

DG 05-055

NEW HAMPSHIRE GAS CORPORATION

2005 Summer Cost of Gas

Order Approving Cost of Gas Rate

O R D E R N O. 24,464

April 29, 2005

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

I. PROCEDURAL HISTORY

On March 23, 2005, New Hampshire Gas Corporation (NHGC), a public utility engaged in the business of distributing propane-air in Keene, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) rate for the period May 1, 2005 through October 31, 2005. NHGC's filing was accompanied by the pre-filed testimony of Karen L. Zink, Treasurer of NHGC and supporting attachments.

The Commission issued an Order of Notice on March 28, 2005, scheduling a hearing for April 21, 2005. There were no intervenors in this docket. A duly noticed hearing on the merits was held at the Commission on April 21, 2005, at which time a revised COG filing was submitted. On April 28, 2005, NHGC filed a letter with the Commission informing the Commission of the discovery of an error in the revised 2005 Summer COG filing¹ and submitting corrected attachments and schedules affected by the error. On April 28, 2005, Commission Staff submitted a memorandum to the Commissioners explaining the nature of the

¹ NHGC stated that the error was in a mathematical calculation converting the cost of a gallon of propane to a therm on Supplemental Schedule C.

error reported by NHGC and reasons why the correction should be made. Staff recommended that the proposed COG rate as corrected become effective on May 1, 2005.

II. POSITIONS OF THE PARTIES AND STAFF

A. New Hampshire Gas Corporation

NHGC witness Karen L. Zink testified as to the following issues: 1) calculation of the COG rate and the impact on customer bills; 2) reasons contributing to the increased rate; 3) gas supply purchasing policies; 4) rate changes on a bills-rendered basis; 5) termination of the rate case expense surcharge; and 6) contributing factors and mitigation measures related to unaccounted for gas losses.

1. Calculation of the COG Rate and Customer Impact

The 2005 Summer COG rate proposed at hearing was \$1.2688 per therm. As corrected, the proposed rate is \$1.4285 per therm. This rate is calculated by increasing the anticipated cost of gas of \$308,026 by a prior period under-collection of \$38,351 and associated interest of \$557 and then dividing the resulting anticipated costs of \$346,933 by projected therm sales of 242,870. NHGC's proposed 2005 Summer COG rate, as corrected, of \$1.4285 per therm represents an increase of \$0.4708 per therm from the 2004 weighted average Summer COG rate of \$0.9577 per therm.

The proposed 2005 Summer COG rate was calculated by using the most recently projected per unit cost of propane based on the futures prices posted on the New York Mercantile Exchange multiplied by anticipated demand. The calculation used futures prices as of April 20, 2005 for the months of May 2005 through October 2005, plus brokers' fees, pipeline transportation costs and trucking charges.

The impact of the proposed 2005 Summer COG rate as corrected is an increase in the average residential heating and hot water customer's summer gas costs of \$135. Comparing the total 2005 and 2004 summer rates for such customers, including the termination of the rate case expense surcharge and the increase in the delivery rates effective on November 1, 2004, there is a 29.9% increase from last summer (\$650 compared to \$501).

2. Factors Contributing to the Increased COG Rate

The primary reason for the increase in the summer COG rate is an increase in the projected propane prices for this summer period compared to actual propane prices in the summer of 2004. Additionally, there is an increase in trucking costs related to higher fuel prices for propane haulers.

3. Gas Supply Purchasing

NHGC has not pre-purchased any propane supplies to meet its projected demand for the 2005 summer period. NHGC stated that the current propane prices are high, in large part due to higher prices in all energy commodity markets.

4. Rate Changes on a Bills-Rendered Basis

In her direct testimony, Ms. Zink made a request for a waiver of N.H. Code Admin. Rules Puc 1203.05, pursuant to 201.05, which requires rate changes to be implemented on a service-rendered basis, in order to enable NHGC to bill the new rates on a bills-rendered basis.

Ms. Zink testified that it would be less confusing to NHGC customers who 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. Ms. Zink also noted that the changes in the delivery rates are implemented on a bills rendered basis, as

approved by the Commission. *See New Hampshire Gas Corporation*, Order No. 24,102, 87 NH PUC 859 (2002).

5. Rate Case Expense Surcharge

In NHGC's petition for a delivery rate increase, Docket No. DG 02-003, the Commission approved NHGC's request for recovery of rate case expenses. *New Hampshire Gas Corporation*, 87 NH PUC 859. As detailed on Supplemental Schedule D of Ms. Zink's testimony, rate case expenses recovered through a rate case expense surcharge over the two-year period ending December 31, 2004 are undercollected by \$404, for which NHGC is not seeking recovery.

6. Unaccounted For Gas Losses

In response to Staff questions at hearing, Ms. Zink discussed the level of unaccounted for gas losses and factors contributing to the losses. Such losses are the difference between the amount of gas billed to customers and the amount of gas sent out of the propane facility excluding the amount of company use gas.

Ms. Zink explained that such losses have averaged around 6 to 6.5 percent per year during the past decade and that it is common for utilities to lose at least 3 percent per year. According to Ms. Zink, several factors contribute to unaccounted for gas losses, including: seasonal accounting lag of sales versus purchased volumes; variations in received gas supply Btu content; delivery transfer discrepancies between delivery trucks and fixed storage tanks; customer meter calibration; and distribution system leakage. Ms. Zink clarified that unaccounted for gas is being recovered from ratepayers through the COG rate. However, she stressed the Company's belief that unaccounted for gas losses are not a safety issue. Ms. Zink stated that

NHGC is willing to explore cost effective ways of reducing the amount of unaccounted for losses and she offered to provide an update in the 2005-2006 Winter COG filing.

B. Staff

Staff stated that it had reviewed the results of the Commission Audit Staff's report of the 2004 Summer COG reconciliation and the summer 2005 COG filing, and based upon that review, recommended approval of the proposed COG rate. Staff noted that NHGC's demand and supply planning for the period is consistent with prior periods and that the 2005 Summer gas costs would be reconciled and reviewed during NHGC's 2006 Summer period COG proceeding.

Staff reviewed the error discovered and reported by NHGC on April 27, 2005. In its memorandum filed with the Commissioners on April 28, 2005, Staff confirmed that NHGC inadvertently changed the mathematical formula converting the gallon cost of propane, as delivered, to the per therm cost of propane, as billed to customers. Staff noted that the error had no effect on projected sales or the futures prices contained in the revised filing described at hearing. Staff recommended acceptance and approval of the corrected schedules and rate calculation for the NHGC Summer 2005 COG.

Staff did not oppose NHGC's request to implement rates on a bills-rendered basis based on the reasons provided by NHGC. Finally, Staff expressed its willingness to work with NHGC to review the factors contributing to the level of unaccounted for gas losses identified by NHGC and to help explore cost effective ways of reducing such losses.

III. COMMISSION ANALYSIS

After reviewing the record at hearing, NHGC's letter filed with the Commission on April 28, 2005 and Staff's memorandum filed on April 28, 2005, we find that NHGC's

proposed COG rate as corrected will result in just and reasonable rates. Accordingly, we accept and approve NHGC's proposed 2005 Summer COG rate as corrected.

We note NHGC's purchasing policies for the summer period are consistent with 2003 and 2004 summer COG periods, however, we point out that in PUC Order No. 23,956 the Company's gas supply purchasing strategy included pre-purchased volumes of approximately 40% of its projected demand for the summer 2002 period (DG 02-048). We direct NHGC to describe its gas purchasing strategy in its next summer period COG filing. Should NHGC decide against hedging any of its future summer requirements, it must provide in its filing the basis for such a strategy.

N.H. Code Admin. Rules Puc 1203.05 provides in general that rate changes must be implemented on a service-rendered basis. 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 has in previous COG proceedings 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 to be persuasive and, accordingly, we will grant NHGC's request for a waiver of the requirement that rate changes be implemented on a service-rendered basis.

NHGC's final reconciliation of recoveries through the rate case surcharge against the approved rate case expenses indicates a remaining under-collection of \$404 over the approved two year period. NHGC has not proposed recovery of the remaining balance and,

given the minimal amount of the under-collection, we will consider the recovery of rate case expenses to be complete and we will not reinstate a rate case expense surcharge.

We share Staff's concerns regarding the level of unaccounted for gas losses,. We encourage NHGC to continue to review each of the factors contributing to these losses and to identify, and where cost-effective, implement, measures that would reduce these losses. NHGC's cooperation with Staff regarding these matters is appreciated. We look forward to receiving further information from NHGC at the 2005-2006 Winter COG proceeding.

Based upon the foregoing, it is hereby

ORDERED, that NHGC's proposed Summer COG rate, as corrected, of \$1.4285 per therm for the period May 1, 2005 through October 31, 2005 is APPROVED effective for bills rendered on or after May 1, 2005; and it is

FURTHER ORDERED, that NHGC may, without further Commission action, adjust the approved Summer COG rate of \$1.4285 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 cost of gas; 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 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. Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of April, 2005.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Michael D. Harrington
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary