

DG 00-216

**NEW HAMPSHIRE GAS CORPORATION**

**2000/2001 Winter Cost of Gas**

**Order Approving the Cost of Gas**

**O R D E R    N O.    23,583**

**October 31, 2000**

**APPEARANCES:** Ransmeier & Spellman by Dom S. D'Ambruso, Esq. on behalf of New Hampshire Gas Corporation; and Michelle A. Caraway and Stephen P. Frink for the Staff of the New Hampshire Public Utilities Commission.

**I.    PROCEDURAL HISTORY**

On October 2, 2000, New Hampshire Gas Corporation (NHGC), a public utility engaged in the business of distributing gas in Keene, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) rate and Fixed Price Option (FPO) rate for the period November 1, 2000 through April 30, 2001. NHGC's filing was accompanied by the pre-filed testimony and supporting attachments of Mark A. Cole, General Manager for NHGC.

An Order of Notice was issued on October 3, 2000 setting a hearing for October 25, 2000. NHGC informed customers of the impending change by publishing a copy of the Order of Notice in the Keene Sentinel on October 7, 2000.

On October 20, 2000, Staff filed the Direct Testimony of Stephen P. Frink, Assistant Finance Director, recommending approval of the proposed COG. Mr. Frink also proposed revising the mechanism

that allows NHGC to implement monthly changes without further Commission action, to provide NHGC greater flexibility in making adjustments.

There were no intervenors in this docket. A duly noticed hearing on the merits was held at the Commission on October 26, 2000.

## **II. POSITIONS OF THE PARTIES AND STAFF**

### **A. New Hampshire Gas Corporation**

NHGC witness Mark A. Cole, General Manager, addressed the following issues: 1) calculation of the COG rate and the impact on customer bills; 2) Fixed Price Option 3) reasons contributing to the increased rate; and 4) gas supply purchasing policies.

#### **1. Calculation of the COG rate and Customer Impact**

The proposed 2000/2001 Winter COG rate of \$0.9926 per therm was calculated by increasing the anticipated cost of gas of \$509,871 by a prior period under-collection and related interest of \$63,694 and dividing the resulting anticipated costs of \$573,565 by projected therms sales of 577,838.

Mr. Cole explained that because the FPO program did not exist last winter, both FPO participants and non participants were undercharged and, therefore, the under-collection and related interest was included in both rates on a pro rata basis. Next season, FPO customers will not be subject to a prior period

adjustment.

NHGC's proposed 2000/2001 Winter COG rate is \$0.9926 per therm, representing an increase of \$0.3212 per therm from the 1999/2000 average Winter COG rate of \$0.6714 per therm.

The proposed 2000/2001 Winter COG rate of \$0.9926 per therm was calculated by using the weighted average cost of propane based on propane market futures prices as quoted in the *Boston Globe* on September 26, 2000 for the months of November 2000 through April 2001.

The \$0.3212 per therm increase in the Winter COG rate would cause an increase of \$6.42 (22%) in the average monthly bill of a typical residential customer and a \$124.95 (29%) increase in the average monthly bill of a typical commercial customer.

## **2. Fixed Price Program**

Order No. 23,457 (May 2, 2000) approved the FPO program to be implemented for the 2000/2001 Winter COG period, limiting the initial offering to twenty percent (20%) of weather normalized sales.

On September 29, 2000, customers were informed of the program by mail and notified that there would be an open enrollment period from October 1, 2000 to October 21, 2000 and that participation was limited and enrollment would be on a first-come, first-served basis. The enrollment period ended twenty percent (20%) over subscribed. Customers that requested enrollment after the 20%

limit had been reached have been, or are being, notified that they are not eligible for the program this winter and have been placed on a waiting list until all participants have confirmed their enrollments.

The proposed 2000/2001 Winter FPO rate of \$0.9967 per therm is almost identical to the proposed COG rate and was calculated by increasing the cost of gas of \$128,057 by the prior period under-collection and related interest of \$15,924 and dividing the resulting costs of \$143,980 by projected therm sales of 144,459.

The FPO customers will experience the same increases in winter bills as forecasted for non-participants.

### **3. Factors Contributing to the Increased COG**

Mr. Cole explained that a substantial under-collection and related interest of \$79,618 from last winter was responsible for approximately one-third of the increase, while the remaining two thirds is attributable to a substantial increase in actual and projected propane prices for this winter period.

### **4. Gas Supply Purchasing Policies**

Pursuant to the Operating and Propane-air Sales Supply Agreement entered into between NHGC and Keene Gas Corporation (KGC) at the time NHGC acquired the utility franchise and distribution properties, KGC continues to manufacture the propane-air product which NHGC purchases for distribution and resale to its utility

customers. The arrangement remains in effect until NHGC builds its own supply plant. Mr. Cole testified that the construction schedule has slipped due to environmental concerns, and NHGC now expects to have such a plant in service by November 1, 2002. Until that time, Mr. Cole consults with the KGC purchasing agent regarding propane purchasing strategies. To date, the KGC purchasing policies have been consistent with those of NHGC's parent company, New York State Electric & Gas Corporation.

**B. Staff**

Staff testified that it had reviewed the filing and recommended approval of the proposed COG rate, noting that fuel purchasing for the period is consistent with prior periods.

Staff recommended that the mechanism which allows for a monthly adjustment without further Commission action be revised to allow changes upwards or downwards of 20% (currently 10%) of the approved COG rate, with no limitation on the amount of change within that range (currently there is a limit of no more than a 10% change in any given month).

Mr. Frink testified that the revised mechanism would enable NHGC to better control over/under-recoveries and reduce the need for more time consuming and costly revised COG proceedings when gas costs vary substantially within the

period. Mr. Frink explained that the COG is a reconciling item and, therefore, the proposed changes to the mechanism would have no impact on the gas costs ultimately paid by NHGC's customers, other than a reduction in related carrying costs.

### **III. COMMISSION ANALYSIS**

After careful review of the record in this docket, we find that NHGC's proposed COG rate and FPO rate will result in just and reasonable rates. Accordingly, we accept and approve NHGC's proposed 2000/2001 Winter COG rate.

Allowing NHGC greater flexibility to adjust the COG rate on a monthly basis without further Commission approval, as proposed by Staff and supported by NHGC, will enable NHGC to pass along increases or decreases in gas costs on a more timely basis. Accordingly, we approve the proposed change to the mechanism.

We recognize that a 20% increase in the COG rate, representing the total amount that gas costs would be allowed to fluctuate under the mechanism we are approving today, is substantial. The bill impact on an average residential customer of such an increase would be more limited: it would be a one-half to two thirds of that amount when the customer charge and delivery rate are factored in to the total rate.

While a 10% change in rates may be significant, in today's energy markets such fluctuations are, unfortunately, not uncommon. Through experience, it is hoped that customers become more aware of the volatility of natural gas prices and, if risk averse, avail themselves of the FPO program NHGC has made available to allow customers to eliminate the price risk.

Given the overwhelming response to the FPO experience for this winter period, a review of the program and the available supplies is in order. Therefore, we direct NHGC to review that policy for possible modifications and/or alternatives that might help stabilize rates and to discuss those policies with Staff.

**Based upon the foregoing, it is hereby**

**ORDERED,** that NHGC's proposed Winter COG rate of \$0.9926 per therm for the period November 1, 2000 through April 30, 2001 is APPROVED effective for bills rendered on or after November 1, 2000; and it is

**FURTHER ORDERED,** that NHGC may, without further Commission action, adjust the approved Winter COG rate of \$0.9926 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 twenty percent (20%) from the approved unit cost of gas (or \$0.1984 per therm); and it is

**FURTHER ORDERED,** that NHGC shall 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 (5) business days prior to the first day of the subsequent month. NHGC shall 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 shall accrue interest at the Prime Rate as reported in the *Wall Street Journal*. The rate is to be 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 Winter FPO rate of \$0.9967 per therm for the period November 1, 2000 through April 30, 2001 is APPROVED effective for bills rendered on or after November 1, 2000; and it is

**FURTHER ORDERED,** that NHGC shall 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. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New  
Hampshire this thirty-first day of October, 2000.

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Douglas L. Patch  
Chairman

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Susan S. Geiger  
Commissioner

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Nancy Brockway  
Commissioner

Attested by:

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Thomas B. Getz  
Executive Director and Secretary