

DG 04-035

NORTHERN UTILITIES, INC.

2004 Summer Cost of Gas

**Order Approving Cost of Gas and
Local Distribution Adjustment Clause Rates**

ORDER NO. 24,315

April 30, 2004

APPEARANCES: Patricia French, Esq., on behalf of Northern Utilities, Inc., and Marcia A.B. Thunberg, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On March 12, 2004, Northern Utilities, Inc. (Northern) filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) filing for the period May 1, 2004, through October 31, 2004, for Northern's natural gas operations in the Seacoast area of New Hampshire. The filing was accompanied by supporting attachments and the direct testimony of Joseph A. Ferro, Manager of Regulatory Policy. On April 16, 2004, Northern filed a revised 2004 Summer COG with supporting attachments.

An Order of Notice was issued on March 22, 2004. A duly noticed hearing on the merits was held at the Commission on April 20, 2004 before Edward N. Damon, Hearings Examiner. There were no intervenors in this docket. Mr. Damon submitted a report on the hearing to the Commission on April 27, 2004.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern witness Joseph A. Ferro testified as to the following issues: 1) calculation of the COG and impact on customer bills; 2) reasons for the 2003 Summer COG under-collection; and 3) increase in the LDAC rate.

1. Calculation and Impact of the Firm Sales COG Rate

Mr. Ferro testified that the proposed 2004 Summer average cost of gas (residential firm sales rate) of \$0.8192 per therm is comprised of anticipated direct gas costs, indirect gas costs and various adjustments. Anticipated direct gas costs totaling \$8,796,805 are increased by indirect costs (working capital, bad debt and overhead) of \$86,363, a prior period under-collection of \$293,885 and related interest of \$6,536 to bring the total gas costs to be recovered over the 2004 summer period to \$9,183,589. The gas costs for recovery over the upcoming summer period are divided by projected sales of 11,209,868 therms (based on 2003 summer normalized sales and projected sales growth) to arrive at the average cost of gas rate.

Northern's proposed 2004 Summer residential COG rate of \$0.8192 per therm is an increase of \$0.1145 per therm from the 2003 Summer weighted firm sales COG rate of \$0.7047 per therm.

The impact of the proposed firm sales COG rate and changes in the LDAC rate is an increase in the typical residential heating customer's summer gas costs of approximately \$39, a 9.56% increase over last summer. Last summer, the typical residential heating customer's total gas bill was \$412. For the 2004 summer gas period of May through October, Northern estimates the typical residential heating customer will spend approximately \$451.

2. Reasons for 2003 Summer Under-Collection

Using the monthly adjustment mechanism that allows Northern to adjust COG rates within 20% of the approved rate without submitting a revised rate filing, as approved by the Commission in Order No. 24,161 (April 25, 2003), Northern adjusted its 2003 summer COG rates to reflect changes in the natural gas commodity prices and reduce projected over- or under-recoveries.

Mr. Ferro stated that the last opportunity to make a monthly adjustment in the summer rates is for the month of October, based on the projected over- or under-collection as filed in the September monthly COG report. Mr. Ferro noted that the September report included cost and usage estimates for the final two months of the period and, consequently, one would expect a variance between the projected over- or under-collection as reported in September and that determined through the final reconciliation of actual costs and revenues for the period. Although it is virtually impossible to eliminate any over- or under-collection, the monthly adjustment mechanism is an effective tool for matching period gas costs and revenues.

Northern's final reconciliation of its 2003 summer gas costs determined an under-collection of approximately \$294,000 for the 2003 summer period, accounting for approximately 3% of the costs to be recovered through the proposed 2004 summer COG rate.

3. Decrease in the LDAC Rate

Commission Order No. 24,267 (January 30, 2004) approved Northern's revised 2003/2004 LDAC rates effective February 1, 2004. The approved Rate Case Expense (RCE) surcharge of \$0.0130 per therm is set to expire April 30, 2004, and is projected to result in a \$23,972 under-collection. In addition to that projected under-collection are remaining balances from rate case expenses approved for recovery through surcharges that are no longer in effect: 1) Northern's Customer Choice Expense¹ surcharge expired October 31, 2003 with an under-collection of \$4,105 and; 2) Northern's Rate Redesign Rate Case Expense² surcharge expired April 30, 2002 with an under-collection of \$55,361. These balances have been carried forward with interest. Combining the outstanding balances and recovering the net amount over the 2004

¹ Order No. 23,820 in Docket No. DG 98-124.

² Order No. 23,691 in Docket No. DG 00-046.

summer period will result in a \$0.0068 per therm surcharge, a \$0.0062 per therm decrease from the current RCE surcharge of \$0.0130 per therm.

B. Staff

Staff recommended approval of Northern's proposed COG rates, based on an audit of last summer's gas costs and a thorough review of the filing. Staff noted that the demand and supply planning is consistent with what has been filed in previous years and approved by the Commission, and that customers are protected by the COG reconciliation, through which actual gas costs and revenues are reconciled and reviewed in the subsequent COG period.

III. REPORT OF THE HEARINGS EXAMINER

The Hearings Examiner reviewed the filings and supporting testimony presented at the April 20, 2004 hearing and recommends that the Commission approve Northern's proposed COG and LDAC rates.

IV. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that Northern's proposed COG and LDAC rates will result in just and reasonable rates. Accordingly, we accept and approve Northern's proposed 2004 Summer COG and LDAC rates. We also support both Staff and Northern, in their combined efforts to standardize, where possible, the various cost of gas exhibits and schedules included in these filings.

Based upon the foregoing, it is hereby

ORDERED, that Northern's proposed 2004 Summer COG per therm rates for the period of May 1, 2004 through October 31, 2004 are APPROVED effective for service rendered on or after May 1, 2004 as follows:

	Cost of Gas	Minimum COG	Maximum COG
Residential	\$0.8192	\$0.6554	\$0.9831
C&I, low winter use	\$0.7566	\$0.6053	\$0.9079
C&I, high winter use	\$0.8674	\$0.6939	\$1.0409

FURTHER ORDERED, that Northern may, without further Commission action, adjust the approved COG rates upward or downward monthly based on Northern's calculation of the projected over- or under-collection for the period, but the cumulative adjustments shall not exceed twenty percent (20%) of the approved unit cost of gas, i.e., the minimum and maximum rates as set above; and it is

FURTHER ORDERED, that Northern shall provide the Commission with its monthly calculation of the projected over- or under-calculation, along with the resulting revised COG rates for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. Northern shall include a revised tariff pages 38 & 39 - Calculation of Cost of Gas Adjustment and revised rate schedules if Northern elects to adjust the COG rates; and it is

FURTHER ORDERED, that as a supplement to the monthly over- or under-calculation, Northern shall include the transportation customer class data in the format provided by Staff; and it is

FURTHER ORDERED, that the over- or under-collection shall accrue interest at the Prime Rate reported in the *Wall Street Journal*. The rate is to be adjusted each quarter using the rate reported on the first date of the month preceding the first month of the quarter; and it is

FURTHER ORDERED, that Northern's proposed 2004 Local Distribution Adjustment Clause per therm rates for the period May 1, 2004 through October 31, 2004, are **APPROVED** effective for service rendered on or after May 1, 2004 as follows:

	Energy Effic.	Envir. Remed. Costs	Wells Exit Fee	Rate Case Expense	LDAC
Residential Heating	\$0.0168	\$0.0086	\$0.0063	\$0.0068	\$0.0385
Residential Non-heating	\$0.0168	\$0.0086	\$0.0063	\$0.0068	\$0.0385
Small C&I	\$0.0194	\$0.0086	\$0.0063	\$0.0068	\$0.0411
Medium C&I	\$0.0194	\$0.0086	\$0.0063	\$0.0068	\$0.0411
Large C&I	\$0.0194	\$0.0086	\$0.0063	\$0.0068	\$0.0411

FURTHER ORDERED, that Northern 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 thirtieth day of April, 2004.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Graham J. Morrison
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary