

DG 00-040

NEW HAMPSHIRE GAS CORPORATION

Pilot Fixed Price Option Program

Order Approving Settlement Agreement

O R D E R N O. 23,457

May 2, 2000

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

I. PROCEDURAL HISTORY

On February 22, 2000, New Hampshire Gas Corporation (NHGC) filed with the New Hampshire Public Utilities Commission (Commission) a pilot Fixed Price Option Program (FPO) for the summer period, May 1, 2000 through October 31, 2000. NHGC's petition requests authority for NHGC to offer a set price to customers who elect to participate in the FPO based on propane prices which have been locked in ahead of time with NHGC's suppliers. The FPO will not guarantee lower prices than those available under the cost of gas. It will simply ensure a set price for the summer period to customers who desire price certainty. NHGC's filing was accompanied by the pre-filed testimony and supporting attachments of Mark A. Cole, General Manager.

By Order of Notice issued March 17, 2000, the Commission set deadlines for intervention requests and objections thereto, proposed a procedural schedule, and set a hearing on the merits for April 25, 2000. On March 22, 2000, in accordance with the procedural schedule, NHGC and the Staff of the Commission (Staff) held a technical session. No petitions to intervene were filed with the Commission.

On April 19, 2000, a Settlement Agreement (Agreement) was filed with the Commission. The Agreement is a result of Staff's review of NHGC's prefiled testimony, NHGC's responses during discovery, and the technical session held on March 22, 2000. A duly noticed hearing was held on April 25, 2000 at which time testimony supporting the Agreement was presented to the Commission.

II. SETTLEMENT AGREEMENT

The Settlement Agreement, dated April 19, 2000, is entered into by NHGC and Staff, representing the full participants in this docket with regard to NHGC's Fixed Price Option Program.

The Agreement is summarized as follows:

1. NHGC and Staff agree that NHGC shall establish a Pilot Fixed Price Option Program (FPO) for the winter period, November 1, 2000 - April 30, 2001.
2. The FPO would allow customers comprising up to 20% of NHGC's normal winter sendout to fix their cost of gas for

the applicable period. The customer's unit cost of gas under the FPO will not change for any reason during the applicable period.

3. NHGC shall establish two (2) FPO pools, one for commercial customers and one for residential customers. The total eligible quantities for the Pilot FPO shall be split among the residential and commercial pools based on their pro-rata Winter 1999-2000 cost of gas period therm sales. At the end of the enrollment period, NHGC customers who were put on a waiting list for one pool shall be enrolled for any unused quantities not used by the other pool.
4. Prior to September 30, 2000, NHGC shall fix the propane prices for the FPO and calculate the FPO cost of gas to be offered to customers enrolling in the FPO.
5. NHGC shall secure a minimum 20% of NHGC's expected design winter sendout as a hedge against colder than normal weather and company use and unaccounted for. The hedged gas not needed by FPO customers will be considered to be part of NHGC's overall portfolio and used to satisfy non-FPO customers.
6. NHGC may enter into derivative transactions consistent with its derivatives policy to pre-purchase propane for the FPO. Any transaction costs associated with such derivatives shall be included in the calculation of the FPO rate.
7. Commencing October 1, 2000 through October 21, 2000, NHGC's customers will be allowed to enroll on a first come first served basis in the FPO to begin November 1, 2000. NHGC shall accept enrollments during that period until the total expected winter period usage of all participants meets 20% of NHGC's expected winter load.
8. In the initial winter period in which the FPO is effective, the price under the FPO shall include the prior winter over/under collection.
9. Any administrative and accounting costs associated with the FPO shall be treated as general operations and maintenance expense and will not be recovered through the Cost of Gas.
10. NHGC agrees to amend its Tariff NHPUC No. 1 - Gas 2nd Revised Page 17 to reflect the availability of the FPO.

11. NHGC agrees to notify its customers, via a separate mailing, regarding the availability of the FPO program.

III. COMMISSION ANALYSIS

After careful review of the Settlement Agreement and the testimony and exhibits offered at the April 25, 2000 hearing, we find that the Settlement Agreement is reasonable and that the proposed pilot Fixed Price Option Program is in the public interest.

The FPO is consistent with prior Commission orders that directed gas utilities in New Hampshire to mitigate price volatility at a minimal cost. Order No. 22,006, *Re Northern Utilities, Inc. - New Hampshire Division* 81 NHPUC 76 (1996) and Order No. 22,079, *Re EnergyNorth Natural Gas, Inc.* 81 NHPUC 233 (1996). The FPO will eliminate price fluctuations due to the volatility of propane prices for customers who choose to participate. The FPO is similar to fixed price plans offered in the competitive market by oil and propane dealers, as well as natural gas marketers, that ensure a set price for the winter period to customers who desire price certainty.

NHGC testified at the hearing that the use of derivatives to fix the cost of the propane to be offered through the FPO is uncertain at this time. NHGC's prefiled

testimony indicates that due to the limited amount of volumes to be offered through the FPO, the limited potential use of NYMEX (New York Mercantile Exchange) futures makes this an option that NHGC would not utilize at this time. However, NHGC stated that any premiums or other costs of the derivatives, should they be used to purchase volumes for the FPO, would be included in the calculation of the price offered through the FPO. We agree that any costs directly attributable to the purchase of propane for the FPO should be used in the calculation of the FPO price.

With the change in the cost of gas mechanism by Order No. 23,017, *Re Keene Gas Corporation* 83 NHPUC 474 (1998) and Order No. 23,055, *Re Keene Gas Corporation* 83 NHPUC 608 (1998), which permit monthly changes to the COG rate to more accurately reflect market prices, the FPO offers an alternative to customers who do not want to be subject to the volatility of market prices. Enrollment in the FPO will commence October 1, 2000, coincident with NHGC's filing of its winter 2000/2001 cost of gas petition, thereby enabling customers to better evaluate their pricing alternatives. The availability of two pricing options will allow firm sales COG customers to decide the level of price risk they wish to tolerate while providing better price signals to the

marketplace.

We agree that as an initial offering the FPO should be limited and we believe that twenty percent (20%) of the 1999/2000 weather normalized winter period therm sales is a reasonable amount to be offered for the coming winter. If the FPO is undersubscribed, the supplies purchased will be deemed to be additional volumes hedged for the firm sales COG customers. The offering of separate pools, i.e., residential and commercial, for entitlement to propane purchases under the FPO ensure that commercial customers will not dominate the volumes available.

The FPO should be treated as a pilot or test for the 2000/2001 winter period. The FPO should be closely monitored and the results reviewed and evaluated to serve as a basis for continuing and improving the plan going forward. NHGC testified that it will work with Staff to evaluate and modify, if necessary, the FPO should the program be offered in subsequent years.

The Agreement did not address how the over/undercollection associated with the FPO would be accounted for at the end of the winter 2000/2001 period. Given the pilot nature of the FPO, the treatment of this over/undercollection will be deferred and addressed in a subsequent proceeding.

Based upon the foregoing, it is hereby

ORDERED, that the Settlement Agreement entered into by NHGC and Staff is hereby APPROVED; and it is

FURTHER ORDERED, that NHGC is authorized to implement the pilot Fixed Price Option Program, in accordance with the modifications detailed in the Settlement Agreement, for the upcoming Winter 2000/2001 season.

By order of the Public Utilities Commission of New Hampshire this second day of May, 2000.

Douglas L. Patch
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary