

DG 00-126

NEW HAMPSHIRE GAS CORPORATION

Revised 2000 Summer Cost of Gas Adjustment

**Order Approving Revised Cost of Gas Adjustment
and Tariffs**

O R D E R N O. 23,517

June 29, 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 June 1, 2000, 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 revised Cost of Gas (COG) for the period July 1, 2000 through October 31, 2000. NHGC's filing was accompanied by the pre-filed testimony and supporting attachments of John F. DiBernardo, Assistant General Manager for NHGC.

An Order of Notice was issued setting a hearing for June 16, 2000. NHGC informed customers of the impending change by publishing a copy of the Order of Notice in the *Keene Sentinel* on June 5, 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 NEW HAMPSHIRE GAS CORPORATION AND STAFF

New Hampshire Gas Corporation

NHGC's witnesses Mark A. Cole, General Manager, and John F. DiBernardo, Assistant General Manager, 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 propane costs.

On May 24, 2000, NHGC filed its monthly calculation of its projected over or under recovery, forecasting an undercollection of \$28,122, 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 \$14,942 (7.7% of projected summer propane costs).

As of May 31, 2000, the projected undercollection had increased to \$17,868 and NHGC filed a Revised 2000 Summer COG on June 1, 2000.

B. Calculation and Rate Impact of the Proposed COG Rate

The filing proposed a Revised 2000 Summer COG rate of \$0.9535 per therm (allowing for monthly, cumulative adjustments not to exceed a maximum rate of \$1.0488 per therm and a minimum rate of

\$0.8581 per therm), an increase of \$0.2063 per therm over the approved 2000 Summer COG rate of \$0.7472 per therm.

The proposed Revised 2000 Summer COG rate of \$0.9535 per therm was calculated by using preliminary propane costs for May 2000 and the weighted average cost of propane based on propane 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 \$0.9535 per therm is a monthly increase of approximately \$4.13 (13.5%) over an average monthly bill calculated at \$0.7472 per therm, the approved summer rate per Order No. 23,448 (April 28, 2000).

C. Factors Contributing to the Increased COG

The only changes made in the proposed Revised 2000 Summer COG filing from the approved 2000 Summer COG filing were to use actual customer usage for the month of May and to update the propane 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 almost entirely to changes in actual and projected propane prices for the period.

Mr. Cole explained that propane is a by-product of both oil and, to an extent, natural gas. As oil prices escalate, propane prices tend to escalate as well. NHGC expects propane prices to track oil prices and, therefore, remain at current price levels for

the near term.

Staff

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

Staff did express concerns regarding: the run-up in propane 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 review the mechanism in a future proceeding.

III. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that NHGC'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 propane prices. We recognize that NHGC has an interest in keeping propane costs down, as the competition for energy customers between

oil and propane companies often comes down to price. Nonetheless, we feel it is appropriate for Staff and NHGC to review the current COG mechanism and to evaluate and develop possible alternative mechanisms that may serve to reduce the cost to customers and help stabilize rates.

During the summers of 1999 and 2000, propane prices have increased dramatically, to the extent that NHGC has been forced to file revised COGs in each of those periods to avoid projected substantial undercollections. By Order No. 23,457 (May 2, 2000) in Docket No. DG 00-040, we approved NHGC's proposed fixed price program for the 2000/2001 winter period. Given the increased volatility in summer propane prices, NHGC should consider a similar program for the summer period. NHGC should also review its hedging policies, with consideration given to the use of financial instruments to hedge propane supplies throughout the year.

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

regarding the COG rate increase.

Lastly, by enabling NHGC to pass along this increase in propane costs and allowing it to make monthly upward and downward adjustments to pass along future fluctuations, NHGC 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 NHGC's 7th Revised Page 25 - Calculation of the Cost of Gas, providing for a Revised Summer COG rate of \$0.9535 per therm for the period 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 NHGC may, without further Commission action, adjust the approved Revised Summer COG rate of \$0.9535 per therm upward or downward monthly based on NHGC's calculation of the projected over or under-collection for the period, but the cumulative adjustments shall not vary more than ten percent (10%) from the approved unit cost of gas (or \$0.0954 per therm) and can not change more than ten percent (10%) in any given month; and it is

FURTHER ORDERED, that NHGC 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. NHGC shall include a revised tariff page 25 - Calculation of Cost of Gas and revised rate schedules if NHGC elects to adjust the COG rate; 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 business day of the month preceding the first month of the quarter; and it is

FURTHER ORDERED, that NHGC 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-ninth day of June, 2000.

Douglas L. Patch
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Claire D. DiCicco
Assistant Secretary