220 CMR 6.00: STANDARD COST OF GAS ADJUSTMENT CLAUSE

Section

6.01: Purpose

The purpose of 220 CMR 6.00 is to establish a procedure that allows gas companies subject to the jurisdiction of the Department of Public Utilities (Department) to adjust, on a semi-annual basis, their rates for firm gas sales in order to recover costs of firm sendout gas, to reflect the seasonal variation in the cost of gas, and to credit all nonfirm sales margins and supplier refunds to firm ratepayers.

6.02: Applicability

This standard Cost of Gas Adjustment Clause (CGAC) shall be applicable to all Massachusetts gas companies and all firm gas sales made by such companies. The application of the clause may, for good cause shown, be modified by the Department. *See* 220 CMR 6.12, "Other Rules."

6.03: Cost of Firm Gas Allowable for CGAC

All costs of firm gas including, but not limited to, commodity costs, demand charges, transportation fees, and costs associated with buyouts of existing contracts may be included in the CGAC. Any costs recovered through application of the CGAC shall be identified and explained fully in the annual filing outlined in 220 CMR 6.11. Nonfirm gas costs and the costs of gas for company use that are reflected in base rates are not recoverable through the clause.

6.04: Effective Date of Gas Adjustment Factor (GAF)

The date on which the seasonal GAFs become effective will be the first day of each season as designated by each company. Unless otherwise notified by the Department, the gas companies shall submit GAF filings as outlined in 220 CMR 6.11 at least 45 days before they are to take effect.

6.05: Definitions

The following terms shall be as defined in 220 CMR 6.05, unless the context requires otherwise.

Base Gas Supply is, unless otherwise approved by the Department, the gas supplies procured by a company primarily to serve the year-round firm load leve1 associated with the off-peak period.

Off-Peak Season is the complementary summer season as designated by each company.

Original Embedded Gas Costs are gas costs embedded in base rates as set in a rate case.

Peak Season is the winter heating season as designated by each company and approved by the Department.

Per-Unit Supplemental Margin is the difference between the total (per-unit commodity and demand) weighted average cost of supplemental gas supplies and the weighted average base gas commodity cost.

Supplemental Gas Supply is, unless otherwise approved by the Department, the gas supplies procured by a company primarily to augment base gas supplies in meeting firm load requirements during the peak season.

6.06: Gas Adjustment Factor Formulas

The GAFs incorporate on a seasonal basis changes in costs, refunds, etc., such that when a seasonal GAF ($/therm or $/CCF) is added to a base rate, a proper seasonal charge results. The GAFs shall be computed on a semi-annual basis using forecasts of seasonal gas costs, carrying charges, sendout volumes, and sales volumes. Forecasts may be based on either historical data or company projections, but must be weather-normalized. Any projections must be documented in full with each filing.

The base and supplemental GAF formulas below form the basis for the calculation of the seasonal GAFs (peak and off-peak) to be used in billing. The base

GAF as calculated at the beginning of each summer season shall serve as the off-peak GAF. The peak GAF shall be the base GAF, as calculated at the beginning of the winter season, plus the supplemental GAF.

Base GAF Formula: The base GAF shall be calculated at the beginning of each season according to the following formula:

$$\text{Base GAF} = \frac{BC + D - Dao + (S - SM) - Rb - M}{T{:}Vol} - (R1 + R2) - B$$

Supplemental GAF Formula: The supplemental GAF shall be calculated for the peak season according to the following formula:

$$\text{Supplemental GAF} = \frac{SM + Dao + FC - Rs}{P{:}Vol}$$

Where:

BC: Base Commodity Costs - 12-month volumes at annual weighted average commodity cost of base gas supplies (*e.g.*, F-1, CD-6, GS-6, etc.).

D: Base Demand Charges - 12-month demand charges associated with base sendout volumes.

Dao: Demand Charge Reallocation - As derived using the proportional responsibility allocator.

S: Supplemental Gas Costs - Total cost of supplemental sendout.

SM: Supplemental Margin Reallocation - Supplemental gas supply sendout volumes times the per-unit supplemental margin.

FC: Total Inventory Finance Charges - As billed in each peak season in anticipation of subsequent off-peak season charges. The total shall represent an accumulation of the projected charges as calculated using the monthly average of financed inventory at the existing (or anticipated) financing rate through a trust or other financing vehicle.

Rb: Base Reconciliation Adjustment - Account 175.1 balance, inclusive of the associated Account 175.1 interest, as outlined in 220 CMR 6.08. Overcollections shall be treated as positive in the above formula.

Rs: Supplemental Reconciliation Adjustment - Account 175.2 balance, inclusive of the associated Account 175.2 interest, as outlined in 220 CMR 6.08. Overcollections shall be treated as positive in the above formula.

M: Nonfirm Revenue Margin - any profits on nonfirm sales as calculated by forecasting nonfirm rates, costs, and associated nonfirm sales volumes for the 12-month period beginning on the effective date of the base GAF. Also includes any other nonfirm service revenues.

R1, R2: Per-unit Supplier Refunds - The per-unit supplier refunds associated with refund program credits derived from Account 242.1, "Undistributed Gas Suppliers' Refunds." See 220 CMR 6.07.

B: Per-unit embedded gas costs.

P:Vol: Forecasted peak season firm sales volumes.

T:Vol: Forecasted annual firm sales volumes.

6.07: Gas Suppliers' Refunds - Account 242.1

Refunds from suppliers of gas and feedstocks are credited to Account 242.1, "Undistributed Gas Suppliers' Refunds." Transfers from this account as a credit in the semi-annual calculation of the base GAF shall be as follows.

Refund programs shall be initiated with each semi-annual GAF filing and shall remain in effect for a period of one year. The total dollars to be placed into a given refund program shall be the net of over/under-returns from expired programs plus monies received from suppliers since the previous program was initiated. Monies to be refunded through each program shall be distributed volumetrically, producing per-unit refund factors that will return the principal amount with interest as calculated using the Bank of America's prime lending rate. Each company shall track and report on all Account 242.1 activities as specified in 220 CMR 6.11.

6.08: Reconciliation Adjustments - Account 175

(1) The following definitions pertain to reconciliation adjustment calculations.

(a) Gas Costs Allowable Per Base Formula shall be:

1. Total commodity cost of the base gas sendout.
2. Total demand charges associated with the base gas supply less the demand charge reallocation (Dao - as defined in 220 CMR 6.06), less demand charges associated with storage injections and liquefactions.
3. Supplemental gas costs (S - as defined in 220 CMR 6.06) less

the supplemental margin (SM - as defined in 220 CMR 6.06).

4. Base Account 175.1, interest charges.

5. A credit in the amount of actual nonfirm margins realized.

(b) Gas Costs Allowable Per Supplemental Formula shall be:

1. The demand charge reallocation (Dao).

2. The supplemental margin (SM).

(c) BACOG (Base Average Cost of Gas) equals the base GAF as computed in 220 CMR 6.06 plus the original embedded gas cost for each company, plus supplier refunds returned to customers. This figure is used as the convention for recognizing revenues toward base gas costs.

(d) SACOG (Supplemental Average Cost of Gas) equals the supplemental GAF as computed in 220 CMR 6.06. It is used as the convention for recognizing revenues towards supplemental gas costs.

(2) Calculation of the Reconciliation Adjustments. Account 175 contains the accumulated difference between gas cost revenues and the actual monthly gas costs incurred by each company. Each company shall henceforth separate Account 175 into a base (Account 175.1) and supplemental (Account 175.2) portion. Account 175.1 shall contain the accumulated difference between revenues toward gas costs as calculated by multiplying the BACOG times monthly firm sales volumes and gas costs allowable per base formula.

Account 175.2 shall contain the accumulated difference between revenues toward gas costs as calculated by multiplying the SACOG times monthly firm sales volumes and gas costs allowed per supplemental formula.

Interest shall be calculated on the average monthly balance of both the base and supplemental accounts using the Bank of America's prime lending rate, then added to each end-of-month balance. A base reconciliation adjustment
(Rb - as defined in 220 CMR 6.06) shall be determined for use in the base GAF calculations incorporating the base account (175.1) balance as of the annual reconciliation date as designed by each company. The supplemental reconciliation adjustment figure (Rs - as defined in 220 CMR 6.06) shall be taken as the supplemental account (175.2) balance as of the same annual reconciliation date.

Any existing reconciliation adjustments, as computed under the clause in effect on January 1, 1987, shall be included in the base GAF calculation for the first season.

6.09: Application of GAFs to Bills Without Seasonally Differentiated Base Rates

Companies that have not yet implemented seasonally differentiated base rates shall employ the GAFs as follows. The off-peak season rates to customers shall be calculated by adding the off-peak GAF (summer base GAF) to the base rate for each rate class. The peak season rates shall be calculated by adding the peak GAF (winter base GAF plus supplemental GAF) to the base rate for each rate class. The seasonal GAFs ($/therm or CCF) shall be calculated to the nearest hundredth of a cent per unit.

6.10: Application of GAF to Bills With Seasonally Differentiated Base Rates

Companies with seasonally-differentiated base rates shall calculate bills to customers in accordance with 220 CMR 6.09 except that GAFs shall be computed using seasonal embedded gas costs as determined in a company's last general rate case.

Companies for which seasonal embedded costs have not been determined in a rate case, but whose base rates are seasonally differentiated, shall calculate seasonal embedded costs. This shall be accomplished by disaggregating the nonseasonal embedded gas cost figure as set in a company's last rate case into appropriate Peak Embedded Gas Cost and Off-peak Embedded Gas Cost components, subject to the approval of the Department.

6.11: Information Required to be Filed with the Department

Information pertaining to the cost of gas adjustment shall be filed with the Department in accordance with the standardized forms provided by the Department. Required filings include a monthly report which shall be submitted to the Department on the 20th of each month, and a semi-annual GAF filing which shall be submitted to the Department at least 45 days before the date on which a new GAF is to be effective. Additionally, each company shall file with the Department a complete list by (sub)account of all gas costs claimed as recoverable through the CGAC over the previous year, as included in the annual reconciliation. This information shall be submitted with each winter season GAF filing, along with complete documentation of the reconciliation adjustment calculations.

6.12: Other Rules

(1) The Department may where appropriate, on petition or on its own motion, grant an exception from the provisions of 220 CMR 6.00, upon such terms that it may determine to be in the public interest.

(2) A gas company may, at any time, file with the Department an amended GAF. An amended GAF filing must be submitted seven business days before the first billing cycle of the month in which it is proposed to take effect.

(3) The Department may at any time require a gas company to file an amended GAF.

(4) The operation of the cost of gas adjustment clause is subject to all powers of suspension and investigation vested in the Department by M.G.L. c. 164.

6.13: Customer Notification

Each company will design a notice which explains in simple terms to customers the GAF, the nature of any change in the GAF and the manner in which the GAF is applied to the bill. The company will submit this notice for approval at the time of each GAF filing.

Upon approval by the Department, the company must immediately distribute these notices to all of its customers either through direct mail or with its bills.

REGULATORY AUTHORITY

220 CMR 6.00: M.G.L. c. 164.