DG 00-127

ENERGYNORTH NATURAL GAS, INC.

Revised 2000 Summer Cost of Gas Adjustment

Order Approving Revised Cost of Gas Adjustment and Tariffs

O R D E R N O. 23,513

June 23, 2000

APPEARANCES: McLane, Graf, Raulerson, and Middleton by Steven V. Camerino, Esq., on behalf of EnergyNorth Natural Gas, Inc. and Larry S. Eckhaus, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On May 31, 2000, EnergyNorth Natural Gas, Inc. (ENGI), a public utility engaged in the business of distributing natural gas in 29 cities and towns in southern and central New Hampshire and the City of Berlin in northern New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) a revised Cost of Gas (COG) for the 2000 summer period. Accompanying its Revised COG filing was a Motion for Protective Order and Confidential Treatment, which was granted by Commission Order No. 23,503 (June 5, 2000). ENGI's filing included the direct joint testimony and supporting attachments of Mark G. Savoie, Manager of Regulatory Affairs, and Donald E. Carroll, Vice President of Gas Supply.

An Order of Notice was issued on June 2, 2000. ENGI informed customers of the impending change by publishing a copy of the Order of Notice in the *Union Leader* on June 7, 2000.

There were no intervenors in this docket. A duly noticed hearing on the merits was held at the Commission on June 16, 2000.

II. POSITIONS OF THE PARTIES AND STAFF

EnergyNorth Natural Gas, Inc.

ENGI witnesses addressed the following issues: a) the projected undercollection; b) calculation of the revised COG rate and the impact on customer bills; and c) factors contributing to the increased rate.

A. Projected Undercollection

The mid-course increase was deemed necessary to reduce a projected substantial undercollection, based on actual and projected gas costs.

On April 24, 2000, ENGI filed its monthly calculation of its projected over or under recovery, forecasting an undercollection of $976,000, and elected to adjust the COG rate to the maximum 10% allowable without a filing. With the increase, effective May 1, 2000, ENGI projected to eliminate all but $85,000 of the estimated undercollection.

At the end of May, the projected undercollection had increased to $779,000 and ENGI filed a Revised 2000 Summer COG on May 31, 2000.

B. Calculation and Customer Impact of the Revised COG

The filing proposed a Revised 2000 Summer COG rate of $0.5090 per therm (allowing for monthly, cumulative adjustments not to exceed a maximum rate of $0.5599 per therm and a minimum rate of $0.4581 per therm), an increase of $0.1004 per therm over the approved 2000 Summer COG rate of $0.4086 per therm.

The proposed Revised 2000 Summer COG rate of $0.5090 per therm was calculated by using the actual gas costs and revenues for April and May 2000, preliminary costs for June 2000, and the weighted average cost of natural gas based on natural gas futures prices for the months of August, September, and October 2000.

The estimated impact on an average residential heating customer of the proposed revised firm sales COG rate of $0.5090 per therm is an average monthly increase of approximately $2.91 (7.8%) over an average monthly bill calculated at the $0.4495 per therm rate currently in effect.

C. Factors Contributing to the Increased COG

Two factors are primarily responsible for the Revised 2000 Summer COG filing: a large undercollection due to a warmer than normal March and an increase in actual and projected gas costs.

ENGI experienced an exceptionally warm March, 17% warmer than normal, resulting in substantially lower than forecast sales for April. Mr. Savoie explained that April sales are based on meter readings that include a significant portion of March usage, while April costs are based on expenses incurred during the month of April. The lower March usage resulted in lower than projected April revenues without a corresponding decrease in summer costs, resulting in an undercollection of approximately $1 million.

At the same time, gas costs climbed steadily, ultimately reaching historical highs in May. Mr. Savoie attributed the increase to four factors: 1) low storage levels as compared to the five-year average; 2) forecasters’ predictions of a hot summer; 3) increased demand for natural gas for power generation; and 4) a perceived imbalance between supply and demand.

While a change in any of these factors may precipitate a sharp decline in the price of natural gas, ENGI expects the current prices to hold over the next few months.

Staff

Staff did not object to the implementation of the proposed revised COG rate, as the filing was consistent with prior filings and gas costs will be reconciled and reviewed as part of the 2001 Summer COG filing.

Staff did express concerns regarding the run-up in gas costs and the pass-through of those costs without some type of mechanism to act as an incentive to assure those costs are kept to a minimum; the results of the cost estimates; and the lack of rate stability under the current COG mechanism.

Staff stated the opinion that the current docket was not the appropriate one in which to address its stated concerns with the COG mechanism, but that Staff would seek to do so either in the current pending rate redesign proceeding, Docket DG 00-063, or a future proceeding.

III. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that ENGI's proposed Revised 2000 Summer COG rate will result in just and reasonable rates and, therefore, we will approve the rates for effect July 1, 2000.

We share Staff's concern with the sharp increases in gas prices. We recognize that gas utilities have an interest in keeping gas costs down, as the competition for energy customers between gas, oil, and propane companies often comes down to price. Nonetheless, we feel it is appropriate for Staff and ENGI to review the current COG mechanism and to develop and evaluate possible alternative mechanisms that may serve to reduce the cost to customers and help stabilize rates.

The increase in gas-fired generation plants and the attendant increase in the summer demand for natural gas have contributed to higher volatility in prices for natural gas. While ENGI has previously introduced hedging and a fixed price program for winter customers, it may be time to consider similar programs for the summer period also.

In the current energy market with sharply increasing prices at record highs, customers should be made aware of this increase through every reasonable means. The Company should also make its customers aware that under the COG mechanism, gas costs are passed through to ratepayers on a dollar-for-dollar basis and, therefore, the gas utilities derive no profit from the increase in the COG rate. Accordingly, we direct ENGI and Staff to work together in designing an appropriate method to inform and educate customers regarding the COG rate increase.

Lastly, by enabling ENGI to pass along this increase in gas costs and allowing it to make monthly upward and downward adjustments to pass along future fluctuations, ENGI is better able to eliminate possible inter-period subsidies among customers by minimizing the over and under collections and associated carrying costs.

Based upon the foregoing, it is hereby

ORDERED, that ENGI's Seventh Revised Page 20 Superseding Sixth Revised Page 20, N.H.P.U.C. tariff of EnergyNorth Natural Gas, Inc. providing for a Revised 2000 Summer Cost of Gas rate of $0.5090 per therm for the period July 1, 2000 through October 31, 2000 is hereby APPROVED; 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 date of the month preceding the first month of the quarter; and it is

FURTHER ORDERED, that ENGI may, without further Commission action, adjust the approved revised COG rate of $0.5090 per therm upward or downward monthly based on ENGI's calculation of the projected over or undercollection for the period, but the cumulative adjustments shall not vary more than ten percent (10%) from the approved unit cost of gas (or $0.0509) per therm and can not change more than ten percent (10%) in any given month; and it is

FURTHER ORDERED, that ENGI 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. ENGI shall include a revised tariff page 20 - Calculation of Firm Sales Cost of Gas Rate and revised firm rate schedules if ENGI elects to adjust the COG rate; and it is

FURTHER ORDERED, that ENGI shall file its reconciliation of the prior period under/over collection no later than June 30 for the winter period and January 31 for the summer period; and it is

FURTHER ORDERED, that ENGI 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 twenty-third day of June, 2000.

Douglas L. Patch Chairman	Susan S. Geiger Commissioner	Nancy Brockway Commissioner

Attested by:

Claire D. DiCicco
Assistant Secretary