

DG 01-053

NORTHERN UTILITIES, INC.

2001 Summer Cost of Gas

Order Approving the Cost of Gas

O R D E R N O. 23,690

April 23, 2001

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

I. PROCEDURAL HISTORY

On March 15, 2001, Northern Utilities, Inc. (Northern) filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) for the period May 1, 2001 through October 31, 2001 for Northern's natural gas operations in the Seacoast area of New Hampshire. The filing was accompanied by supporting attachments and the Direct Testimony of Joseph A. Ferro, Manager of Regulatory Policy.

An Order of Notice was issued on March 21, 2001, setting the date of the hearing for April 12, 2001.

On April 9, 2001, Northern filed revised 2001 Summer COG tariff pages, pursuant to Commission Order No. 23,674 (April 12, 2001) in Docket DG 00-046, Northern Utilities, Inc. The revised tariff pages did not change the projected direct gas costs as contained in the original COG filing, but included indirect gas costs

and calculated a Residential Summer Season Cost of Gas Rate of \$0.6831 per therm, a Commercial & Industrial Summer Season Low Winter Cost of Gas Rate (C&I LWR) of \$0.6407 per therm and a Commercial and Industrial Summer Season High Winter Cost of Gas Rate (C&I HWR) of \$0.7346 per therm.

On April 4, 2001, the Office of the Consumer Advocate (OCA) filed a Notice of Intent to Participate in this docket on behalf of residential utility consumers pursuant to the powers and duties granted to the OCA under RSA 363:28, II. There were no other intervenors in this docket. A duly noticed hearing on the merits was held at the Commission on April 12, 2001.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern witness Joseph A. Ferro addressed the following issues: 1) calculation of the COG; 2) the impact on customer bills; and 3) factors contributing to the increased rate.

1. Calculation of the Proposed COG Rate

The proposed system average 2001 Summer COG rate of \$0.6831 per therm was calculated by taking projected direct gas costs, primarily commodity and transportation costs, of \$7,878,076 and adding indirect costs of \$277,402 and dividing the resulting anticipated period costs of \$8,155,478 by projected therm sales of

11,938,830.

The indirect costs include a prior period under collection of \$198,842 with related interest of \$2,922, which has traditionally been included in the calculation of the COG rate. Indirect gas costs that have traditionally been included in the delivery rate but have been removed from delivery rates and are in the 2001 Summer COG rate calculation include: working capital expense of \$19,695 related to gas purchase costs; bad debt expense of \$26,719 associated with gas costs; and administrative and general costs of \$29,224 associated with the gas supply function, such as salaries of the Gas Supply and Dispatch Departments and referred to as "miscellaneous overhead." Residential customers are charged the system average cost of gas rate.

The Commercial and Industrial COG rates were calculated by applying ratio factors to the system average summer cost of gas, the ratio factor being the relationship between the allocated cost of gas for low winter customers and high winter customers based on the test year used in Docket DG 00-046, Northern Utilities, Inc. The C&I LWR of \$0.6407 per therm was based on a ratio factor of .93922, or 93.833% and the C&I HWR of \$0.7346 per therm was based on a ratio factor of 1.07584, or 107.584%.

2. Rate Impact of the Proposed COG Rate

Northern's proposed 2001 Summer Residential COG rate of \$0.6831 per therm represents an increase of \$0.1391 per therm from the average weighted 2000 Summer COG rate of \$0.5440 per therm. A portion of the proposed summer rate, \$0.0061 per therm, is due to moving indirect gas costs from the delivery rate to the COG rate and, therefore, should have no impact on customer bills. A typical residential heating customer will experience a \$6.70, or 14%, increase in monthly bills over last summer, attributable to an increase in this summer's projected direct gas costs compared to last summer's actual direct gas costs.

We note that the typical residential heating customer will also experience a \$10.04, or 19%, increase in monthly summer bills due to the new rate redesign. The rate redesign anticipated an annual increase of 6.9% for the typical residential heating customer, comprised of 16% in the summer and 4% in the winter. The reason why the summer increase is greater than the winter increase is because the base rates are now annualized and not seasonal. Residential customers no longer get a lower summer base rate and a higher winter base rate, but a single "delivery rate" throughout the year.

3. Factors Contributing to the Increased COG Rate

The increase in the proposed 2001 Summer COG rate, excluding indirect gas costs which were previously in base rates, is due almost exclusively to the increase in projected natural gas

prices. The projected increase in the commodity costs, based on New York Mercantile Exchange futures prices, account for a \$0.1100 per therm increase in the 2001 Summer COG rate compared to the 2000 Summer COG rate.

4. Waiver of N.H. Admin. Rule Puc 1203.05(b)

Northern made a verbal request for a waiver of N.H. Admin. Rule, Puc 1203.05(b), which requires that rate changes occurring as a result of a cost of gas adjustment proceeding be implemented on a bills rendered basis, to enable Northern to bill the new COG rates on a service rendered basis.

B. OCA

The OCA did not take a position with regard to Northern's filing.

C. Staff

Staff recommended approval of Northern's proposed COG rates, based on an audit of last summer's gas costs and a thorough review of the filing. Staff noted that Northern's Summer COG filing was consistent with its prior COG filings and that the actual 2001 Summer gas costs will be reconciled and reviewed during Northern's 2002 Summer COG proceeding.

Staff concurred with Northern's verbal request for a waiver of N.H. Admin. Rule, Puc 1203.05(b), to enable Northern to bill the new COG rates on a service rendered basis.

Staff also recommended that Northern explore various options that would allow for more timely customer notification when implementing monthly COG rate changes and implement those that could be done at a reasonable cost.

III. COMMISSION ANALYSIS

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

We share Staff's concern that customers are not receiving timely notice of monthly COG rate adjustments. Monthly changes are limited to 20% of the approved COG rates, without further Commission approval and public notice, and are implemented the first of each month. Customers learn of a monthly change through a message on the ensuing bill. Customers early in the billing cycle have the opportunity to respond to a monthly COG rate change, but those late in the billing cycle are not afforded the same opportunity. To enable all customers to respond to rate changes on a timely basis, we direct Northern to explore cost effective methods to provide notification to customers of monthly COG rate changes for implementation no later than the 2001/2002 Winter period.

Also, consistent with the COG rate change billing treatment recently approved by the majority for Northern in Docket DG 00-046, Northern Utilities, Inc., Order No. 23,674 (April 5, 2001), we waive the application of N.H. Admin. Rules, Puc 1203.05(b), which requires that rate changes occurring as a result of a cost of gas adjustment proceeding be implemented on a bills rendered basis. This waiver, pursuant to Puc 201.05, produces a result consistent with the principles embodied in Puc 1203.05(a), which states that all rate changes, with the exception described in (b), shall be implemented on the basis of service rendered on or after the effective date of the approved rate change.

Based upon the foregoing, it is hereby

ORDERED, that Northern's proposed 2001 Residential Summer COG rate of \$0.6831 per therm for the period of May 1, 2001 through October 31, 2001 is APPROVED effective for service rendered on or after May 1, 2001; and it is

FURTHER ORDERED, that Northern's proposed 2001 Commercial & Industrial Low Winter Summer COG rate of \$0.6407 per therm for the period of May 1, 2001 through October 31, 2001 is APPROVED effective for service rendered on or after May 1, 2001; and it is

FURTHER ORDERED, that Northern's proposed 2001 Commercial & Industrial High Winter Summer COG rate of \$0.7346 per therm for the period of May 1, 2001 through October 31, 2001 is APPROVED effective for service rendered on or after May 1, 2001; 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%) of the approved unit cost of gas; 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 the Commission waives N.H. Admin. Rules Puc 1203.05(b) and will allow Northern to implement its 2001 Summer COG rates on a service rendered basis; 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 April, 2001.

Douglas L. Patch
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary