

DG 03-066

NORTHERN UTILITIES, INC.

2003 Summer Cost of Gas

Order Approving the Cost of Gas and
Local Distribution Adjustment Clause

O R D E R N O. 24,161

April 25, 2003

APPEARANCES: Rubin & Rudman, L.L.P., by Maribeth Ladd, Esq., on behalf of Northern Utilities, Inc.; Mr. Kenneth E. Traum on behalf of residential utility consumers; and Marcia A.B. Thunberg, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On March 14, 2003, Northern Utilities, Inc. (Northern) filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) for the period May 1, 2003, through October 31, 2003, 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 17, 2003, and a revised Order of Notice was issued April 2, 2003. On April 1, 2003, 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.

On April 7, 2003, Commission Staff (Staff) filed the testimony of James J. Cunningham, Jr., Utility Analyst III of the Gas and Water Division. On April 14, 2003, Northern filed a revised Cost of Gas for the 2003 Summer Period updating cost forecasts, correcting errors and incorporating changes agreed to by Northern and Staff during the discovery process.

A duly noticed hearing on the merits was held at the Commission on April 17, 2003.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern witness Joseph A. Ferro testified as to the following issues: 1) calculation of the COG and impact on customer bills; 2) reasons for the 2002 Summer COG under collection; 3) increase in the LDAC rate; and 4) treatment of energy efficiency development costs.

1. Calculation and Impact of the Firm Sales COG Rate

Mr. Ferro testified that the proposed 2003 Summer average cost of gas (residential firm sales rate) of \$0.7290 per therm is comprised of anticipated direct gas costs, indirect gas costs and various adjustments. Anticipated direct gas costs total \$8,588,908 and are off-set by a miscellaneous pipeline

refund of \$36,489 and increased by indirect costs (working capital, bad debt and overhead) of \$83,986, a prior period under collection of \$127,850 and related interest of \$4,035 to bring the total gas costs to be recovered over the 2003 summer period to \$8,768,289. The gas costs for recovery over the upcoming summer period are divided by projected sales of 12,027,512 therms (based on 2002 summer normalized sales and projected sales growth) to arrive at the average cost of gas rate.

Northern's proposed 2003 Summer Residential COG rate of \$0.7290 per therm is an increase of \$0.0987 per therm from the 2002 Summer weighted Firm Sales COG rate of \$0.6303 per therm.

The impact of the proposed firm sales rate and changes in the LDAC is an increase in the typical residential heating customer's summer gas costs of \$43, an 11.4% increase over last summer. Last summer, the typical residential heating customer's gas cost was \$377. For the 2003 summer gas period of May through October, Northern estimates the typical residential heating customer to spend approximately \$420. Exh. 2 at 25.

2. Reasons for 2002 Summer Under Collection

Using the monthly adjustment mechanism that allows Northern to adjust COG rates within 20% of the approved rate without submitting a revised rate filing, as approved by the

Commission in Order No. 23,957 (April 30, 2002), Northern reduced its 2002 summer COG rates to reflect a decrease in the natural gas commodity prices. That reduction brought the approved rate of \$0.6303 per therm down to \$0.5828 per therm for the final three months of the period and all but eliminated any over or under recovery as reported in Northern's monthly gas cost reports for the period. Northern's final reconciliation of its 2002 summer gas costs determined an under collection of approximately \$127,000 for the 2002 summer period, resulting in a negligible impact on the proposed 2003 summer COG rate.

3. Increase in the LDAC Rate

Commission Order No. 24,076, dated October 28, 2002, approved Northern's proposed 2002/2003 LDAC rates effective November 1, 2002 through October 31, 2003. Those rates remain unchanged with the exception of the Energy Efficiency and Customer Choice Expense (CCE) Surcharges.

Northern pre-filed testimony indicating it planned to impose a \$0.0018/therm charge calculated on implementation and program development costs of \$92,846 plus interest of \$3,816 divided by total forecasted therm sales of 54,370,753. These costs resulted from Docket No. DG 02-106 and Commission Order No. 24,109 (December 31, 2002), which approved Northern's energy efficiency programs. Program costs were to be recovered between

May 1, 2003 and April 30, 2004 through the Customer Choice Expense surcharge included in the LDAC, pending a final reconciliation of program costs and revenues.

At hearing, Northern agreed to treat the \$92,846 energy efficiency program costs as recommended by Staff. Northern will allocate the \$92,846 on a pro-rata basis across all programs.

B. OCA

The OCA did not oppose Northern's proposed COG rate and surcharges.

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.

Robert J. Wyatt, Utility Analyst III for the Commission Staff, commended Northern for working with Staff in the ongoing development of new and/or improved gas cost exhibits and schedules that will help Staff to achieve a more complete and efficient review and analysis of these cost of gas filings in the short timeframe for such review. The goal is to standardize as much as possible the gas utilities' cost of gas filings. These updates, in lieu of Integrated Resource Plans, will also assist Staff in assessing industry trends by analyzing

short and longer term demand and supply relationships and strategies of these regulated gas utilities.

Mr. Wyatt also discussed the significance of transportation customer data that Northern provided Staff in response to a data request. This customer count and throughput (usage) data, detailed by rate class and Grandfathered vs. Non-Grandfathered status, will now be updated on a monthly basis, using the template in Exhibit 5. This information will be provided as a supplement to Northern's monthly COG adjustment. Staff will use this data to analyze the competitive gas marketplace in NH and how migration to or from firm sales customer classes impact the cost of gas calculation.

Mr. Cunningham recommended that the \$92,846 of Energy Efficiency program development costs not included in Northern's approved Energy Efficiency budget be included in the computation of Northern's year-end Benefit/Cost ratios for its Energy Efficiency programs. Mr. Cunningham recommended the unbudgeted costs be allocated on a pro-rata basis across all programs in both the Residential and Commercial & Industrial sectors, based on the budget approved in Commission Order No. 24,109.

Mr. Cunningham testified that the \$92,846 of unbudgeted costs had been audited and that those costs are recoverable under the terms of the Energy Efficiency Settlement

Agreement. Hearing Transcript of April 17, 2003 at 43 line 24 and at 44 lines 1-12.

III. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that Northern's proposed COG and LDAC rates will result in just and reasonable rates. Accordingly, we accept and approve Northern's proposed 2003 Summer COG and LDAC rates.

We also support both Staff and Northern, in their combined efforts to standardize, where possible, the various cost of gas exhibits and schedules included in these filings.

We find Staff's proposal for Northern to allocate the unbudgeted Energy Efficiency program developmental costs on a pro rata basis and include those costs in the computation of the Benefit/Cost ratios to be reasonable. Accordingly, we approve the treatment of those costs as recommended by Staff and agreed to by Northern.

Based upon the foregoing, it is hereby

ORDERED, that Northern's proposed 2003 Summer COG per therm rates for the period of May 1, 2003 through October 31, 2003 are APPROVED effective for service rendered on or after May 1, 2003 as follows:

	Cost of Gas	Minimum COG	Maximum COG
Residential	\$0.7290	\$0.5832	\$0.8748
C&I, low winter use	\$0.6215	\$0.4972	\$0.7458
C&I, high winter use	\$0.9206	\$0.7365	\$1.1047

FURTHER ORDERED, that Northern may, without further Commission action, adjust the approved COG rates 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, the minimum and maximum rates as set above; 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 rates 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 pages 38 & 39 - Calculation of Cost of Gas Adjustment and revised rate schedules if Northern elects to adjust the COG rates; and it is

FURTHER ORDERED, that as a supplement to the monthly over or under-calculation, Northern shall include the

transportation customer class data in the format provided by Staff; 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's proposed 2003 Local Distribution Adjustment Clause (LDAC) per therm rates for the period May 1, 2003 through October 31, 2003, except for the Energy Efficiency Surcharge which will remain in effect until April 30, 2004, are APPROVED effective for service rendered on or after May 1, 2003 as follows:

	Refund Temp. Revenue	Energy Effic.	Envir. Remed. Costs	Wells Exit Fee	Customer Choice Expense	Rate Case Expense	LDAC
Residential Heating	\$ (0.0188)	\$0.0168	\$0.0112	\$0.0108	N/A	\$0.0092	\$0.0292
Residential Non-heating	\$ (0.0188)	\$0.0168	\$0.0112	\$0.0108	N/A	\$0.0092	\$0.0292
Small C&I	\$ (0.0188)	\$0.0194	\$0.0112	\$0.0108	\$0.0018	\$0.0092	\$0.0336
Medium C&I	\$ (0.0188)	\$0.0194	\$0.0112	\$0.0108	\$0.0018	\$0.0092	\$0.0336
Large C&I	\$ (0.0188)	\$0.0194	\$0.0112	\$0.0108	\$0.0018	\$0.0092	\$0.0336
No Previous Sales Service	By Class	By Class	\$0.0112	N/A	\$0.0018	N/A	\$0.0130

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-fifth day of April, 2003.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary