Draft Minutes of Massachusetts Gas Unbundling Collaborative
<u>Friday October 17, 1997</u>

The Massachusetts Gas Unbundling Collaborative (the "Collaborative") met on October 17, 1997 at the Newton Marriott, in Newton, Massachusetts. John Howe was present to facilitate the discussion on capacity disposition.

Charles Neill, of Associated Industries of Massachusetts ("AIM") initiated the discussion by presenting a short summary of the proposals offered at the last meeting of the Collaborative with regard to capacity disposition. Mr. Neill explained that through discussions between customer and marketer representatives, the proposals offered by those groups at the last meeting had begun to converge.

Mr. Neill noted that it was the marketers' and customers' perception that one of the key issues to be resolved by any capacity proposal is the price disparity between domestic and Canadian contracts. Mr. Neill suggested that, owing to basin pricing of domestic gas, differentials among domestic sources appeared to be less significant than differences between domestic and Canadian gas sold under long-term contracts. Thus, Mr. Neill proposed to take the differential between the average cost of all domestic contracts and the average cost of all Canadian contracts and assign that amount to an Access Charge (a corresponding amount would be taken out of the CGAC). Mr. Neill also summarized the current approach of the customer/marketer group regarding capacity disposition, as follows:

(1) <u>Round 1:</u>
Capacity associated with any and all firm capacity holders seeking to exercise their option to choose a supplier would be put into a pool using a "slice of system" approach, <u>i.e.</u>, a pro rata share of all capacity. Customers or their representatives would elect capacity on a voluntary, path-specific basis up to their entitlement. Capacity would be released at maximum rates.

(2) <u>Round 2</u>:
IT customers, customers who did not take their maximum entitlement in Round 1, or other customers of LDC seeking to increase their capacity would be eligible to bid. Customers would bid on Round 2 capacity through an auction process.

(3) <u>Round 3</u>:
Any remaining capacity is posted on EBB.

Randall Rich, representing Enron, noted that he did not agree that the marketer proposal would include a "Round 2." However, the Attorney General, the Division of Energy Resources ("DOER") and AIM stated that it was their position that a second round would help mitigate stranded costs. Mr. Neill stated that the release of capacity would not be permanent, but that within a defined transition period the capacity would be released with recall rights. Lee Alexander stated that the capacity would follow the customer, and that, in order for the capacity to stay with the customer, there may need to be some restrictions.

Robert Werlin, representing nine local distribution companies ("LDCs"), noted that with this system, stranded costs would arise as a result of: (1) the price differential between domestic contracts and Canadian contracts; (2) the price differentials among domestic contracts; and (3) the cost of capacity left over at the end of Round 3. Mr. Werlin also noted that while such costs would be determinable for the first two categories of stranded cost, the stranded cost associated with capacity not taken through the operation of the capacity release process is indeterminate and could be significant. The Attorney General noted that the stranded cost recovery mechanism should encourage mitigation to the maximum extent possible.

Further discussion revolved around the following issues: (1) the duration of any capacity assignment under this proposal; (2) the type and duration of recall rights; (3) the sequencing and timing of the process; (4) treatment of incremental capacity commitments; (5) treatment of costs of unsubscribed capacity; (6) whether costs would be borne by all customers who have the opportunity to convert to transportation-only customers; (7) the equity of such charges; (8) the administrative burden imposed by the process; and (9) the changing nature of the obligation to serve.

Attendees agreed upon the following points: (1) Massachusetts is a capacity constrained region on peak; (2) LDCs need to retain primary rights (although the quantity is undetermined); (3) customers have a right to their pro rata slice of capacity and such capacity should be made available to converting customers; (4) no customer should face new costs without a corresponding opportunity for savings; (5) LDCs need to retain the tools necessary to operate the distribution system (especially on peak).

After lunch, attendees agreed on a list of 14 questions/concerns about the new approach outlined by Mr. Neill. Attendees then broke out into two groups -- the LDC Group and the non-LDC Group -- to discuss those questions. After some discussion, the groups reconvened as a whole to review the list of issues. Mr. Werlin provided a summary of the LDCs' discussion on a point-by-point basis as indicated below.

(1) Will this capacity assignment process lead to "known costs" ?

<u>LDC Response:</u>
As an initial matter total stranded costs will be unknown, will be subject to recomputation, and will be affected by the numbers of new and converting customers on a month-to-month basis.

(2) Will this process lead to lower costs for all Massachusetts customers?

<u>LDC Response:</u>
No. To the extent that stranded costs are computed, any transition charge applied to all throughput would result in higher prices to sales customers.

(3) Will this process ensure the reliability of supply?

LDC Response:
Questions need to be resolved regarding terms of release and regarding the obligations of the LDC to sign up and renew capacity to ensure deliverability. If the answer is that this function will be left to market, reliability will be ensured only if the competitive market is sufficiently robust.

(In response to a question posed by DOER, Mr. Werlin stated that the LDCs' current proposal to auction the portfolio would make the LDCs responsible in the short term, but only until the market is workably competitive and until such time that regulators make a policy decision to remove LDCs from the planning function.)

(4) Will this process effectively mitigate stranded costs?

LDC Response:
The process will not mitigate stranded costs to the maximum extent possible because of certain inefficiencies of the EBB system (i.e., capacity release is capped at maximum rates).

(5) Will this process allow for the recovery of net non-mitigable stranded costs?

LDC Response:
Yes.

(6) Will this process result in the equitable collection of net non-mitigable stranded costs between early and late converters?

LDC Response:
No. To the extent stranded cost recovery is imposed, all latecomers will bear a higher percentage of such recovery. Customers may be given choice, but may not be willing or able to take advantage of transportation-only service.

(7) Will this process allow for the effective transition to a workably competitive market?

LDC Response:
Not necessarily. It depends on whether LDCs are required to continue to extend or sign up new capacity contracts. If there is a continuing obligation, then there could be a transition to competition. But if LDCs no longer extend contracts, there may be no opportunity for a transition period.

(8) How will new customers' needs be accommodated?

LDC Response:
Depends upon the competitiveness of the market and the continuing role of the LDCs (if any) for procuring new capacity.

(9) How are fluctuating Canadian costs accommodated?

<u>LDC Response</u>:
Average price system doesn't capture variable elements of Canadian contracts

(10) Who has obligation to ensure continued access to capacity?

<u>LDC Response:</u>
Depends on timeline of transition. It is not clear from the proposal that the LDCs have a continuing obligation to procure capacity. The obligation should go to the market only after there is workable competition.

(11) How can administrative complexities be minimized?

<u>LDC Response:</u>
Problems with monthly allocation need to be resolved; need to determine what process is being proposed before this can be addressed (<u>i.e.</u>, Is there a second round? How are "attractive" paths allocated?).

(12) How to ensure fairness to and among pipelines?

<u>LDC Response:</u>
There are as many differences between domestic contracts as between domestic and Canadian. Why not use the same averaging process for both relationships?

(13) What capacity is auctioned? Do you recall "released" capacity?

<u>LDC Response</u>
Only newly available capacity is auctioned each month. The previously released portion of the portfolio should not be pulled back.

(14) Will the process allow LDCs to manage systems effectively?
(a) operationally
(b) cost-effectively

<u>LDC Response</u>
Operationally, issues exist, but such a system could be workable and manageable, although costs will go up. Recall every month is not workable. With regard to cost-effectiveness, the LDCs will re-optimize their remaining portfolios

Mr. Neill explained that the non-LDC Group had concluded that Items Nos. 3, 8, 10, 11, 12 and 13 related to operational issues and therefore are not fundamental to the capacity allocation discussion and could be dealt with by a separate subgroup. Mr. Neill further explained that the non-LDC group had concluded that Item No. 2 does not relate to the issue of capacity release and that the remaining items were cost-related. Mr. Neill stated that the non-LDC group had determined that in order to discuss the cost-related issues further, participants would need to get a quantification of the magnitude of the costs in question. Mr. Neill requested that Boston Gas Company, Commonwealth Gas Company and Colonial Gas Company complete a questionnaire provided by Mr. Neill in advance of the next meeting on Friday, October 24, 1997. The Companies are endeavoring to compile this information by Wednesday, October 22, 1997. Also, for clarification purposes, Mr. Neill will provide a "flow chart" of his proposed process that outlines the specific steps.

Attendees agreed that the next meeting (to be held on October 24, 1997 at the Westborough Marriott in Westborough, Massachusetts) would be devoted in its entirety to a continuation of the capacity disposition discussion. In response to concerns expressed by out-of-town participants, the locations of the October 30 and November 6 meetings has been changed as follows:

October 24, 1997	Westborough Marriot 5400 Computer Drive Westborough, MA 01581	Tel: (508) 366-5511 Fax: (508) 366-3950
October 30, 1997	Doubletree Guest Suites 400 Soldiers Field Road Boston, MA 02134	Tel: (617) 783-0090 Fax: (617) 783-0897
November 6, 1997	Doubletree Guest Suites 400 Soldiers Field Road Boston, MA 02134	Tel: (617) 783-0090 Fax: (617) 783-0897
November 14, 1997	Crowne Plaza, Natick 1360 Worcester Road Natick, MA 01760	Tel: (508) 653-8800 Fax: (508) 653-1708