

DG 00-131

NORTHERN UTILITIES, INC.

Revised 2000 Summer Cost of Gas Adjustment

Order Approving Revised Cost of Gas Adjustment  
and Tariffs

O R D E R N O. 23,514

June 23, 2000

**APPEARANCES:** Rubin & Rudman, L.L.P., by Frank Pozniak, Esq., on behalf of Northern Utilities, Inc. and Larry S. Eckhaus, Esq., for the Staff of the New Hampshire Public Utilities Commission.

**I. PROCEDURAL HISTORY**

On June 5, 2000, Northern Utilities, Inc. (Northern) filed with the New Hampshire Public Utilities Commission (Commission) a Revised 2000 Summer Cost of Gas (COG) for the period July 1, 2000 through October 31, 2000 for Northern's natural gas operations in the Seacoast area of New Hampshire. The filing included a cover letter and supporting attachments.

An Order of Notice was issued on June 6, 2000. Northern informed customers of the impending rate change by publishing a copy of the Order of Notice in the *Foster's Daily Democrat*, *Union Leader*, *Portsmouth Herald* and *Eagle-Tribune*.

There were no intervenors in this docket. A duly noticed hearing on the merits was held at the Commission on June 20, 2000.

**II. POSITIONS OF THE PARTIES AND STAFF****Northern Utilities, Inc.**

Northern's witnesses Marjorie H. Izzo, Manager of Rate Administration, and Francisco C. DaFonte, Director of Gas Control, addressed the following issues: a) the projected undercollection; b) calculation of the COG rate and the impact on customer bills; and c) factors contributing to the increased COG 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 May 26, 2000, Northern filed its monthly calculation of its projected over or under recovery, forecasting an undercollection of \$827,058, and elected to adjust the COG rate to the maximum 10% allowable without a filing. With the increase, effective June 1, 2000, the projected undercollection was reduced to \$362,917 (7% of projected summer gas costs).

As of May 31, 2000, the projected undercollection had increased to \$721,387 and Northern filed a Revised 2000 Summer COG on June 5, 2000.

**b. Calculation and Rate Impact of the Proposed COG Rate**

The filing proposed a Revised 2000 Summer COG rate of

\$0.6384 per therm (allowing for monthly, cumulative adjustments not to exceed a maximum rate of \$0.7023 per therm and a minimum rate of \$0.5746 per therm), an increase of \$0.1621 per therm over the approved 2000 Summer COG rate of \$0.4763 per therm.

The proposed Revised 2000 Summer COG rate of \$0.6384 per therm was calculated by using preliminary gas costs for May 2000 and the weighted average cost of natural gas based on natural gas futures prices for the months of June through October 2000.

The estimated impact on an average residential heating customer of the proposed revised firm sales COG rate of \$0.6384 per therm is an average monthly increase of approximately \$2.29 (10.3%) over an average monthly bill calculated at the \$0.5341 per therm rate currently in effect.

**c. Factors Contributing to the Increased COG**

The only change made in the proposed Revised 2000 Summer COG filing from the approved 2000 Summer COG filing was to update the natural gas prices using preliminary prices for May and futures prices as quoted on the New York Mercantile Exchange (NYMEX) for the remaining summer months. The increase in the COG rate is due entirely to changes in actual and projected natural gas prices for the period.

Mr. DaFonte attributed the natural gas price increase to a change in the supply and demand balance. Mr. DaFonte testified that

demand is up due to lower than average natural gas storage levels coming out of the winter period and an increase in the use of natural gas for power generation. Gas supplies have not caught up with the increased demand. It has been difficult for producers to meet the increased demand for natural gas in the short term, but strong prices have acted as a catalyst in the drilling of new wells which may precipitate a decline in prices, although not until some time after the summer period.

**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 00-046, *Northern Utilities, Inc.*, or a future proceeding.

**III. COMMISSION ANALYSIS**

After careful review of the record in this docket, we find that Northern'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 Northern 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. By Order No. 23,330 (October 29, 1999) in Docket No. DG 99-130, we directed Northern to investigate the implementation of a fixed price program for the 2000/2001 winter period and recommended Northern review its hedging policies, with consideration given to the use of financial instruments to hedge gas supplies. As part of that analysis, Northern should also consider similar programs for the summer period as well.

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 Northern and Staff to work together in designing an appropriate method to inform and educate customers regarding the COG rate increase.

Lastly, by enabling Northern to pass along this increase in gas costs and allowing it to make monthly upward and downward adjustments to pass along future fluctuations, Northern 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 Northern's Thirty-second Revised Page 32, Sheet No. 1, and Thirty-first Revised Page 32, Sheet No. 2, respectively, N.H.P.U.C. tariff of Northern Utilities, Inc. - New Hampshire Division, providing for a Revised Summer COG rate of \$0.6384 per therm for the period of July 1, 2000 through October 31, 2000, is APPROVED, effective for bills rendered on or after July 1, 2000; and it is

**FURTHER ORDERED,** that Northern may, without further Commission action, adjust the approved COG rate 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 ten percent (10%) of the approved unit cost of gas (or \$0.0639 per therm) and can not change more than ten percent (10%) in any given month; 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 rate 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 page 32 - Calculation of Cost of Gas and revised rate schedules if Northern elects to adjust the COG rate; 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 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 twenty-third day of June, 2000.

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Douglas L. Patch  
Chairman

Susan S. Geiger  
Commissioner

Nancy Brockway  
Commissioner

Attested by:

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Claire D. DiCicco  
Assistant Secretary