

DG 04-179

NEW HAMPSHIRE GAS CORPORATION

Winter 2004/2005 Winter Cost of Gas

Order Approving Cost of Gas and Fixed Price Option Rates

ORDER NO. 24,394

November 1, 2004

APPEARANCES: Ransmeier & Spellman by Dom S. D'Ambruoso, Esq., on behalf of New Hampshire Gas Corporation; F. Anne Ross of Office of Consumer Advocate for residential ratepayers; and Edward N. Damon, Esq., for the Staff of the New Hampshire Public Utilities Commission

I. PROCEDURAL HISTORY

On September 29, 2004, 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, 2004 through April 30, 2005. NHGC's filing was accompanied by the pre-filed testimony and supporting attachments of Karen L. Zink, President of Berkshire Gas Company and Treasurer of NHGC.

An Order of Notice was issued on October 1, 2004, setting a hearing for October 26, 2004. On October 18, 2004, the Office of the Consumer Advocate (OCA) filed a notice of intent to participate in this docket on behalf of residential utility ratepayers consistent with RSA 363:28. There were no other intervenors in this docket. On October 26, 2004, Northern filed a revised COG and the duly noticed hearing on the merits was held before Amy Ignatius, Hearings Examiner. On October 27, 2004, NHGC filed with the Commission its responses to four record requests made at the hearing. Ms. Ignatius submitted a report on the hearing to the Commission on November 1, 2004.

II. POSITIONS OF THE PARTIES AND STAFF

A. New Hampshire Gas Corporation

At the hearing, NHGC witness Karen Zink addressed the following issues: 1) calculation of the COG rate and the impact on customer bills; 2) the FPO; 3) reasons contributing to the increased rate; 4) gas supply purchasing policies; 5) change in the rate case expense surcharge; and 6) charging the COG and FPO rates on a bills-rendered basis.

1. Calculation of the COG Rate and Customer Impact

The proposed revised 2004/2005 winter COG rate of \$1.3048 per therm was calculated by increasing the anticipated cost of gas of \$522,865 by a prior period under-collection and related interest of \$7,028 and dividing the resulting anticipated costs of \$529,893 by projected therm sales of 406,124. This represents an increase of \$0.2721 per therm over the 2003/2004 average winter COG rate of \$1.0327 per therm.

The increase in the winter COG rate results in an increase in gas costs of \$259 for a typical residential heating customer; there is also a \$54 increase related to a delivery rate increase effective November 1, 2004, as approved in *New Hampshire Gas Corporation*, Order No. 24,102 (December 23, 2003) and a \$16 decrease due to the expiration of the rate case surcharge on December 31, 2004. The combined increase for a typical residential heating customer will be \$297, or a 17.3 percent increase over last winter.

2. Fixed Price Option Program

In *New Hampshire Gas Corporation*, Order No. 23,764 (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 2004/2005 winter FPO rate of \$1.2323 per therm was calculated in accordance with Order No. 23,764.

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, 22nd Revised Page 24, Superseding 21st Revised Page 24, demonstrates the FPO cost of \$1.2323 per therm was calculated by adding pre-purchased gas costs of \$495,044 and a prior period under-collection and related interest of \$5,438 and then dividing the resulting costs of \$500,482 by projected therm sales of \$406,124. The FPO per therm cost was then compared to the proposed COG rate to determine if the FPO rate was less than 105% of the COG rate, therefore requiring the addition of a risk premium. Because the FPO rate was 105% of the proposed COG rate in NHGC's initial filing, a risk premium was not added to the FPO rate.

NHGC notified customers of the FPO program through a letter dated October 1, 2004. The letter provided specific details on the program and provided an enrollment form. The enrollment period ended October 25, 2004, with approximately 86% of the available volumes having been subscribed for the 2004/2005 winter period with one day of open enrollment remaining. Unsubscribed FPO supplies will be used to satisfy COG requirements and serve as a hedge against price fluctuations for the COG customers.

3. Factors Contributing to the Increased Rates

Ms. Zink explained that the projected gas costs for the upcoming winter period are higher than those paid last winter due to substantial increases in both actual and projected market prices for propane.

4. Gas Supply Purchasing Policies

NHGC purchases propane-air under the terms of the 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. Ms. Zink testified that propane purchasing strategies are determined by an employee who reports to her and directs the KGC purchasing agent. NHGC testified it was concerned that by pre-purchasing more gas, as the OCA recommended, customers could be subjected to higher prices than needed, if market rates dropped. At the request of the OCA, NHGC produced Exhibit 6 comparing fixed price options to non-fixed price options over the past four years. In most cases the fixed price option proved to be a cost savings for customers, as gas prices increased through the winter.

5. Rate Case Expense Surcharge

Ms. Zink testified that rate case expenses approved for recovery through a rate case surcharge to be recovered over a 24-month period total \$42,603.14 and that two months remain of the 24 month recovery period. Based on the remaining balance of \$3,171.56, the rate case surcharge needs to be set at \$0.0168 per therm, an increase of \$0.0007 from the current rate case surcharge of \$0.0161 per therm, and the proposed rate case surcharge will be in effect from November 1, 2004, through December 31, 2004.

6. Rate Changes on a Bills-Rendered Basis

At hearing, NHGC requested the Commission waive N.H. Admin. Rule Puc 1203.05(b), which requires rate changes to be implemented on a service-rendered basis, noting that the Commission has granted the waiver in previous COG and delivery rate proceedings.

B. OCA

The OCA did not object to the proposed COG rate, FPO rate, or rate case surcharge and it supported NHGC's request to be authorized to implement the proposed rate changes on a bills-rendered basis, provided commercial and industrial customers were billed on the same basis as residential customers.

The OCA, however, among other things, raised a concern regarding the ratio of pre-purchased versus spot market gas, asserting that the amount purchased on the spot market put customers at too great a risk of market fluctuations. It asserted that 40% of supply purchased on the spot market was too high. The OCA also noted the high amount of lost and unaccounted for gas in some months of 2005.

C. Staff

Staff stated that it had reviewed the filing and recommends approval of the proposed rates. Staff noted that fuel purchasing for the period is consistent with prior periods and that the 2004/2005 winter gas costs would be reconciled and reviewed during NHGC's 2005/2006 winter period COG proceeding.

Staff further recommended that the Commission approve NHGC's request to implement the rate changes on a bills-rendered basis. Staff cited the added expense for NHGC to switch to a service-rendered billing basis and possible customer confusion if NHGC were to switch to a service-rendered basis. Staff noted that NHGC has billed COG and FPO rates on a bills rendered basis in the past and that is how the delivery rate increase is to be implemented.

II. REPORT OF THE HEARINGS EXAMINER

The Hearings Examiner reviewed the filings and supporting testimony presented at the October 26, 2004 hearing and recommended that the Commission approve NHGC's

proposed COG rate, FPO rate, and rate case surcharge and waive N.H. Admin. Rule Puc 1203.05(b), thereby allowing NHGC to bill on a bills-rendered basis.

III. COMMISSION ANALYSIS

After careful review of the record in this docket, we find that NHGC's proposed winter COG rate and FPO rate will result in just and reasonable rates pursuant to RSA 378:7. While the increase is substantial, it nevertheless fairly reflects increases in the market costs of fuel. Accordingly, we approve NHGC's filing.

We note NHGC's purchasing policies are consistent with past practice. We expect NHGC, however, to continue monitoring the propane markets and, if appropriate, propose changes in purchasing strategies and pricing services. In an era of high gas volatility and increasing prices, the ratio used by NHGC in the past may not be appropriate for the future. We urge NHGC to closely consider the purchasing ratio that best protects its customers.

On the issue of lost and unaccounted for gas, we are concerned about the amounts reported for 2005. NHGC's late file exhibit demonstrates that it is in compliance with leak testing, and there appears to be no safety concern present, but the level of lost and unaccounted for gas merits further investigation. We direct Staff to meet with NHGC and the OCA to explore the cause of the lost and unaccounted for gas and possible solutions to the problem.

N.H. Code Admin. 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. NHGC customers are accustomed to rate changes on a

bills-rendered basis and a change in that policy may result in customer confusion. In addition, the current billing system is not designed to accommodate changes to billing on a service-rendered basis and such a change would necessitate modifying or replacing the existing billing system at some cost to NHGC. Based upon these considerations, we 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, NHGC's request for waiver of N.H. Code Admin. Rule Puc 1203.05 (b) is GRANTED; and it is

FURTHER ORDERED, that NHGC's proposed winter COG rate of \$1.3048 per therm for the period November 1, 2004 through April 30, 2005 is APPROVED effective for bills rendered on or after November 1, 2004; and it is

FURTHER ORDERED, that NHGC may, without further Commission action, adjust the approved winter COG rate of \$1.3048 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 twenty percent (20%) from the approved unit COG; 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 \$1.2323 per therm for the period November 1, 2004 through April 30, 2005 is APPROVED effective for bills rendered on or after November 1, 2004; and it is

FURTHER ORDERED, that NHGC's proposed rate case expense surcharge of \$0.0168 per therm for the period November 1, 2004 through December 31, 2004 is APPROVED effective for bills rendered on or after November 1, 2004; 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 first day of November, 2004.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary