

DG 02-178

NEW HAMPSHIRE GAS CORPORATION

Winter 2002-2003 Cost of Gas

Order Approving Cost of Gas Rates

O R D E R N O. 24,079

October 28, 2002

APPEARANCES: Ransmeier & Spellman by Dom S. D'Ambruoso, Esq., on behalf of New Hampshire Gas Corporation; and Marcia A.B. Thunberg, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On October 1, 2002, New Hampshire Gas Corporation (NHGC), a public utility engaged in the business of distributing gas in Keene, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) rate and Fixed Price Option (FPO) rate for the period November 1, 2002 through April 30, 2003. NHGC's filing was accompanied by the pre-filed testimony and supporting attachments of Mark A. Cole, General Manager for NHGC.

An Order of Notice was issued on October 3, 2002, setting a hearing for October 22, 2002. NHGC informed customers of the impending change by publishing a copy of the Order of Notice in the Keene Sentinel on October 6, 2002.

There were no intervenors in this docket. A duly noticed hearing on the merits was held at the Commission on October 22, 2002.

II. POSITIONS OF THE PARTIES AND STAFF

A. New Hampshire Gas Corporation

At the hearing, NHGC witness Mark A. Cole, general manager, addressed the following issues: 1) calculation of the COG rate and the impact on customer bills; 2) the fixed price option; 3) reasons contributing to the increased rate; 4) gas supply purchasing policies; and 5) changing the COG and FPO rates on a bills-rendered basis.

1. Calculation of the COG Rate and Customer Impact

The proposed 2002/2003 Winter COG rate of \$0.7374 per therm was calculated by increasing the anticipated cost of gas of \$263,407 by a prior period under-collection and related interest of \$8,032 and dividing the resulting anticipated costs of \$271,439 by projected therm sales of 368,095.

NHGC's proposed 2002/2003 Winter COG rate is \$0.7374 per therm, representing an increase of \$0.0878 per therm over the 2001/2002 average Winter COG rate of \$0.6496 per therm.

The increase in the Winter COG rate would cause an increase of \$110 (7.6%) in the winter gas costs of a typical residential heating customer.

2. Fixed Price Program

In Order No. 23,764, dated August 24, 2001, the Commission approved NHGC's FPO program for implementation during the 2001-2002 Winter COG period. Volumes to be offered under the program were set at fifty percent (50%) of weather normalized sales.

The proposed 2002/2003 Winter FPO rate was calculated in accordance with Order No. 23,764 and set at \$0.7038 per therm. The FPO rate is calculated by first determining the actual per therm cost of the FPO and then comparing it to the proposed COG rate. NHGC's tariff page 13th Revised Page 24, Superceding 12th Revised Page 24 demonstrates the FPO cost of \$0.6615 per therm was calculated by increasing the pre-purchased gas costs of \$235,446 by the prior period under-collection and related interest, which totaled \$8,032, and dividing the resulting costs of \$243,477 by projected therm sales of 368,095. The FPO per therm cost was then compared to the proposed COG rate and a risk premium added because the FPO rate was less than 105% of the proposed COG rate. A risk premium of \$0.0424 per therm was added to the per therm cost of FPO to bring the FPO rate to 95% of the proposed COG rate, the minimum rate allowable under the FPO plan.

NHGC will apply revenues generated from the risk premium against gas costs. In addition, any unsubscribed FPO supplies will be used to satisfy COG requirements. This will serve as a hedge against price fluctuations for the COG customers. NHGC stated the enrollment period has ended, and approximately one half of the 2002-2003 FPO supplies having been subscribed.

3. Factors Contributing to the Increased Rate

Mr. Cole explained that the projected gas costs for the upcoming winter period are similar to those used when calculating last winter's COG rate, but that there was a drop in propane costs during the winter which resulted in actual costs being below projected costs. Those savings were passed on to customers through monthly COG rate adjustments and resulted in lower average rates for the 2001-2002 winter than what had been forecast for last winter and average rates less than those forecast for this winter.

4. Gas Supply Purchasing Policies

Mr. Cole stated purchasing policies have not changed from previous years. NHGC has an Operating and Propane-air Sales Supply Agreement with Keene Gas Corporation (KGC). This arrangement has been in effect since NHGC acquired the utility franchise and distribution properties. KGC manufactures the

propane-air product which NHGC purchases for distribution and resale to its customers. Mr. Cole consults with the KGC purchasing agent regarding propane purchasing strategies. This year, at Mr. Cole's suggestion, the purchasing agent pre-bought substantial supplies earlier in the year at prices well below current futures prices. As a result, the FPO rate is lower than the proposed COG rate and the COG rate is lower than it would have been. In addition to pre-purchasing the required 50 percent of its winter load to satisfy the FPO requirements, NHGC purchased an additional 5 percent. These pre-purchases at low rates coupled by Mr. Cole's statement that one half of the FPO supplies went unsubscribed, means approximately 30 percent of the COG supplies for this winter are fixed. This will reduce rate volatility for COG customers.

5. Rate Changes on a Bills-Rendered Basis

At hearing, NHGC requested the Commission waive administrative rule Puc 1203.05(b), which requires rate changes be implemented on a service-rendered basis. Mr. Cole testified that NHGC customers are accustomed to being billed on a bills-rendered basis and that the current NHGC billing system would have to be replaced, at a substantial cost, to allow for service-rendered billing. Mr. Cole noted that he was unaware of any customer complaints regarding the bills-rendered basis of

customer billing.

B. Staff

Staff stated it had reviewed the filing and recommended approval of the proposed rates. Staff noted that fuel purchasing for the period is consistent with prior periods and that the 2002/2003 winter gas costs would be reconciled and reviewed during NHGC's 2003/2004 Winter period COG proceeding.

Staff further requested the Commission approve NHGC's request that the FPO and COG rate changes be made on a bills-rendered basis. Staff cited the lack of customer complaints as well as the increased cost to NHGC to switch to a service-rendered billing basis.

III. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that NHGC's proposed COG rate and FPO rate will result in just and reasonable rates pursuant to RSA 378:7. Accordingly, we accept and approve NHGC's winter filing.

We note NHGC's purchasing policies are consistent with past practice. However, we expect NHGC to continue monitoring the propane markets and propose changes in purchasing strategies and/or pricing services if market conditions so merit. We commend NHGC's efforts to secure pre-purchased quantities at low rates for this winter period.

Rule Puc 1203.05 provides that, in general, rate changes must be implemented on a service-rendered basis. However, subsection (c) of the rule specifically contemplates waivers of this requirement in appropriate circumstances, and requires utilities seeking to implement rate changes on a bills-rendered basis to address such issues as potential customer confusion, implementation costs, the matching of revenue with expenses and the objective of adequate customer notice. In that regard, NHGC asserted that its customers would be less confused by being billed on a bills rendered basis and that NHGC's current billing system would have to be replaced, at a substantial cost, to allow for service-rendered billing. We find these contentions persuasive and, accordingly, grant NHGC's request for a waiver of the requirement that rate changes be implemented on a service-rendered basis.

Based upon the foregoing, it is hereby

ORDERED, that NHGC's waiver of Administrative Rule Puc 1203.05 (b) is GRANTED; and it is

FURTHER ORDERED, that NHGC's proposed Winter COG rate of \$0.7374 per therm for the period November 1, 2002 through April 30, 2003 is APPROVED effective for bills-rendered on or after November 1, 2002; and it is

FURTHER ORDERED, that NHGC may, without further Commission action, adjust the approved Winter COG rate of \$0.7374 per therm upward or downward monthly based on NHGC's calculation of the projected over or under-collection for the period, but that the cumulative adjustments shall not vary more than twenty percent (20%) from the approved unit cost of gas (or \$0.1475 per therm); 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 24 - 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's proposed Winter FPO rate of \$0.7038 per therm for the period November 1, 2002 through April 30, 2003 is APPROVED effective for bills-rendered on or after November 1, 2002; 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-eighth day of October, 2002.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary