

DG 00-195

NORTHERN UTILITIES, INC. - PELHAM DIVISION

2000/2001 Winter Cost of Gas

Order Approving the Cost of Gas

O R D E R N O. 23,582

October 31, 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 September 15, 2000, Northern Utilities, Inc. (Northern) filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) rate for the period November 1, 2000 through April 30, 2001 for effect November 1, 2000. The filing was accompanied by a cover letter and supporting schedules of Kelly L. Mullen, Pricing Analyst. The proposed 2000/2001 Winter COG rate is \$0.9365 per therm.

On October 12, 2000, Staff filed the Direct Testimony of Stephen P. Frink, Assistant Finance Director, recommending approval of the proposed COG rate and revising the mechanism that allows Northern to implement monthly changes without further Commission action, to provide Northern greater flexibility in making adjustments.

By Order of Notice issued September 20, 2000, the

Commission scheduled the date of the hearing for October 17, 2000 and set deadlines for intervention requests and objections thereto.

There were no Motions to Intervene filed. A duly noticed hearing on the merits was held on October 17, 2000.

POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern's witness Marjorie H. Izzo, Manager of Rates Administration, addressed the following issues: 1) calculation of the COG rate and the impact on customer bills; and 2) factors contributing to the increased rate.

1. Calculation and Rate Impact of the Proposed COG Rate

The proposed 2000/2001 Winter COG rate of \$0.9365 per therm was calculated by increasing the anticipated cost of gas of \$56,624 by the prior period under-collection of \$1,458 and related interest of \$107 and dividing the resulting anticipated costs of \$58,189 by projected therm sales of 62,134.

Northern's proposed 2000/2001 Winter COG rate of \$0.9365 per therm represents an increase of \$0.1879 per therm from the 1999/2000 average weighted Winter COG rate of \$0.7486 per therm.

The Pelham Division is made up of eighteen (18) commercial customers and the proposed COG rate of \$0.9365 per therm will increase the monthly bill of a customer consuming 200 therms by \$37.57 (17%) compared to last winter's bill.

2. Factors Contributing to the Increased COG

The increase in the proposed COG per therm price as compared to last winter's rate can be attributed almost entirely to the change in propane prices from last winter to this winter. Both the current and projected costs of propane are extremely high this year due to low inventories and limited supplies to meet market demand.

B. Staff

Staff testified that it had reviewed the filing and recommended approval of the proposed COG rate, noting that fuel purchasing for the period is consistent with prior periods.

Staff recommended that the mechanism which allows for a monthly adjustment without further Commission action be revised to allow changes upwards or downwards of 20% (currently 10%) from the approved COG rate, with no limitation on the amount of change within that range (currently there is a limit of no more than a 10% change in any given month).

Mr. Frink testified that the revised mechanism would enable Northern to better control over/under-recoveries and reduce the need for more time consuming and costly revised COG proceedings when propane costs vary substantially within the period. Mr. Frink explained that the COG is a reconciling

item and, therefore, the proposed changes to the mechanism would have no impact on the propane costs ultimately paid by Northern's customers, other than a reduction in related carrying costs.

II. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that Northern's proposed COG rate will result in a just and reasonable rate. Accordingly, we accept and approve Northern's proposed 2000/2001 Winter COG rate.

Allowing Northern greater flexibility to adjust the COG rate on a monthly basis without further Commission approval, as proposed by Staff and supported by Northern, will enable Northern to pass along increases or decreases in propane costs on a more timely basis. Accordingly, we approve the proposed change to the mechanism.

We recognize that a 20% increase in the COG rate, representing the total amount that gas costs would be allowed to fluctuate under the mechanism we are approving today, is substantial. The bill impact on an average customer of such an increase would be more limited, likely closer to 10%, when the customer charge and delivery rate are factored in to the total rate. While a 10% change in rates may be significant, in today's energy markets such fluctuations are,

unfortunately, not uncommon. Through experience, it is hoped that customers become more aware of the volatility of propane prices and, if adverse to price fluctuations, avail themselves of Northern's current budget program.

Based upon the foregoing, it is hereby

ORDERED, that Northern Utilities, Inc. - Pelham Division's proposed Winter COG rate of \$0.9365 per therm for the period November 1, 2000 through April 30, 2001, is APPROVED, effective for bills rendered on or after November 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 twenty percent (20%), or \$0.1873, of the approved unit cost of gas; and it is

FURTHER ORDERED, that Northern will 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 33 - 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 fifteen (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 thirty-first day of October, 2000.

Douglas L. Patch
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary