DG 06-037
DG 06-048

NEW HAMPSHIRE GAS CORPORATION

Propane Purchasing Stabilization Plan and 2006 Summer Season Cost of Gas

Order Approving Propane Purchasing Stabilization Plan and Cost of Gas Rate

O R D E R N O. 24,617

April 28, 2006

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 13, 2006, New Hampshire Gas Corporation (NHGC or the Company) filed with the New Hampshire Public Utilities Commission (Commission) a proposed Propane Purchasing Stabilization Plan, applicable to NHGC's propane air service in Keene, New Hampshire. The filing was accompanied by supporting attachments and the direct testimony of Karen Zink, President, Chief Operating Officer and Treasurer of Berkshire Gas Company and Treasurer of NHGC. On March 27, 2006, NHGC filed with the Commission a proposed cost of gas (COG) rate adjustment for the period May 1, 2006 through October 31, 2006 (2006 Summer Season COG). The filing was accompanied by supporting attachments and the direct testimony of Karen L. Zink and David Grande, Manager of Operations for Berkshire Gas Company and General Manager for NHGC.

On March 30, 2006, the Commission issued an Order of Notice scheduling a hearing for April 20, 2006. On April 6, 2006, NHGC filed with the Commission a Motion For Acceptance Of Late Publication Date, which was granted by secretarial letter. On April 20, 2006, NHGC filed with the Commission a revised COG filing using updated propane futures commodity prices. There were no intervenors in this docket. The hearing was held as scheduled on April 20, 2006.

II. POSITIONS OF THE PARTIES AND STAFF

A. NHGC

NHGC witnesses Karen L. Zink, David Grande and Robert Evans, Business Manager of NHGC, addressed a number of matters, including the following: 1) calculation of the COG rate and customer impact; 2) reasons for the decrease; 3) the Propane Purchasing Stabilization Plan; 4) rate changes on a bills-rendered basis; 5) implementation of a Deferred Revenue surcharge; and 6) contributing factors and mitigation measures related to unaccounted for gas losses.

1. Calculation and Impact of the COG Rate

NHGC's revised filing proposes a COG rate, applicable to both residential and commercial and industrial customers, of $1.2163 per therm. This rate is calculated by decreasing the anticipated cost of gas of $387,718 by a prior period over-collection of $1,183 and associated interest of $1,478 and then dividing the resulting anticipated costs of $385,057 by projected sales of 316,576 therms. NHGC's proposed 2006 Summer COG rate of $1.2163 per therm represents a decrease of $0.2536 per therm from the 2005 weighted average Summer Season COG rate of $1.4699 per therm.

The proposed 2006 Summer Season COG rate was calculated by using the most recently projected per unit costs of propane based on futures prices posted on the New York Mercantile Exchange multiplied by anticipated demand. The calculation used futures prices as of April 20, 2006, for the months of May 2006 through October 2006, plus brokers' fees, pipeline transportation costs and trucking charges. Projected Summer Season sales of 316,576 therms are based on a 3-year average of Summer Season sendout, plus incremental sales expected from a new commercial development, Monadnock Marketplace.

The combined impact of the proposed COG rate and Deferred Revenue surcharge is a $37 decrease in the average residential heating and hot water customer's Summer Season gas costs, which represents an 8.4% decrease from last summer's costs ($398 compared to $434).

2. Reasons for the Decrease in the COG Rate

According to NHGC, the primary reason for the decrease in the proposed COG rate, as compared to last summer's rate, can be attributed to decreases in the projected spot market price of propane. Also contributing to the decrease is a prior period over- collection credit of $1,183 compared to an under-collection expense of $38,351 that was included in calculating last summer's COG rate.

3. Propane Purchasing Stabilization Plan

In *New Hampshire Gas Corporation,* Order No. 24,536 in Docket DG 05-158 (October 31, 2005), the Commission expressed concern with NHGC's lack of a purchasing plan and urged NHGC to consider adoption of a purchasing policy that does more than simply look at historical prices. To address the Commission's concerns, NHGC developed and filed the proposed Propane Purchase Stabilization Plan (Plan). The Plan is designed to pre-purchase 65% of NHGC's winter supplies over a six-month period, thereby reducing rate volatility, and to diversify its receipt locations by contracting at two separate propane terminals.

The Plan calls for NHGC to purchase 65% of its projected winter firm demand during the immediately preceding months of April through September, with purchases to be made at two separate propane terminals, Selkirk, New York and Newington, New Hampshire.

The timing and quantity of the purchases differ by location. For Selkirk volumes, NHGC will hedge 80% of the required volumes according to the following cumulative targets:

April 30	20% of volumes
May 31	35% of volumes
June 30	50% of volumes
July 31	70% of volumes
August 31	85% of volumes
September 30	100% of volumes

For the Newington volumes, NHGC intends to hedge 20% of the required volumes according to the following cumulative targets:

June 30	25% of volumes
July 31	50% of volumes
August 31	75% of volumes
September 30	100% of volumes

Although NHGC intends to hedge 80% of the required volumes at Selkirk and 20% of the required volumes at Newington, NHGC seeks the right to modify these target percentages at its discretion for pricing or pipeline allocation concerns. The targeted amount to be purchased at each location will not vary unless the price differential exceeds 107.5% of the secondary location's delivered price.

NHGC has issued a request for bids to interested suppliers and has received two bids in response, which are currently being evaluated for both price and non-price factors. Non-price factors include reliability, availability and the ability of a supplier to provide propane deliveries when pipeline restrictions are in place.

4. Rate Changes on a Bills-Rendered Basis

In her direct testimony, Ms. Zink requested a waiver of N.H. Code Admin. Rules Puc 1203.05, 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.

5. Implementation of a Deferred Revenue Surcharge

In Docket No. DG 02-003, the Commission approved NHGC's request to implement the allowed delivery rate increase in stages, over time. *New Hampshire Gas Corporation*, 87 NH PUC 859, Order No. 24,102 (2002). NHGC was allowed to defer the difference between the approved maximum delivery rates and the discounted rates for future recovery after rates reached the approved maximum. As detailed on Supplemental Schedule D of Ms. Zink's testimony, the deferred amount NHGC seeks to recover is $192,417.39. The recovery of these deferred revenues will be spread out over a 36-month period and the surcharge unit rate will be $0.0488 per therm.

6. Unaccounted for Gas Losses

In response to Staff questions at hearing, Mr. Grande discussed various factors contributing to the unaccounted for gas losses and the measures NHGC is taking to mitigate the problem. In his pre-filed testimony, Mr. Grande identified a four part strategy to reduce the amount of unaccounted for gas. First, NHGC has identified and prioritized known system leaks for repair during the 2006 calendar year. Second, NHGC plans to reduce system pressure during the off-peak period of May though September. Third, NHGC will be changing out approximately 35% of its large commercial/industrial meters before the end of calendar year 2006. Fourth, NHGC has made changes to its billing cycles to shift a higher percentage of its load into the first two billing cycles of each month. This action is expected to more closely match NHGC's known gas sendout with billed sales volumes.

Mr. Grande also stated at hearing that NHGC has seen some improvement in unaccounted for losses as reported to the Department of Transportation (DOT). The DOT report for the year ending June 2004 reflected 7.94% of unaccounted for losses on the NHGC system, whereas for the year ending June 2005 the unaccounted for losses were 7.05%. Mr. Grande expects further improvement as NHGC implements various measures such as the four-part strategy to reduce the losses. NHGC agreed to prepare and file its written plan for reducing unaccounted for gas losses. *See New Hampshire Gas Corporation*, Order No. 24,536, *supra*, slip op. at 4-6.

B. Staff

Staff witness Stephen P. Frink, Assistant Director of the Gas & Water Division, testified in support of NHGC's Propane Purchasing Stabilization Plan, revised proposed Summer Season COG filing and the proposed Deferred Revenue surcharge rate.

Staff testified that Commission Audit Staff had reviewed the 2005 Summer Season reconciliation and found no exceptions. Staff also testified that the sales forecast and supply planning are consistent with past practices and reflect recent growth on the system, that the 2006 Summer Season COG will be reconciled prior to the 2007 summer COG, and any that concerns which may arise will be addressed in that proceeding.

Staff recommended approval of NHGC's proposed Propane Purchasing Stabilization Plan as the Plan reduces the potential for speculation by requiring that set amounts be hedged over an extended period of time, so that even during periods of rising prices NHGC will have secured a significant portion of its supply prior to setting the winter rate. Based on NHGC testimony, Staff stated it appears that supplier response has been positive and the cost of the Plan is reasonable.

Staff testified that it had reviewed NHGC's calculation of deferred revenues related to NHGC's gradual implementation of its approved rate increase in Docket No. 02-003 and verified its accuracy. According to Staff, the Deferred Revenue surcharge is consistent with the terms of the Settlement Agreement approved in that docket. Finally, Staff noted that it anticipates further improvements in unaccounted for gas losses as NHGC continues to implement proposed measures to address that issue.

III. COMMISSION ANALYSIS

Based on our review of the record in this docket, we approve the proposed 2006 Summer Season COG rate as a just and reasonable rate pursuant to RSA 378:7. NHGC's implementation of the Deferred Revenue surcharge to recover deferred revenues has been anticipated. In *New Hampshire Gas Corporation*, Order No. 24,102, *supra*, the Commission approved NHGC's decision not to implement the full delivery rate increase immediately and its recovery of the deferred revenues following the time when maximum approved delivery rates went into effect. NHGC calculated these deferred revenues to be $192,417.39 and stated that recovery will be over a 36-month period, as provided in the Commission's order. Accordingly, the proposed Deferred Revenue surcharge rate is set at $0.0488 per therm. We direct NHGC to provide an update of actual and projected recoveries related to this surcharge with each COG filing.

An important consideration in managing an energy supply portfolio is the potential value of hedging risks related to a sharp run-up in prices, if the cost of such hedging is reasonable under the circumstances. NHGC's proposed Propane Purchasing Stabilization Plan appears to address that concern and the amounts to be hedged should provide a fairly stable winter COG rate based on average prices over an extended period of time. As the Plan is

NHGC's initial attempt at a formal hedging policy, there are still a number of details to be worked out and analysis must be performed in determining the actual cost of the program. NHGC testified that the hedging costs are expected to be less than 1.5 to 3 cents per gallon, although one bid included a 6-cent premium. With commodity costs of over $1.00 per gallon, the anticipated hedging premium appears to be reasonable. If that cost should turn out to be substantially higher, NHGC is expected to exercise its best judgment as to whether to implement the Plan at this time. We will approve the Plan as a pilot program to begin effective in the 2006 Summer Season for gas volumes to be used during the upcoming winter COG period, with the understanding that the Plan is to serve as a guideline regarding when and how much propane to purchase, but that other considerations will factor into whether the Plan will be strictly adhered to. We direct NHGC to file an analysis reflecting the hedging costs of the Plan once the supplier contracts have been entered into, or an explanation as to why the Plan was not implemented.

The Commission is already on record as sharing Staff's concerns regarding the level of unaccounted for gas losses on the NHGC system. We are hopeful that NHGC will be able to show continued improvement in reducing the unaccounted for gas losses on its system and look forward to follow-up reports from NHGC at subsequent cost of gas hearings. We encourage NHGC to continue working with Staff to find effective measures to deal with this problem.

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 asserted, as it has in previous COG proceedings, 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 NHGC's 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.

Based upon the foregoing, it is hereby

ORDERED, that NHGC's proposed 2006 Summer Season COG rate of $1.2163 per therm for the period of May 1, 2006 through October 31, 2006 is APPROVED, effective for bills rendered on or after May 1, 2006; and it is

FURTHER ORDERED, that NHGC may, without further Commission action, adjust the approved COG rate 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 tariff pages to be filed under separate cover letter 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 Deferred Revenue surcharge rate of $0.0488 per therm for the period of May 1, 2006 through October 31, 2006 is APPROVED, effective for bills rendered on or after May 1, 2006; and it is

FURTHER ORDERED, that NHGC shall file an analysis of its Propane Purchasing Stabilization Plan once the supplier contracts have been entered into, or an explanation as to why the Plan was not implemented; 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; and it is

FURTHER ORDERED, that NHGC's Propane Purchase Stabilization Plan is APPROVED, as set forth in this Order.

By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of April, 2006.

Thomas B. Getz Chairman	Graham J. Morrison Commissioner	Clifton C. Below Commissioner

Attested by:

ChristiAne G. Mason
Assistant Executive Director & Secretary