

Minutes of the Massachusetts Gas Unbundling Collaborative
October 24, 1997

The Massachusetts Gas Unbundling Collaborative (“Collaborative”) met on Friday, October 24, 1997 at the Westborough Marriott in Westborough, Massachusetts. John Howe stated that his objective for the day was to discuss capacity assignment issues and to: (1) identify points of agreement between the stakeholders; (2) identify points of disagreement between the stakeholders; and (3) to identify areas or issues that stakeholders believed would benefit from additional guidance by the Department of Public Utilities (“Department”). Mr. Howe noted that the document that the Collaborative would prepare for filing with the Department on November 15, 1997 should contain as much consensus as possible with regard to the major issues, but that differences could be accommodated. The discussion focused primarily on three issues: (1) LDC responsibility for capacity commitments and exit from the merchant function; (2) establishment of transition period; and (3) cost-shifting implications.

With regard to the LDCs’ exit from the merchant function, Robert Keegan stated that the nine LDCs recognize that they will be exiting the merchant function, but that the timeline for that exit was an open question. Mr. Keegan further stated that if the LDCs were not required to offer default service, they would exit the merchant function. However, Mr. Keegan noted that there may be reliability concerns (e.g., migration of capacity out of the region) unless there is workable competition in the capacity market. The Attorney General stated that ultimately the LDCs would be responsible for providing default and “safety net” service and allowing and facilitating customer migration, but may not be required to make supply commitments.

With regard to the LDCs’ continuing role in procuring or renewing upstream capacity, there was no disagreement that the responsibility should remain with the LDCs at least through an interim phase or transition period. The Attorney General proposed that rather than pick a date certain upon which the LDCs would cede their responsibility for supply commitments, the group should pick a time period (e.g., five years) and at the end of that period, require the Department to hold a proceeding to evaluate whether the market was sufficiently competitive to ensure a reliable gas supply. Attendees agreed that a transition period of some length of time would be appropriate and that the transition period should be monitored. However, the length of the transition period, and whether there should be a date certain for the end of the transition period, was left for further discussion.

With regard to the cost-shifting concerns relating to the customer/marketer capacity-assignment proposal discussed at the last meeting, Mr. Howe proposed that the cost-shifting effects could be mitigated if residential and commercial and industrial (“C&I”) customer classes could transition to a competitive market on two distinct timelines with any resulting stranded costs charged back only to the class that enjoys transportation opportunities, *i.e.*, the residential class would not pay any transition costs until such time that the class as a whole has the opportunity to switch to transportation service. Thus, cost-shifting between the C&I and residential classes (inter-class cost-shifting) would be avoided, although intra-class shifting may still occur as some members of a class move to transportation service while others are slower to migrate. The Attorney General stated that it was the position of his office that no cost-shifting should occur, but that he would consider whether

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intra-class shifting, as opposed to inter-class shifting, would be an acceptable compromise. Other attendees expressed concerns about class definition, *i.e.*, should small C&I customers be included with large C&I customers or residential?

There was also some discussion about the mitigation of transition costs. The participants agreed that LDCs have will have a continuing obligation to mitigate transition costs, but there was no agreement on how it was to be accomplished. The LDCs suggested that their auction approach would maximize mitigation, but the marketers expressed concerns about the competitive impact of auctioning an LDC's portfolio to a single portfolio manager. In response to a question from Mr. Howe regarding the possibility of auctioning the portfolios off to a combination of entities, the LDCs stated that this might be an alternative, but that doing so may decrease the value of the transaction.

The current marketer proposal was summarized as including the following principles: (1) preference for voluntary assignment; (2) inclusion of requirements for mitigation; (3) slice of capacity portfolio pooled and offered to transportation customers/marketers who may choose to take entire path at maximum rate; (4) Canadian differential converted to LDAC; (5) averaging of Algonquin contract prices; and (6) transition costs segregated by class to preclude inter-class shifting of costs.

With regard to administrative issues, attendees agreed that the next meeting on October 30, 1997 would begin at 9:00 a.m. Attendees also agreed that it would be helpful to schedule the Working Group sessions to meet sequentially so that people can attend all group sessions. Thus, the schedule for the day will be as follows:

9:00 - 11:00	Continuation of Capacity Assignment
11:00 - 12:30	Rate Unbundling
12:30 - 1:30	Lunch
1:30 - 3:00	MBIS/Information Exchange
3:00 - 4:30	Consumer Protection/Low-Income/Social Programs

Henry LaMontagne of COM/Energy was designated as the LDC co-chair for the Rate Unbundling group and Lee Alexander was designated as the non-LDC co-chair for the group.