

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 09-038

NEW HAMPSHIRE GAS CORPORATION

Petition for Temporary and Permanent Rate Increases

Order Approving Permanent Rate Increase

ORDER NO. 25,039

October 30, 2009

APPEARANCES: Meabh Purcell, Esq., of Dewey & LeBoeuf LLP, on behalf of New Hampshire Gas Corporation; Kenneth Traum, of the Office of Consumer Advocate, on behalf of residential ratepayers; and Matthew J. Fossum, Esq., on behalf of Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

On February 27, 2009, New Hampshire Gas Corporation (NHGC or Company) filed with the Commission a notice of its intent to file rate schedules. NHGC provides propane-air delivery service to roughly 1,100 customers in Keene through approximately 28 miles of buried mains. On March 31, 2009, NHGC filed revised tariff pages designed to increase its revenues by \$423,806, or 42.15 percent, annually. In support of this permanent rate increase, NHGC filed schedules and exhibits along with the pre-filed testimony of Karen L. Zink, Treasurer of NHGC as well as President, Chief Operating Officer and Treasurer of NHGC's affiliate, Berkshire Gas Company (Berkshire). Berkshire provides various support services to NHGC. In addition to its request for a permanent rate increase, NHGC petitioned for temporary rates and a waiver of certain filing requirements.

NHGC requested that its permanent rates take effect on a bills-rendered basis as of May 1, 2009. By Order No. 24,955 (April 2, 2009), the Commission suspended the proposed

revisions to NHGC's tariff pursuant to RSA 378:6, pending its investigation and further order thereon. Additionally, the order scheduled a hearing on the Company's request for temporary rates on April 21, 2009.

On April 20, 2009, the Office of Consumer Advocate (OCA) notified the Commission of its limited participation in the matter, consistent with RSA 363:28. No other parties intervened in the docket. A hearing on temporary rates was held on April 21, 2009 as scheduled.

On April 30, 2009, by Order No. 24,964, the Commission granted NHGC's request for temporary rates effective on May 1, 2009, on a bills-rendered basis, thereby temporarily increasing its annual revenues by \$69,995. This increase in delivery rates was almost exactly offset by the scheduled termination of a "deferred revenue surcharge." *See New Hampshire Gas Corp.*, Order No. 24,102 (December 23, 2002). The order also granted the waiver requests sought by NHGC, including its request that it not be required to change its billing system to accommodate service-rendered billing. *See New Hampshire Gas Corp.*, Order No. 24,964 (April 30, 2009).

On July 9, 2009, Audit Staff issued its final audit report. The audit identified, among other things, an error resulting in an understatement of \$14,020 in NHGC's 2008 year-end unbilled revenues. NHGC agreed with the audit finding and to a reduction in its revenue requirement to reflect the finding.

On September 30, 2009, Staff filed a settlement agreement among Staff, OCA and NHGC that purports to resolve the matters at issue in the proceeding. *See Hearing Exhibit 3, Settlement Agreement*. In support of the settlement agreement, Staff filed schedules and exhibits along with the pre-filed testimony of Stephen P. Frink, Assistant Director of the Gas and Water Division.

On October 21, 2009, NHGC filed supplemental testimony of Jennifer Boucher, Manager of Regulatory Economics for Berkshire, proposing a change in the calculation of weather normalized therm billing determinates used in rate design. The terms of the settlement agreement and proposed change in calculating the billing determinates were presented to the Commission at a hearing held October 22, 2009.

II. TERMS OF THE SETTLEMENT AGREEMENT

A. Income Requirement

The settling parties agreed to an increase in NHGC's annual delivery revenues of \$288,732, or 29.12 percent, above *pro forma* test year base delivery revenues. This amount was calculated using a stipulated rate base of \$2,236,222, and a stipulated overall rate of return of 8.875 percent. The settlement agreement specifically notes that the Company's land held for future use is excluded from rate base, and that if the land is sold the proceeds will benefit shareholders.

Additionally, the settling parties agreed to certain changes to NHGC's depreciation schedules, which decreased the level of revenues required. Specifically, NHGC agreed to reduce the depreciation rates on its mains, meters, transportation vehicles, and tools and shop equipment. Also, under the settlement agreement NHGC will not charge depreciation to plant accounts that have been fully depreciated so that the depreciation reserve will not exceed book value.

The settling parties agreed that the increase in NHGC's revenues will be implemented incrementally over three years. In the first year, NHGC will increase its rates by 60 percent of the total stipulated amount, or \$173,239. In the second and third years, the rates will be increased by 20 percent of the stipulated amount, or about \$57,746, each year. NHGC will,

therefore, collect the full amount authorized in the settlement agreement beginning in 2011. In exchange for deferring the full increase, NHGC will be permitted to implement a surcharge in the fourth and fifth years, 2011 and 2012, to account for the otherwise lost revenues. This is similar to the deferred revenue surcharge that was used in NHGC's last rate case. *See New Hampshire Gas Corp.*, Order No. 24,102 (December 23, 2002) at 10-11. The Company will, however, lose the right to collect the full amount of deferred revenues if it files for a distribution rate increase prior to the termination of the rate plan, *i.e.*, before November 1, 2014. NHGC is to provide notice to the Commission of the surcharge as part of its 2012-2013 and 2013-2014 winter cost of gas filings along with an explanation of the amount of the surcharge and its impact on customers.

B. Rate Design and Impact

As part of the settlement agreement there are to be no changes to NHGC's rate design. As explained below, however, NHGC proposes to alter its rate design to accommodate a proposed change in its Heating Degree Day (HDD) data, which was not covered by the settlement agreement. Also under the settlement agreement, NHGC will be permitted to continue operating on a bills-rendered system, rather than a service-rendered system. The impact of the change in delivery rates on a typical residential heating customer, without regard to other changes, will be an increase of \$234.81, or 21.3 percent, annually.

C. Merger Requirements

As part of its merger docket, DG 07-083, NHGC was obligated to adhere to certain requirements. *See Iberdrola, S.A., et. al.*, Order No. 24,812 (December 28, 2007). Specifically, NHGC was to maintain, for at least five years: (1) its current level of staff at eight full-time employees; (2) its operations and service center in Keene; and (3) average annual capital

expenditures of no less than \$275,000. *See id.* at 2-3. These requirements were subject to renegotiation in the event NHGC filed for a rate change. *Id.* at 3. Upon reevaluation of the above requirements in the context of this matter, the settling parties agreed that there would be no changes to the staffing levels or the operations and service center requirements. As for the capital expenditures, the settling parties agreed that NHGC will reduce its minimum average capital expenditures to \$200,000 from \$275,000. Irrespective of the required expenditures, NHGC is obligated to replace its cast iron and bare steel mains, services and related equipment in conjunction with state and municipal projects so as to make such improvements at reduced cost.

D. Energy Efficiency and Low-Income Customer Information

As part of the settlement agreement, the parties agreed that NHGC would develop, with the aid of the OCA and Commission Staff, an informational brochure or pamphlet to be distributed with bills twice annually, and to all new customers. The brochure will contain information regarding energy conservation measures and budget billing. NHGC will also continue its practices of directing customer inquiries regarding low-income programs to various community agencies and assisting customers in establishing affordable payment programs.

E. Temporary Rate Reconciliation and Rate Case Expenses

The settling parties agreed that, consistent with RSA 378:29, temporary rates are to be reconciled with the permanent rates as they are established by the Commission. The reconciled amount, based upon the first year of the phased-in rate plan, is to be recovered via a surcharge over the first 12 months of the rate plan.

The settling parties also agreed that NHGC may recover its prudently incurred rate case expenses via a surcharge during the first 12 months of the rate plan. Under the settlement

agreement, expenses incurred as affiliate charges from Berkshire, or in conjunction with the Commission's audit, are excluded from recovery. Under the agreement, NHGC was to file, by October 15, 2009, its calculation of the surcharge generated by the reconciliation of temporary and permanent rates and the rate case expense recovery. This calculation was to include an estimate of the final accounting of rate case expenses, including those incurred in the October 22, 2009 hearing, as well as estimates of the rate reconciliation for October, 2009 billing. On or before October 15, 2010, NHGC is to file a reconciliation of the surcharge for review and approval by the Commission and is to include a recommendation of any over- or under-collection remaining upon termination of the surcharge.

III. POSITIONS OF THE PARTIES

A. NHGC

1. Settlement Agreement

In explaining the terms of the settlement agreement, Ms. Zink, stated that the settlement resulted in just and reasonable rates for the Company and ratepayers. Transcript of October 22, 2009 Hearing (Tr.) at 8. She noted that the Company had not made a rate filing in six years, Tr. at 7, and stated that in this case the agreement provided the Company with a reasonable opportunity to earn a fair return. Tr. at 13. Accordingly, the Company supported the amount of the rate increase. Tr. at 67.

In response to cross-examination, Ms. Zink explained that the Company had conducted a study of its competitors and customers to determine whether the increase in its rates would be detrimental to its ability to retain customers. Tr. at 21-22; *see* Hearing Exhibit 6, Response to Staff Data Request 1-1. That study, though based upon gas commodity rates that had since changed, confirmed that NHGC could raise its rates by more than the agreed-upon amount

without significantly affecting its customer base. Tr. at 21-23; *see* Hearing Exhibit 6, Response to Staff Data Request 1-1.

Ms. Zink also explained the surcharge related rate case expenses and the reconciliation of temporary and permanent rates. Tr. at 9-11. On October 16, 2009, NHGC filed its calculations of rate case expenses and of the amount due under the reconciliation of temporary and permanent rates. On October 21, 2009, NHGC filed updated versions of these calculations. *See* Hearing Exhibit 4. According to NHGC's calculations, it is to collect \$27,442 in rate case expenses after subtracting out \$500 in expenses attributable to the audit of its finances, as well as affiliate charges from Berkshire. Tr. at 10; *see* Hearing Exhibit 4. Also, NHGC is to recover an additional \$45,371 in the reconciliation of temporary and permanent rates. *See* Hearing Exhibit 4. If these amounts are approved by the Commission, they will add an additional charge of \$0.059 per therm to NHGC's rates for one year. *See* Hearing Exhibit 4.

Regarding the capital expenditures, Ms. Zink testified that the Company has been spending more in recent years to take advantage of opportunities presented by the City of Keene's on-going municipal work. Tr. at 38-39. Despite the current availability of these projects, the new, lower amount required under the settlement agreement was, however, intended to ensure that NHGC would not be required to spend an excessive amount on a year-to-year basis. Tr. at 39. She stated that NHGC still intends to complete its regular projects to ensure safe and reliable service, Tr. at 39-40, but noted that the lower amount would help avoid the possibility that the Company might undertake projects simply to meet the required level of expenditures, rather than because such projects were appropriate, or available. Tr. at 39-40. She noted that the \$200,000 was not intended to be an absolute ceiling in that the Company would still work to ensure a safe system while taking advantage of municipal work projects as they

became available. Tr. at 40. She stated that the Company could spend more than the \$200,000 required under the settlement agreement, but that would not be fair to require it to spend money on projects that might not be needed or that were not cost effective. Tr. at 40.

2. Heating Degree Day Data

NHGC presented the testimony of Jennifer Boucher, Manager of Regulatory Economics for Berkshire, to explain NHGC's proposal to change to its HDD data. According to Ms. Boucher, in the process of preparing the Company's 2009-2010 winter cost of gas filing, an anomaly was discovered in the collection of historical data regarding HDDs in Keene. Tr. at 16. Specifically, the Company had been consistently recording HDD data showing 7,000 to 8,000 HDD per year, every year up to 2004. Tr. at 17. From 2004 forward, the Company's recorded HDDs in Keene were closer to 6,000. Tr. at 17. Ms. Boucher also noted that the Keene HDD data was inconsistent with year-to-year patterns from Berkshire Gas Company in Pittsfield, Massachusetts. Tr. at 16. She stated that while the HDD in Pittsfield tended to be lower than in Keene, they were not "to the disparity of losing thousands of degree-days on a year-to-year basis." Tr. at 33, lines 11-13. Ms. Boucher stated that when the Company inspected its weather instrument and the manner in which data from the instrument was collected and used to calculate the Company's rates, it found no problems. Tr. at 17, 36. Nevertheless, this change in HDD data, which the Company uses to "normalize" its rates, prompted the Company to question the quality of the data being recorded. Tr. at 16, 17-18, 28.

Upon concluding that the Keene data was no longer reliable, Ms. Boucher testified that she informed Staff and OCA of the issue. Tr. at 18. Following discussions with OCA and Staff, the Company decided to begin using HDD data collected in Concord. Tr. at 18. Ms. Boucher testified that Concord was an appropriate proxy for Keene because the cities are only

approximately 40 miles apart. Tr. at 18. Additionally, she explained that the Concord data was more suitable because it is collected by a reliable third party, the National Weather Service, and because Concord has a history of data stretching back greater than 30 years. Tr. at 18.

As noted above, the parties settled the issue of the Company's revenue requirement and do not propose to change it. Therefore, the Company's revenue requirement will not change as a result of using different HDD data. However, the rates used to reach that revenue requirement will change from those previously calculated by the Company. Tr. at 18-19. Ms. Boucher testified that if the Company uses the Keene data to establish the rate because that was the data from the test year, but applies that rate to a forecast based upon Concord data, the Company would fail to collect \$87,931 to which it was entitled. Tr. at 19, 28-29; *see* Hearing Exhibit 5, Supplemental Testimony of Jennifer Boucher, Attachment NHGC-1. Therefore, should the Commission approve the change to the HDD data, NHGC will redesign its rates to collect sufficient funds to reach the revenue requirement in the settlement agreement. *See* Hearing Exhibit 5, Supplemental Testimony of Jennifer Boucher at 4-5. Ms. Boucher noted that going forward the Company would continue to gather weather data in Keene, but that it would rely on the Concord data in setting its rates. Tr. at 36.

B. OCA

The OCA stated that it was a signatory to the settlement agreement and that it continued to support the agreement. Tr. at 64. The OCA emphasized in its questioning of NHGC that the Company would be expanding its offerings of information to consumers about conservation, budget billing and the availability of community assistance programs. Tr. at 20-21.

In questioning Staff, OCA inquired about the rise in the amount of the surcharge relating to rate case expenses and the reconciliation of temporary and permanent rates since Staff's pre-

filed testimony was submitted. Tr. at 52-53. Staff clarified that, when the testimony was submitted, those expenses were only estimated and had become more refined closer to the hearing. Tr. at 53. OCA also asked Staff to verify that the rate increase would be the same for residential and commercial and industrial (C&I) customers, which Staff confirmed, stating that the volumetric charges are the same. Tr. at 53-54.

Regarding the HDD data, OCA asked Staff whether getting more reliable data from Keene was sufficient to correct the issue, and Staff noted that since the necessary historical data for Keene was unreliable, gathering better data in the future would not correct the issue. Tr. at 54. Finally, OCA asked Staff to confirm whether a customer using the same amount of propane this year as it did last year would see a decrease in the overall bill for the winter period of 7.39 percent. Tr. at 55.

C. Staff

Stephen P. Frink, Assistant Director of the Commission's Gas and Water Division, testified on behalf of Staff. Staff agreed with the Company and OCA that the settlement agreement was in the public interest. Tr. at 46. Staff confirmed that among its primary concerns was the Company's retention of its customer base and that the decrease in the agreed-upon revenue requirement from that originally requested was meant to aid the Company in addressing this concern. Tr. at 42-43. Staff also noted that the phased-in rate plan would limit the impact on customers, particularly in the first year when rate case expenses and reconciled rates were recovered. Tr. at 43. Moreover, Staff stated that the rate plan would aid the Company by maintaining a stable cash flow over a period of years. Tr. at 45. As to the exclusion of the land held for future use from rate base noted in the settlement agreement, Staff confirmed that the

land had not previously been included in the calculation of the Company's rate base. Tr. at 62-63.

As to the change in the Company's depreciation rates, Staff noted that the rates the Company had been using did not, in some cases, reflect the expected life of the plant in service. Tr. at 43-44. Staff pointed out, for example, that the depreciation rate for the Company's mains was only 20 years as compared with a longer expected useful life experienced by other gas utilities operating in New Hampshire. As a result of adjustments to the expected useful life, the depreciation rate was reduced from 5 percent to 3 percent. Tr. at 44. Staff stated that the changes to the depreciation rates were meant to more appropriately allocate those expenses and the service lives of the plant items. Tr. at 44. Staff stated that the rates were based upon depreciation studies of similar plant assets conducted by New Hampshire's other gas utilities. Tr. at 44.

Regarding the reduction in the capital expenditures, Staff testified that the agreement reduced the spending requirement, but did not limit the Company's capital investments. Tr. at 44. With regard to cast iron and bare steel mains, Staff stated that it viewed their replacement in conjunction with municipal projects as non-discretionary spending. Tr. at 44. Staff confirmed that the purpose of the lower amount was to allow the Company flexibility to determine which projects to do without requiring it to spend money it would not otherwise spend to meet the higher minimum. Tr. at 44-45. Staff stated that lowering the capital spending requirement would reduce the pressure for a future rate case. Tr. at 45. Similarly, Staff noted that the Company's more stable cash flow through the deferred revenues would delay the need for another rate case. Tr. at 45.

As to the change to HDD data proposed by the Company, Staff stated that it supported the change from the unreliable Keene-based data to the more reliable Concord data. Tr. at 46. Moreover, Staff confirmed the belief that Concord is a reasonable proxy for Keene. Tr. at 46. Staff stated that using Concord would provide a reasonable basis upon which NHGC could “normalize” its sales and was consistent with the manner in which other gas utilities operated. Tr. at 46-47. Staff also recommended that the Company continue to collect HDD data in Keene, while relying upon Concord’s data. Tr. at 47.

Staff agreed with NHGC that the Company’s revenue requirement would not change as a result of using Concord’s data, only the rates by which that revenue requirement was achieved. Tr. at 47-48. Staff pointed out that unless the HDD data was changed as proposed by the parties, it would be unlikely that the Company would achieve the agreed-upon revenue requirement absent sales growth. Tr. at 48, 61. Staff believed, however, that sales growth was unlikely given the current economic conditions and the rise in rates. Tr. at 61. Accordingly, Staff supported the Company’s proposal to use Concord’s HDD data in place of that from Keene.

Lastly, Staff described the impact of the changes to the Company’s rates resulting from the settlement agreement and HDD, as well as those proposed by the Company in its 2009-2010 winter cost of gas filing, Docket No. DG 09-168. *See* Hearing Exhibit 8. According to Staff’s calculations, due to the decrease in propane commodity costs, even after the increase in delivery rates and the inclusion of the surcharge, customers would experience a decrease of about 7.4 percent in their rates during the first year of the rate plan. *See* Hearing Exhibit 8. In fact, according to Staff’s calculations, should the commodity costs remain consistent with those identified in Docket No. DG 09-168, the Company’s overall rates would be lower than those in the test year throughout the term of the rate plan. *See* Hearing Exhibit 8. In light of the above,

Staff confirmed that it supported the approval of the rates as determined in the settlement agreement. Tr. at 66.

IV. COMMISSION ANALYSIS

RSA 378:7 authorizes the Commission to fix rates after a hearing upon determining that the rates, fares, and charges are just and reasonable. In determining whether rates are just and reasonable, the Commission must balance the customers' interest in paying no higher rates than are required with the investors' interest in obtaining a reasonable return on their investment. *Eastman Sewer Company, Inc.*, 138 N.H. 221, 225 (1994). Additionally, in circumstances where a utility seeks to increase rates, the utility bears the burden of proving the necessity of the increase pursuant to RSA 378:8. Pursuant to RSA 541-A:31, V(a), informal disposition may be made of any contested case at any time prior to the entry of a final decision or order, by stipulation, agreed settlement, consent order or default. N.H. Code Admin. Rules Puc 203.20(b) requires the Commission to determine, prior to approving disposition of a contested case by settlement, that the settlement results are just and reasonable and serve the public interest.

In general, the Commission encourages parties to attempt to reach a settlement of issues through negotiation and compromise as it is an opportunity for creative problem solving, allows the parties to reach a result more in line with their expectations, and is often a more expedient alternative to litigation. *EnergyNorth Natural Gas, Inc. d/b/a National Grid NH*, Order No. 24,972 (May 29, 2009) at 48. However, even where all parties join a settlement agreement, the Commission cannot approve it without independently determining that the result comports with applicable standards. *Id.* The issues must be reviewed, considered and ultimately judged according to standards that provide the public with the assurance that a just and reasonable result has been reached. *Id.*

A. Settlement Agreement

1. Revenue Increase

Our review of the record in this case discloses that NHGC was only nominally profitable during the test year. Moreover, it appears that should the Company's operations continue unchanged, it would be operating at a loss. As such, we conclude that the Company is entitled to an increase in its rates.

Regarding the amount of the increase, the parties have agreed upon an increase of \$288,732 annually over its test year revenues. This amount is substantially below the originally requested increase of \$423,806 annually. The increase was based upon a stipulated rate base of \$2,236,222 and a stipulated overall rate of return of 8.875 percent. We agree with the parties that the amount of the increase is appropriate. While less than the amount the Company had originally requested, the increase is sufficient for the Company to continue to fund its operations and to provide safe and reliable service. Moreover, reducing the amount of the overall increase in rates from the amount originally requested will keep the Company more competitive and make it more likely that the Company will retain its customer base. While we recognize that the Company's study supported the possibility of a larger increase to its rates without significant injury to its customer base, we agree with the parties that this smaller increase will make it more likely that the Company will retain its customers.

While the Company will increase its rates, the settlement agreement contemplates that it will do so through a phased-in rate plan. NHGC's rates will be phased-in over three years, with the largest single increase coming in the first year. The Company will also be able to apply a deferred revenue surcharge in the fourth and fifth years, which will, in essence, give it another increase in its rates. Witnesses from the Company and Staff both testified that the increases

achieved through the rate plan will be sufficient to enable the Company to continue its operations and that they will stabilize the Company's cash flows. This rate plan, as with the amount of the increase itself, is designed to help the Company improve its cash flows while retaining customers. We find that these goals are served by the parties' rate plan, which allows the Company to earn higher rates without immediately pricing itself out of the market for energy service in Keene. Additionally, we find the parties' agreed-upon overall rate of return reasonable and similar to what has recently been granted in other dockets covering gas utilities. *See, e.g., EnergyNorth Natural Gas Inc. d/b/a National Grid NH, Order No. 24,972 (May 29, 2009).*

As to the changes in the Company's depreciation rates, we conclude that such changes are appropriate. Depreciation ought to be linked to the service lives of the items depreciated. However, requiring a company as small as NHGC to undertake a costly depreciation study would be onerous. Instead, in this instance we agree with Staff that using the rates as found by other natural gas utilities in their depreciation studies is a reasonable means to determine the rates applicable to NHGC's assets.

2. Merger Requirements

The settlement agreement also alters the terms of NHGC's obligations as established in Docket No. DG 07-083. *See Iberdrola, S.A., et al., Order No. 24,812 (December 28, 2007).* As a result of the agreement in this case, NHGC's staffing levels and operations center remain unchanged, but its capital expenditure requirement is reduced from an average of \$275,000 to an average of \$200,000 per year. According to Company and Staff witnesses, this reduction will allow NHGC some flexibility in that it will not be required to complete projects it might not otherwise have done but for the requirement. It will still, however, require a sufficient level of expenditures to ensure that the Company is meeting its obligations to provide safe and reliable

service. Also, as noted by Staff and the Company, NHGC will, without regard to the spending requirement, be required to replace its cast iron and bare steel mains in conjunction with municipal and state projects. In light of the benefit the reduction provides to the Company without sacrifice to service, we find this reduction reasonable and therefore approve it.

3. Energy Efficiency and Low-Income Customer Information

As part of the settlement agreement, the Company will work with Staff and the OCA to develop an informational brochure for distribution to its customers regarding ways to conserve energy and otherwise control costs. The Company confirmed that the development and distribution of such information would be more than the Company has done in such matters previously. Tr. at 20. According to Ms. Zink, in the past the Company would receive requests from customers and would then direct them to various websites for information on energy efficiency or to various community resources for low-income assistance. Tr. at 20-21. Going forward, the Company will be initially responsible for informing customers about their options and possible assistance. Tr. at 20-21. We regard this as a positive change, and we therefore approve that portion of the agreement.

4. Rate Case Expenses and Temporary Rate Reconciliation

As required by the settlement agreement, NHGC has submitted its calculation of the reconciliation of temporary and permanent rates as well as its recovery of rate case expenses. We note initially that we agree that the Company is entitled to recover the reconciled difference between temporary and permanent rates, *see* RSA 378:27-29, as well as its reasonable rate case expenses, *see* RSA 365:38-a. As to the rate case expenses, as noted by Staff, the Company's original estimate of expenses was \$95,000, but the final amount set for recovery according to its calculations is \$27,442. Tr. at 43. This amount excludes expenses from affiliate services

provided by Berkshire. Tr. at 10. According to Staff's pre-filed testimony, the difference in the amount of services provided to NHGC by Berkshire during the test year, and during the months following the test year when Berkshire provided services related to the rate case, is minimal. *See* Hearing Exhibit 7, Pre-filed Testimony of Stephen P. Frink, at 11-12. Moreover, Berkshire's expenses outside of the rate case are covered by routine payments from NHGC and by Berkshire's affiliated Massachusetts utilities, and which are included in the rates of those utilities. *See* Hearing Exhibit 7, Pre-filed Testimony of Stephen P. Frink, at 11-12. Given that Berkshire's regular expenses are already paid through rates, and that the amount of services during the rate case and outside of it are essentially the same, we agree that exclusion of these costs is appropriate. We also agree that given the Company's continuing obligation to respond to audit requests regarding its books and records, *see* RSA 374:18, such responses are normal costs of the utility, which are recovered in rates under RSA 378:28. Thus, they should not be included as a surcharge. *See Aquarion Water Company of New Hampshire*, Order No. 24,665 (Sept. 12, 2006). Considering these exclusions, we approve the Company's recovery of \$27,442 for rate case expenses.

As to the reconciliation of temporary and permanent rates, NHGC is to recover \$45,371 from the reconciliation of its temporary and permanent rates. Staff did not object to this calculation. We therefore accept this calculation as accurate. We also note that the settlement agreement provides that there will be a reconciliation filed before October 15, 2010 regarding the surcharge generated by the rate case expenses and the reconciliation of temporary and permanent rates. As such, there will be an opportunity to address issues relating to the surcharge, should any arise over the coming year.

5. Conclusion

Having reviewed the record, including the settlement agreement and evidence presented at hearing, we find that the revenue requirement adopted by the signatories is reasonable and will produce just and reasonable rates. We further find that the terms of the settlement agreement represent an appropriate balancing of ratepayer interests and the interests of NHGC under current economic circumstances. We therefore adopt and approve the terms of the settlement agreement as consistent with the public interest.

B. Change to Heating Degree Day Data

We have previously “allowed adjustments to revenue to account for an abnormally warm or cold test year where a correlation between degree-day changes and sales is established.” *Concord Steam Corp.*, Order No. 18,484, 71 NH PUC 667, 679 (1986). In so doing we are acknowledging that “test year gas revenues should be normalized if rates are to be set on a consistent basis and in a way that is fair to the utility and ratepayer alike.” *EnergyNorth Natural Gas, Inc.*, Order No. 20,542, 77 NH PUC 354, 360 (1992). “[T]he achievement of those objectives depends largely on the ability of a methodology to generate a reasonably reliable estimate (over the long term) of ‘normal’ weather.” *Id.*

As testified to by Staff and the Company, there was a marked and dramatic change to the Company’s recorded HDD data beginning in 2004. The Company, despite its inspections, has been unable to determine the reason for the shift or any means to correct it. In consultation with Staff and the OCA, NHGC has proposed to change its HDD data from Keene-based to Concord-based. We find this change appropriate.

As noted, a gas utility should be able to generate reliable estimates of normal weather over the long term in order to “normalize” its test year gas revenues. Being unable to generate reliable estimates may, potentially, jeopardize the ability of the utility to set rates that are fair for

the ratepayers and the utility. The Company and Staff testified that the sizeable change in the Company's HDD data, without any knowledge of its cause or a means to adjust for it, renders the data unusable for reliably estimating "normal" weather. As a result, the Company cannot establish a meaningful correlation between degree-day changes and sales. In fact, as noted by the Company, failing to alter the HDD data may result in the Company failing to collect nearly \$90,000 to which it is entitled, because its rates would be designed around faulty criteria. Thus, the Company requires a new source of information.

In this instance, we conclude that an alteration to the Company's HDD data is warranted. Moreover, we agree that Concord, given its relative proximity, is a reasonable substitute for Keene. Concord has an established history of data, which is administered by an independent and reliable third party, the National Weather Service. Therefore, we approve of NHGC basing its HDD adjustments on Concord-based data rather than data from Keene. We also agree with the parties, however, that NHGC should continue to collect data in Keene. Should the Company collect sufficient data it may, in time, move back to Keene for its HDD calculations.

Based upon the foregoing, it is hereby

ORDERED, the terms of the settlement agreement are hereby adopted and APPROVED as discussed herein; and it is

FURTHER ORDERED, that NHGC shall begin calculating its heating degree day rate adjustments on Concord-based information as discussed herein; and it is

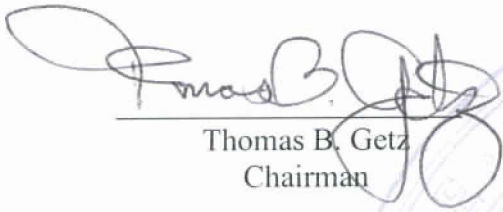
FURTHER ORDERED, that NHGC is authorized to collect from customers permanent rates as discussed herein beginning on November 1, 2009 on a bills-rendered basis; and it is

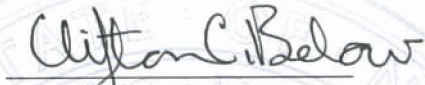
FURTHER ORDERED, that NHGC is authorized to recover from all customers its rate case expenses as discussed herein; and it is

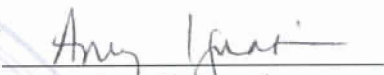
FURTHER ORDERED, that NHGC is authorized to recover from all customers the difference between its temporary and permanent rates as discussed herein; and it is

FURTHER ORDERED, that NHGC shall file with the Commission a compliance tariff within fourteen (14) days of this order.


By order of the Public Utilities Commission of New Hampshire this thirtieth day of October, 2009.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy L. Ignatius
Commissioner

Attested by:


Debra A. Howland
Executive Director

