

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 08-117

NEW HAMPSHIRE GAS CORPORATION

2008-2009 Winter Cost of Gas

Order Approving Cost of Gas Rates

ORDER NO. 24,910

October 31, 2008

APPEARANCES: Meabh Purcell, Esq., of Dewey & LeBoeuf LLP, on behalf of New Hampshire Gas Corporation and Edward N. Damon, Esq., for the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 16, 2008, New Hampshire Gas Corporation (NHGC), a public utility that distributes propane air gas in Keene, filed its proposed cost of gas (COG) rate and fixed price option (FPO) rate for the November 1, 2008 through April 30, 2009 winter period. NHGC's filing was accompanied by the pre-filed testimony and supporting attachments of Jennifer M. Boucher, Manager of Regulatory Economics for Berkshire Gas Company (Berkshire). NHGC is an affiliate of Berkshire, which provides certain management services to NHGC. An order of notice was issued on September 17, 2008, scheduling a hearing for October 23, 2008. There were no intervenors in this docket. On October 22, 2008, NHGC submitted a revised COG filing. On October 23, 2007, Staff filed the direct testimony of Robert J. Wyatt, Utility Analyst III. The hearing before the Commission was held on October 23, 2008.

II. POSITIONS OF THE PARTIES AND STAFF

A. NHGC

NHGC witnesses Boucher and David Grande, General Manager of NHGC, addressed the following issues: (1) calculation of the COG rate and the impact on customer bills, (2) the FPO rate, (3) reasons for the increased rates, (4) gas supply purchasing policies, (5) supply reliability and (6) implementing rates on a bills-rendered basis.

1. Calculation of the COG Rate and Customer Impact of Rate Increases

The proposed 2008-2009 winter COG rate of \$1.8139 per therm, as revised, was calculated by increasing the anticipated cost of gas of \$1,965,719 by a prior period under-collection and related interest of \$29,163, such that the total anticipated cost is \$1,994,882. Next, the anticipated FPO revenues for the period were determined by multiplying the FPO rate of \$2.2408 per therm by the estimated FPO volume of 225,000 therms, and the resulting product of \$504,180 is then subtracted from the total anticipated cost of gas. Finally, the proposed COG rate was determined by dividing the remaining costs to be recovered, \$1,490,702, by projected non-FPO winter gas sales of 821,803 therms. The proposed COG rate represents an increase of \$0.0491 per therm over the 2007-2008 average winter COG rate of \$1.7648 per therm.

A deferred revenue surcharge was originally established in *New Hampshire Gas Corp.*, Order No. 24,102, 87 NH PUC 859 (2002), and most recently approved in *New Hampshire Gas Corp.*, Order No. 24,799 (October 31, 2007). NHGC was allowed to defer the difference between the approved maximum delivery rates and the discounted rates for future recovery after rates reached the approved maximum. The recovery of the deferred revenues was to be spread out over 36 months. The proposed deferred revenue surcharge of \$0.0532 per therm was calculated based on 30 months of actual and six months of projected recoveries, which represents

a \$0.0062 per therm increase from the surcharge that went into effect on May 1, 2008. Taking into account the proposed COG rate and the deferred revenue surcharge, the net combined bill increase for a typical residential heating customer would be \$53, or a 2 percent increase over last winter.

NHGC also expressed its support for the modified monthly adjustment mechanism proposed by Staff in its testimony. NHGC noted that the proposed rate had dropped almost \$0.50 per therm since its initial filing, reflecting the significant week-to-week volatility of propane prices. NHGC added that this past summer also demonstrated the need for the proposed modification, as propane prices increased by more than 20 percent and, after NHGC adjusted its rates accordingly through a revised filing, propane prices decreased by more than 20 percent. NHGC was unable to pass along the full savings because there was insufficient time to make another revised filing.

2. Fixed Price Option Program

In *New Hampshire Gas Corp.*, Order No. 24,516, 90 NH PUC 400 (2005), the Commission approved a revised FPO program for NHGC. Based on the approved FPO rate calculation method, the FPO rate is set \$0.02 per therm above the proposed COG rate filed with the Commission on or before October 1. The 2008-2009 winter FPO rate is set at \$2.2408 per therm, which is a \$0.7196 increase from the 2007-2008 winter FPO rate of \$1.5212 per therm. As of October 22, 2008, approximately 200 of NHGC's 1,000 customers had enrolled in the FPO program, a slight decrease from the prior year and in keeping with the trend NHGC has seen over the past several years.

3. Reasons for the Increase in Rates

Ms. Boucher explained that the gas costs for the upcoming winter period are projected to be higher than those paid last winter because of current NYMEX propane prices. Ms. Boucher noted that expected propane prices for this winter increased significantly, then decreased sharply in recent weeks, tracking similar trends in oil prices.

4. Gas Supply Purchasing Policies

Ms. Boucher testified that NHGC has implemented its propane purchasing stabilization plan as approved in *New Hampshire Gas Corp.*, Order 24,617, 91 NH PUC 187 (2006). NHGC issued a request for proposals to four area propane suppliers and contracted with Texas Liquids for its pre-purchase propane supply volumes. Ms. Boucher testified that approximately 67 percent of the NHGC supply requirements for the winter period have been prepurchased. Ms. Boucher further explained that the weighted average cost of the prepurchased supply is \$1.934 per gallon delivered and that the most recent November 2008 market price of delivered propane supply was approximately \$1.16 per gallon.

5. Supply Reliability

Ms. Boucher testified that although NHGC has contracted for delivery of propane volumes exclusively from the Selkirk Texas Eastern terminal (Selkirk) in New York, the utility's supplier, Texas Liquids, has assured NHGC that it has adequate ancillary sources, including Westfield, Massachusetts and Providence, Rhode Island, from which service can be provided to the company in the event supply from Selkirk is interrupted. Ms. Boucher also testified that NHGC contracts for additional off-site storage from a Berkshire Gas Company facility located in Greenfield, Massachusetts.

6. Rate Changes on a Bills-Rendered Basis

NHGC requested that the Commission waive N.H. Code Admin. Rules Puc 1203.05(b), which requires that rate changes be implemented on a service-rendered basis, noting that the Commission has granted the waiver in previous COG and delivery rate proceedings. Ms. Boucher testified that it would be less confusing to NHGC customers, who are accustomed to being billed on a bills-rendered basis, and that the current NHGC billing system would have to be replaced at a substantial cost to allow for service-rendered billing.

B. Staff

Mr. Wyatt's testimony noted that Staff had completed its review of the cost of gas forecast for the upcoming winter period and recommended approval of the proposed rates. Staff noted that the forecast is consistent with those filed and approved in previous winter periods. Also, Staff stated that it had reviewed and audited the 2007-08 COG reconciliation and found the costs to be reasonable and accurately reported. Staff reviewed the schedule used to calculate the deferred revenue surcharge and recommended approval of the proposed rate.

Staff also recommended a modification to the monthly over/under adjustment mechanism. Mr. Wyatt testified that currently, without further Commission action, NHGC can adjust the COG rate upward or downward within a +/- 20 percent bandwidth of the initially approved COG rate in order to reduce monthly over- or under-collections in the period. He explained that, during the 2008 summer period, NHGC experienced substantial fluctuations in actual and projected propane gas costs. The company increased the COG rate to the maximum allowed and filed a revised COG calculation to establish a rate that would eliminate the projected under collection. Following a duly noticed hearing, the Commission approved the proposed rate increases effective August 1, 2008. Subsequent to the filing, actual and projected propane gas

costs dropped to such an extent that reducing the approved rates by the maximum allowed without further Commission action was insufficient to eliminate the projected over collection. Because of the limited time remaining in the summer period there was insufficient time to file and process a second revised COG.

Staff's proposed modification would allow for monthly adjustments beyond the 20 percent with Commission approval. Northern, as well as the other gas utilities, would file the required monthly over/under reports five business days before the effective date of the proposed increase and, if beyond 20%, would request Commission approval. The request would be docketed and Staff and the parties would have the opportunity to file comments and recommendations with the Commission. The Commission could then rule on the request or require a hearing. It would no longer be necessary to file a completely revised cost of gas filing. Instead, the company would file a letter similar to the regular monthly letters it has been filing with summary information supporting the proposed change in the COG rate. However, if the proposed adjusted COG rate was outside the 20% bandwidth, the company would not be authorized to implement the rate until it receives an authorizing letter from the Commission. The Commission would decide if a hearing is needed. Once outside the bandwidth, the company could further change the rate to move closer to the originally approved COG rate for that period, but not further away, without additional Commission action.

Staff testified that the modification ensures limited changes in rates without further action by the Commission but allows for more substantive changes on a timely basis when merited without necessarily requiring a full blown proceeding and hearing. In cases where a revised COG filing can be avoided, it would reduce administrative costs while increasing administrative efficiency.

Finally, Staff did not oppose NHGC's request to implement rates on a bills-rendered basis based on the reasons provided by NHGC.

III. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that NHGC's proposed winter COG rate and FPO rate will result in just and reasonable rates as required by RSA 378:7. Accordingly, we approve such rates.

One issue raised by Staff in this docket merits further inquiry. Given the timing of NHGC's filing and the need to have rates in place by November 1, 2008, we defer the issue of Staff's proposal to modify the monthly over/under adjustment to the summer 2009 cost of gas docket. In the interim, we request that the parties meet prior to the summer cost of gas filing to further discuss and refine Staff's proposal. We anticipate that any policy change applicable to EnergyNorth, Northern Utilities, Inc. and NHGC would be made in a consistent manner.

N.H. Code Admin. Rules Puc 1203.05 provides that, in general, rate changes must be implemented on a service-rendered basis. However, subsection (c) of the rule specifically contemplates waivers of this requirement in appropriate circumstances and requires utilities seeking to implement rate changes on a bills-rendered basis to address issues such as potential customer confusion, implementation costs, the matching of revenue with expenses and the objective of adequate customer notice. As a result of prior Commission waivers of Puc 1203.05, NHGC customers are accustomed to rate changes on a bills-rendered basis and a change in that policy may result in customer confusion. In addition, the current billing system is not designed to accommodate billing on a service-rendered basis and such a change would necessitate modifying or replacing the existing billing system at some cost to NHGC. Based upon these considerations, we grant NHGC's request for a waiver.

Based upon the foregoing, it is hereby

ORDERED, that NHGC's request for waiver of N.H. Code Admin. Rule Puc 1203.05

(b) is GRANTED; and it is

FURTHER ORDERED, that NHGC's proposed winter COG rate of \$1.8139 per therm and the FPO rate of \$2.2408 per therm for the period November 1, 2008 through April 30, 2009 are APPROVED effective for bills rendered on and after November 1, 2008; and it is

FURTHER ORDERED, that NHGC may, without further Commission action, adjust the approved winter COG rate of \$1.8139 per therm upward or downward monthly based on NHGC's calculation of the projected over or under-collection for the period, but the cumulative adjustments shall not vary more than 20 percent from the approved unit cost of gas; and it is

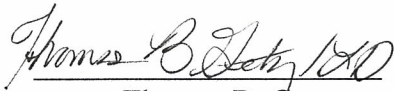
FURTHER ORDERED, that NHGC (1) provide the Commission with its monthly calculation of the projected over- or under-calculation, along with the resulting revised COG rate for the subsequent month, not less than five business days prior to the first day of the subsequent month and (2) include a revised tariff page 24 - Calculation of Cost of Gas and revised rate schedules if NHGC elects to adjust the COG rate; and it is

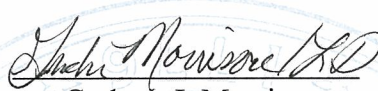
FURTHER ORDERED, that the over- or under-collection accrue interest at the monthly prime lending rate as reported by *The Wall Street Journal*, with such rate adjusted each quarter using the rate reported on the first business day of the month preceding the first month of the quarter; and it is

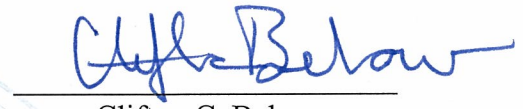
FURTHER ORDERED, that NHGC's proposed deferred revenue surcharge rate of \$0.0532 per therm for the period of November 1, 2008 through April 30, 2009 is APPROVED, effective for bills rendered on or after November 1, 2008; and it is

FURTHER ORDERED, that NHGC file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this order, as required by N.H. Code Admin. Rules Puc 1603.

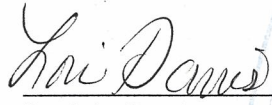
By order of the Public Utilities Commission of New Hampshire this thirty-first day of October, 2008.

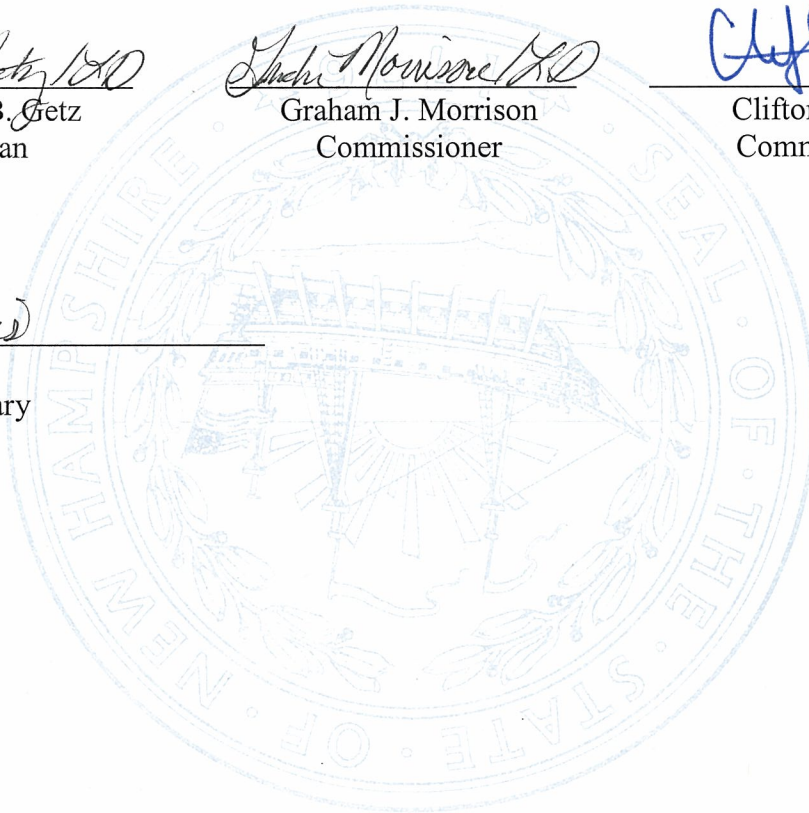

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Order No. 24,910 mailed to all parties on Service List 11/3/08

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