

DG 03-074

NEW HAMPSHIRE GAS CORPORATION

2003 Summer Cost of Gas

Order Approving Cost of Gas Rates

O R D E R N O. 24,166

April 25, 2003

APPEARANCES: Ransmeier & Spellman by Dom S. D'Ambruso, Esq., on behalf of New Hampshire Gas Corporation; and Marcia A.B. Thunberg, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On March 24, 2003, 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 for the period May 1, 2003 through October 31, 2003. NHGC's filing was accompanied by the pre-filed testimony and supporting attachments of Mark A. Cole, General Manager for NHGC.

The Commission issued an Order of Notice on March 25, 2003 setting a hearing for April 8, 2003. NHGC informed customers of the impending change by publishing a copy of the Order of Notice in the Keene Sentinel on March 28, 2003. The Commission received an affidavit of publication on April 1, 2003.

There were no intervenors in this docket. A duly noticed hearing on the merits was held at the Commission on April 8, 2003, at which time a revised COG filing was submitted.

II. POSITIONS OF THE PARTIES AND STAFF

A. New Hampshire Gas Corporation

NHGC witness Mark A. Cole, General Manager, testified as to the following issues: 1) calculation of the COG rate and the impact on customer bills; 2) reasons contributing to the increased rate; 3) gas supply purchasing policies; 4) rate changes on a bills-rendered basis; and 5) change in the rate case expense surcharge.

1. Calculation of the COG Rate and Customer Impact

The proposed 2003 Summer COG rate of \$0.8124 per therm was calculated by increasing the anticipated cost of gas of \$188,585 by a prior period under-collection of \$7,339 and deducting the balance of interest of \$322 collected on over and under collections, then dividing the resulting anticipated costs of \$195,602 by projected therm sales of 240,766. Exh. 2 at 10.

NHGC's proposed 2003 Summer COG rate of \$0.8124 per therm represents an increase of \$0.1721 per therm from the 2002 weighted average Summer COG rate of \$0.6403 per therm. Exh. 2 at 1.

The proposed 2003 Summer COG rate was calculated by using the projected per unit cost of propane based on the

futures prices posted on the New York Mercantile Exchange multiplied by anticipated demand. The calculation used the closing prices of April 3, 2003, for the months of May 2003 through October 2003, plus brokers' fees, pipeline transportation costs and trucking charges.

The impact of the proposed 2003 Summer COG rate is an increase in the average residential heating and hot water customer's summer gas costs of \$43. Exh. 2 at 1. Comparing the 2003 and 2002 summer cost of gas rates, excluding the increase to NHGC's base rate, this represents a 12.7% increase over last summer. Exh. 2 at 6.

2. Factors Contributing to the Increased COG

The primary reason for the increased summer COG rate was an increase in the actual and projected propane prices for this summer period compared to actual propane prices in the summer of 2002.

3. Gas Supply Purchasing

NHGC has not pre-purchased propane supplies to meet its projected demand for the 2003 summer period. NHGC stated that the current propane prices are high, in large part due to low storage inventories resulting from a harsh winter. It is NHGC's opinion that propane supplies are adequate and production sufficient to keep prices stable and that customer exposure to price spikes this summer is negligible. Hearing Transcript of

April 8, 2003 ("4/8/03 Tr.") at 35 lines 19-24 and at 36 lines 1-18.

4. Rate Changes on a Bills-Rendered Basis

NHGC made an oral request for a waiver, pursuant to Puc 201.05, of N.H. Admin. Code Rule, Puc 1203.05, which requires rate changes to be implemented on a service-rendered basis, to enable NHGC to bill the new rates on a bills-rendered basis.

Mr. Cole testified that NHGC customers are accustomed to being billed on a bills-rendered and that the current NHGC billing system would have to be replaced, at a substantial cost, to allow for service-rendered billing. Mr. Cole noted that he was unaware of any customer complaints regarding the bill-rendered basis customer billing. 4/8/03 Tr. at 13 lines 4-13.

5. Rate Case Expense Surcharge

In NHGC's petition for a rate increase, Docket No. DG 02-003, NHGC requested recoupment of rate case expenses. Commission Order No. 24,102, dated December 23, 2002 approved a Rate Case Expense surcharge of \$0.0200 per therm effective January 1, 2003 pending an audit of the expenses and Commission approval as part of NHGC's 2003 Summer COG filing.

The Commission Audit Staff reviewed the \$42,603 of rate expenses for which NHGC is seeking recovery and recommended approval in a memo dated January 17, 2003. Exh. 3 at 1. A

reconciliation of the rate case expenses and revenues collected through March 31, 2003 indicates an outstanding balance of \$32,088 remains to be recovered over the next two years. Based on projected sales for that period, NHGC proposed a Rate Case Expense surcharge of \$0.0214 per therm. Exh. 2 at 8.

B. Staff

Staff stated 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 and that the 2003 Summer gas costs would be reconciled and reviewed during NHGC's 2004 Summer period COG proceeding.

Staff also recommended approval of the proposed Rate Case Expense surcharge and did not oppose NHGC's request to implement rates on a bills-rendered basis.

III. COMMISSION ANALYSIS

After review of the record in this docket, we find that NHGC's proposed COG rate and Rate Case Expense surcharge will result in just and reasonable rates. Accordingly, we accept and approve NHGC's proposed 2003 Summer COG rate, NHGC's rate case expenses of \$42,603, and the proposed Rate Case Expense surcharge.

We note NHGC's purchasing policies are consistent with past practice. We expect NHGC to continue monitoring the

propane markets and propose changes in purchasing strategies and pricing services if market conditions so merit.

N.H. Admin. Code Rule Puc 1203.05 provides in general that rate changes must be implemented on a service-rendered basis. 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 such issues as potential customer confusion, implementation costs, the matching of revenue with expenses and the objective of adequate customer notice. In that regard, NHGC asserted that its customers would be less confused by being billed on a bills rendered basis and that NHGC's current billing system would have to be replaced, at a substantial cost, to allow for service-rendered billing. 4/8/03 Tr. at 13 lines 4-13. We find these contentions persuasive and, accordingly, grant NHGC's request for a waiver of the requirement that rate changes be implemented on a service-rendered basis.

Based on the results of the Staff Audit, we approve recovery of \$42,603 of rate case expenses related to Docket No. DG 02-003 for which NHGC is seeking recovery. As revenues from the Rate Case Expense surcharge are recovered through their sales, the outstanding balance to be recovered over the remaining term of the surcharge will change and may necessitate

a revision to the surcharge. Therefore, we approve the proposed Rate Case Expense surcharge at this time, but will require NHGC to provide semi-annual reconciliations to be submitted with its COG filings, and for NHGC to file a revised surcharge if so merited.

Based upon the foregoing, it is hereby

ORDERED, that NHGC's proposed Summer COG rate of \$0.8124 per therm for the period May 1, 2003 through October 31, 2003 is APPROVED effective for bills rendered on or after May 1, 2003; and it is

FURTHER ORDERED, that NHGC's rate case expense of \$42,603 incurred in Docket No. DG 02-003 and requested for recovery are APPROVED; and it is

FURTHER ORDERED, that NHGC's proposed Rate Case Expense surcharge of \$0.0214 per therm for the period May 1, 2003 through October 31, 2005 is APPROVED effective for bills rendered on or after May 1, 2003; and it is

FURTHER ORDERED, that NHGC will reconcile the approved rate case expenses and revenues prior to each COG proceeding and file the reconciliation schedule in its COG filings; and it is

FURTHER ORDERED, that NHGC may, without further Commission action, adjust the approved Summer COG rate of \$0.8124 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; 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 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. Code Rules, Puc 1603.

By order of the Public Utilities Commission of New
Hampshire this twenty-fifth day of April, 2003.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary