DG 05-144

NEW HAMPSHIRE GAS CORPORATION

Amendment to Fixed Price Option Program

Order *Nisi* Approving Revised Fixed Price Option Program

O R D E R N O. 24,516

September 19, 2005

I. BACKGROUND

On September 9, 2005, New Hampshire Gas Corporation (NHGC), a public utility engaged in the business of distributing propane-air in Keene, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) a petition to modify its Fixed Price Option (FPO) Program. NHGC's filing included the direct testimony and supporting attachments of Karen L. Zink, Treasurer of NHGC.

On September 16, 2005, Commission Staff (Staff) filed a memorandum with the Commission explaining and confirming its support for the revised FPO, but recommending that the proposed premium used in setting the FPO rate be increased from $0.01 per therm to $0.02 per therm. The memorandum included NHGC's responses to Staff Data Requests propounded through discovery. The memorandum recites the support of the Office of the Consumer Advocate (OCA) for the revised FPO Program, as proposed to be modified by Staff, and NHGC's support of Staff's proposed modification.

NHGC implemented an FPO Program in 2000 designed to provide a set price during the winter season for customers seeking price certainty. *New Hampshire Gas Corporation*, 85 NH PUC 329 (2000). The original FPO plan was modified in 2001, to expand

the program and change the FPO rate calculation methodology. *New Hampshire Gas Corporation*, 86 NH PUC 566 (2001).

The FPO rate calculation was originally based on propane prices that had been locked-in with suppliers prior to the winter period. The FPO Program was favorably received and in the winter of 2000-2001 customer demand exceeded the supplies available under the program, in spite of the fact that the FPO and proposed COG rates were almost identical for the year. A number of the customers that had applied for the program were unable to participate.

In order to address the concerns that propane price volatility might lead to a significant divergence between the rate options and that the volumes available under the FPO Program were inadequate to meet Program demand, the Commission approved (i) an FPO rate calculation methodology that moved away from a strictly cost-based rate to one pegged to the COG rate (the FPO rate to be no less than 95% of the proposed COG rate) and (ii) increased volumes available under the FPO Program. *Id*. In approving the current FPO rate calculation methodology, the Commission noted that the new methodology "…should result in FPO and COG rates that are closely linked and, therefore, customer participation will be determined by risk aversion rather than price differentials." *Id*. at 567.

As a result of the volatility in energy prices, in some years the FPO rate has been lower than the COG rate, leading to significant customer confusion and frustration. As propane prices have climbed to historic highs leading up to the 2005-2006 winter period, the percentage difference allowable under the current FPO rate methodology has resulted in a significant real dollar difference between the projected FPO and COG rates for this winter, with the projected

FPO rate being over four cents less. In addition, there has been increased publicity regarding the potential for further increases in the energy markets.

The proposed change in the FPO rate calculation methodology will result in more stable prices for the non-FPO participants. Currently, all pre-purchased propane volumes contracted for the Winter Period are allocated to the FPO program when calculating the FPO rate, while the COG rate is based on projected propane costs based solely on the futures prices posted on the New York Mercantile Exchange. The COG, therefore, is subject to considerable change. Under the amended FPO Program, allocation of pre-purchased volumes would be split between the FPO program and the COG, moderating somewhat the potential swings of the COG rate.

Under NHGC's proposal, as modified per Staff's recommendation and supported by NHGC and OCA, the revenue generated by the $0.02 premium included in the FPO rates will be credited to the COG and, depending on enrollment, has the potential to offset gas cost by more than $9,000. The proposed premium would be an additional cost per therm a customer would pay to obtain a firm price for the winter period and to help protect non-FPO participants from a potential under-recovery of gas costs from FPO customers. An under-recovery related to the FPO Program could occur if NHGC were forced to buy additional propane supplies at higher than projected market prices to serve FPO customers.

The amended FPO Program will simplify the FPO rate calculation as NHGC will no longer have to calculate the per therm cost of the FPO, compare that rate to the proposed COG rate and, if necessary, determine and apply the appropriate premium. In NHGC's response to Staff Data Request 1-3, NHGC states that amended FPO Program will eliminate much of the

customer confusion regarding FPO and COG winter pricing, which in the past has required NHGC employees to spend an extensive amount of time answering customer inquiries.

II. COMMISSION ANALYSIS

We continue to believe that an important component of any energy supply portfolio policy includes hedging risks against a sharp run-up in prices. NHGC's amended FPO Program appears to address that concern by including the pre-purchased propane supplies in calculating its winter COG rate, which should result in a more stable winter COG rate and provide greater price stability for all of NHGC's winter firm sales customers.

A $0.02 per therm premium is a reasonable charge to enable customers to eliminate the price risk inherent in the COG. During the past two years of the NHGC FPO Program, the premium has exceeded $0.05 per therm and customer enrollment has been for approximately 80% of the total available FPO volumes. Clearly, customers who desire price certainty are willing to pay a premium for that service. With a projected COG rate of over $1.40 per therm for the 2005-2006 winter period, a $0.02 premium represents less than 2% of the proposed COG rates.

Further, we note that the $0.02 per therm premium paid by FPO customers will reduce gas costs to be recovered through the COG rates. NHGC's response to Staff Data Request 1-5 indicates a potential reduction in gas costs of over $9,000 for the upcoming winter.

We anticipate that the amended FPO program will simplify the FPO rate calculation and reduce customer confusion regarding winter FPO and COG pricing. As it becomes easier for customers to understand the pricing, customers will be better able to evaluate the merits of the two price options and make a decision that best meets their needs.

For the above stated reasons, we approve the revised FPO Program that sets the FPO rate at $0.02 per therm above the initially proposed COG rate as filed in NHGC's winter COG. As has been the case in the past, the FPO Program should be closely monitored and the results reviewed and evaluated to serve as a basis for continuing and improving the Program. We direct NHGC to report the results of the FPO Program in its winter COG filings. Specifically, NHGC is to report participation levels, the cost incurred or savings realized by FPO program participants and revenues derived from the FPO premium. Such information will assist the Commission in evaluating the FPO Program and may also assist customers in deciding whether to participate.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, the proposed Fixed Price Option rate will be set at $0.02 per therm above the initially proposed Winter Cost of Gas rate in NHGC's annual Winter COG filing, to be filed on or before the first day of October; and it is

FURTHER ORDERED, that the Petitioner shall cause a copy of this Order *Nisi* to be published once in a newspaper of general circulation in that portion of the state where operations are conducted, such publication to be no later than September 23, 2005 and to be documented by affidavit filed with this office on or before September 29, 2005; and it is

FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than September 27, 2005 for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than September 29, 2005; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective October 1, 2005, unless the Petitioner fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

By order of the Public Utilities Commission of New Hampshire this nineteenth day of September, 2005.

Thomas B. Getz Chairman	Graham J. Morrison Commissioner	Michael D. Harrington Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary