face meeting with marketers in order (1) to promote more effective dialogue about resource plans and (2) to ensure awareness by all market participants of upcoming supply and capacity resource decisions. DOER Br. at 2. DOER therefore recommends that the Department require FG&E to insert language in its Terms and Conditions that ensures such an annual meeting with marketers be held. DOER Br. at 2-3. Unfortunately, DOER's basic assumptions are not correct.

First, the fact that FG&E testified that it received no "input" is not the same as saying it had no contact with marketers. In fact, FG&E has *contact* with marketers on a regular basis and with regard to this capacity decision, but they had no comments to make nor input to provide on the capacity decision. Exh. DOER-1-1. Second, any purported lack of marketer input on FG&E's resource decision is not necessarily related to the manner in which FG&E

communicated that a decision was to be made. After all, among the sophisticated entities that make up the marketer pool, in addition to receipt of information in letter form, reasonable day-to-day business practice would dictate that marketers that have an interest in serving FG&E's supply would monitor FG&E's very comprehensive and easily accessible website for such postings on an ongoing basis. FG&E did post the opportunity on its website. Exh. FGE-DBD-1 at 11. Further, FG&E's notification of upcoming resource decisions, sent in letter form to a broad list of marketers, includes a specific request that the notification be forwarded to the proper individual(s) if it has not initially reached the proper individual(s) within the organization.[2] This is appropriate, of course, because individuals change duties within organizations, and also move from organization to organization. FG&E's attempts to notify interested entities of the pending resource decision were reasonably calculated to reach interested persons with decision-making capability.

FG&E would agree to holding an annual face-to-face informational meeting with marketers to discuss FG&E's resource portfolio, resource plans and any future supply and capacity resource decisions. Further, FG&E would agree that in the future such a meeting be held before the beginning of the winter heating season as the DOER proposes. DOER Br. at 3.[3] However, FG&E notes that the Terms and Conditions which would accommodate any such

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[2] FG&E plans to supplement the written communication process to marketers with follow-up telephone calls in an attempt to ensure that notifications of upcoming resource decisions are reaching the appropriate people in the marketer organizations.

[3] FG&E notes that DOER recommended an annual marketer meeting and associated tariff requirement for Berkshire Gas, Bay State Gas and Keyspan Energy Delivery New England, and that each of these LDC's has agreed to the annual meeting and associated tariff provision. Berkshire Gas Co., D.T.E. 02-56 (DOER Br. at fn 3, 4); Bay State Gas Co, D.T.E. 02-52 (DOER Br. at fn 3, 4); Keyspan Energy Delivery New England, D.T.E. 02-54 (DOER Br. at 2). Further, Berkshire Gas recommended that the Department handle the tariff issue generically for all LDC's. Berkshire Gas Co., D.T.E. 02-56 (DOER Br at 3).

provision are standard terms and conditions that resulted from the collaborative process in D.T.E. 98-32. See D.T.E. 98-32-B; see also Fitchburg Gas and Elec. Light Co., D.T.E. 00-20 (2001). Accordingly, FG&E recommends that the Department address this issue in generic manner for all LDC's.

2) FG&E should not be required to issue simultaneous or proximate Request for Proposals ("RFP") for a gas supply whenever future long-term capacity resource decisions are made.

While accepting the qualitative aspects of the alternative supply and capacity analysis employed by FG&E, DOER suggests changes it believes will improve the accuracy of the quantitative delivered cost analysis in the future. DOER Br. at 4. DOER believes that the Department should require LDCs to combine capacity and supply decisions, unless the LDC can demonstrate a compelling reason for separate treatment. DOER Br. at 4. DOER contends that simultaneous decisions will reflect more accurate transportation and basis costs. DOER Br. at 3. As applied to this proceeding, DOER believes that had FG&E issued a gas supply RFP before it made the final capacity decision on Tennessee, FG&E would have been able to analyze firm supply alternatives without the need for estimation. DOER Br. at 4. It is surprising that DOER makes this recommendation even as it tells that Department that FG&E's alternative cost analysis is within reason and should not be disregarded. DOER Br. at 4, fn 9. Unfortunately, DOER has failed to demonstrate how its methodology would serve to reduce costs or improve the resource decisions available to FG&E.

Any general requirement that simultaneous or proximate RFPs for gas supply be issued whenever FG&E makes future long term capacity-resource decisions is not practical and, as evidenced by the delivered cost analysis in Exh. FGE-DBD-5, is not likely to lead to different

resource decisions. In particular, Mr. Doskocil testified that it would not have been practical to issue an RFP for supply at the same time that FG&E explored the possibility of moving capacity to Dracut because it was not appropriate, either from the point of view of a market participant or as a matter of business judgment, to issue the RFP for capacity that FG&E did not yet have. Tr. 10/29/02 at 40. Issuing an RFP, and being prepared to make an award based on that RFP, is an important act that bears on both the credibility and integrity of any company in the market. See Tr. 10/29/02. Effort is required both by FG&E and respondents to an RFP in order to make sure any business commitment that results is appropriate. Tr. 10/29/02 at 42. In addition, a simultaneous RFP is inappropriate because the market has fundamentally changed: since third party marketers use FG&E's capacity, but not necessarily its supply, FG&E must contract for supply in a much more flexible manner than in the past. Tr. 10/29/02 at 37.

Based upon the nature of FG&E's delivered cost analysis, any effort to issue an RFP for supply at the time the analysis was performed for capacity would not necessarily have resulted in a different decision for replacement capacity. As explained by Mr. Doskocil, the delivered cost analysis on Exh. FGE-DBD-5 is based upon a hypothetical gas cost adjusted for a basis differential, which reflects where the gas is purchased. Tr. 10/29/02 at 17. The relationship of the basis differential between zones is well established, with Zone 0 on Tennessee usually trading at a discount. Tr. 10/29/02 at 17-18. If gas is purchased north of the Henry Hub, there is a charge for getting gas closer to the market area; however, the charge from Zone 5 is relatively less than Zone 6. Tr. 10/29/02 at 17-18. The commodity cost assumption in the delivered cost analysis is the same for all three zones and the fuel cost and FT-A daily demand rate are based on the Tennessee tariff. Tr. 10/29/02 at 18-19; Exh. FGE-DBD-5.

If, arguendo, an RFP were issued at the time the Tennessee capacity decision were made and the basis differential were adjusted to more accurately reflect the term of the four-month gas supply contract with Sprague, the evidence is that the basis differential between zones would have remained relatively unchanged and therefore, the capacity decision would not have changed. DOER-RR-1. By contracting for Zone 6 capacity at Dracut, FG&E has been able to secure firm access to Sable Island gas supplies, a growing nearby production source, while maintaining supply diversity. Moreover, it has reduced fixed costs, which is welcomed by marketers that must take capacity assignment from FG&E. The DOER's suggestion is unnecessary and does not serve to improve the process employed by FG&E.

3) FG&E should not be required to use the SENDOUT optimization model whenever future long-term resource decisions are made.

Finally, DOER advocates that the SENDOUT model should always be used as a tool to help decide which alternative available has the lowest delivered cost, rather than, as FG&E did, relying on a Delivered Cost Analysis (Exh. FGE-DBD-5). DOER asks the Department to require FG&E to use SENDOUT in the future when making long-term portfolio resource decisions. DOER Br. at 5-6. DOER's recommendation in this regard is also unwarranted and is an unnecessary intrusion into management decisions of FG&E.

The SENDOUT model was always available as a tool in determining the least cost alternative in this case. Tr. 10/29/02 at 32-33. However, as a commercially available quantitative tool with competitors in its own market, SENDOUT should not be singly relied upon nor promoted as a required tool in all portfolio resource decisions. In order to demonstrate that a proposed acquisition of a resource that provides commodity and/or incremental resources

is consistent with the public interest, an LDC must show that the acquisition (1) is consistent with the Company's portfolio objectives, and (2) compares favorably to the range of alternative options reasonably available to the Company. KeySpan Energy Delivery New England, D.T.E. 02-18 at 9 (2002).[4]

Consistent with the standards for resource acquisition set by the Department, FG&E based its decision on maintaining the pipeline capacity level to the city gate. Exh. FGE-DBD-1 at 5; Exh. DOER-1-3; Exh. FGE-DBD-4 (FG&E's approved 2000 IRP filing in D.T.E. 00-42). Further, FG&E determined that it had limited options: no other pipeline other than Tennessee would be available to deliver natural gas to the FG&E service area during the time period in question. Exh. FGE-DBD-1 at 5. FG&E's alternatives were limited to pipeline capacity that was available on Tennessee from different supply sources for delivery to FG&E's city gate. Id. Due to the relatively small magnitude of the resource decision at 550 Dth, it was unnecessary to also utilize the SENDOUT model for this analysis. The Delivered Cost Analysis performed by Mr. Doskocil provided a reasoned basis from which to justify the decisions made, taking all the factors into consideration that were known at the time. Exh. FGE-DBD-1 at 7; Exh. FGE-DBD-5.

The Department should dismiss any suggestion that the use of one particular quantitative tool (the SENDOUT model, or for that matter any other commercially available tool) be imposed on FG&E or any LDC for all its resource decisions. Prospective interference with the business judgment and reasoned discretion of management may well be an inappropriate infringement on

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[4] SENDOUT is not uniquely situated to establish these criteria, which rely primarily on business judgment and management discretion.

the exercise of management discretion and inconsistent with Department precedent. Boston Gas Co., Colonial Gas Co. and Essex Gas Co., D.T.E. 00-57 at 11 (2001).

IV. CONCLUSION

Wherefore, for all the reasons set forth in this Reply, Fitchburg Gas and Electric Light Company respectfully request that the Department of Telecommunications and Energy approve Contract No. 38927, consistent with the evidence presented in this proceeding, and provide all such other relief as it may deem just and reasonable.

Respectfully submitted,

FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

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Dated: November 15, 2002