

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 14-230

NEW HAMPSHIRE GAS CORPORATION

Winter 2014-2015 Cost of Gas

Order Approving Cost of Gas Rates

ORDER NO. 25,729

October 28, 2014

APPEARANCES: Brian R. Maloney, *pro se*, on behalf of New Hampshire Gas Corporation; and Alexander F. Speidel, Esq., for the Staff of the Public Utilities Commission.

In this order, the Commission approves New Hampshire Gas Corporation's proposed 2014-2015 winter cost of gas rate and fixed-price option rate, which are \$1.7069 per therm and \$1.7269 per therm, respectively. For non-fixed-price customers, this is a decrease of \$0.3023 per therm or 15 percent below the 2013-2014 weighted average winter season cost of gas rate.

Assuming winter conditions and gas supply conditions are as the company projects, a typical non-fixed-price residential customer will pay approximately \$196 less over the course of the six-month winter period.

I. PROCEDURAL HISTORY

On September 5, 2014, New Hampshire Gas Corporation (NHGC), a public utility distributing propane-air gas service to approximately 1,200 customers in Keene, filed its proposed cost of gas (COG) and fixed-price option (FPO) rates for the 2014-2015 winter COG period. NHGC's filing included the pre-filed testimony of Brian R. Maloney, an employee of Rochester Gas and Electric Corporation, which provides management services to NHGC

(Maloney Testimony). *See* Hearing Exhibit 1. NHGC also requested a waiver of N.H. Code Admin. Rules Puc 1203.05, which requires utilities to implement rate changes on a service-rendered basis, so that NHGC could implement the changes on a bills-rendered basis. The Commission issued an order of notice scheduling a hearing for October 8, 2014. No parties intervened in the docket, and the hearing was held on October 8, 2014, as scheduled.

II. POSITIONS OF THE PARTIES AND STAFF

A. NHGC

Mr. Maloney's testimony included: (1) the calculation of the proposed COG rate and resulting customer bill impacts; (2) the reasons for the change in COG rates; (3) NHGC's supplies and supply reliability; (4) NHGC's request to waive the rule requiring rate changes to be billed on a service-rendered basis; and (5) the expiration of the deferred revenue surcharge arising from Order No. 25,039 (Oct. 30, 2009).

1. Calculation of the COG Rate and Bill Impacts

NHGC's proposed winter 2014-2015 (November through April) COG rate is \$1.7069 per therm. Maloney Testimony at 3. This rate is \$0.3023 per therm, or 15 percent lower than last winter's weighted average COG rate of \$2.0092 per therm. Maloney Testimony at 6. For a typical residential heating customer, the proposed rate decrease and expiration of the deferred revenue surcharge will cause an overall bill decrease of approximately \$196, or 11 percent, after factoring in other charges. Exhibit 1, Schedule K-2. Pursuant to the terms of NHGC's COG Tariff, NHGC may adjust the non-FPO COG rate on a monthly basis in response to changing propane commodity costs. These upward monthly adjustments may not cumulatively exceed

25 percent above the approved COG rate without further Commission action over the course of the winter COG period. NHGC may adjust its COG rate downward at its discretion during the winter COG period without further Commission approval. Therefore, the expected rate impacts on NHGC non-FPO customers may vary during the course of the upcoming COG period.

The proposed FPO rate is \$1.7269 per therm, which is calculated by adding a two cent premium to the initial COG rate. Maloney Testimony at 6. This represents an increase of \$0.0284 per therm or 1.7 percent over last winter's FPO rate of \$1.6985 per therm. Exhibit 1, Schedule K-1. For a typical FPO residential heating customer the proposed FPO rate increase and expiration of the deferred revenue surcharge will cause an overall bill decrease of \$18, or 1 percent, after factoring in other charges. Exhibit 1, Schedule K-1. Approximately 23 percent of NHGC's customers had enrolled in the 2014-2015 FPO program through the date of the hearing. Transcript of October 8, 2014, Public Hearing (Tr.) at 10.

2. Reasons for the Decrease

Mr. Maloney testified that the rate decrease is caused by a forecasted decrease in the average spot market purchase price of propane to \$1.5599 per therm, compared to last year's actual rate of \$2.3054 per therm. Maloney Testimony at 6. This decrease was partially offset by an increase in the Propane Purchasing Stabilization Plan (PPSP) contract rate, which increased from \$1.4573 per therm last year to \$1.6165 per therm this year. The proposed FPO rate is slightly higher due to the increase in the PPSP contract rate being partially offset by this year's lower futures prices for spot propane purchases on the rate-setting date. Maloney Testimony at 7.

3. Gas Supply and Supply Reliability

NHGC implemented its propane purchasing stabilization plan as approved in *New Hampshire Gas Corp.*, Order No. 24,617 (April 28, 2006), under which NHGC pre-purchased 725,000 gallons of propane at a weighted average delivered price of \$1.4791 per gallon, or \$1.6165 per therm. Exhibit 1, Schedule D. This represents 60 percent of NHGC's total projected winter propane requirements. *Id.* This level of pre-purchasing is an increase of 25,000 gallons from last year, as an NHGC response to the difficult propane market conditions prevalent in the Northeastern United States last winter. Tr. at 7-8.

Mr. Maloney testified that, in addition to its net storage capacity at its plant in Keene for approximately 75,000 gallons of propane, NHGC has contracted for the right to buy up to 100,000 gallons of propane from a nearby storage facility to enhance supply reliability. Maloney Testimony at 8-9. This is a doubling of NHGC's previous contractual right to purchase up to 50,000 gallons of propane from the storage facility, and represents an additional response of NHGC to the propane supply conditions of last winter. *Id.*, Tr. at 8-9.

In his filed testimony and at hearing, Mr. Maloney provided an overview of the propane supply challenges prevailing in the Northeastern United States during the last winter. Severe winter propane shortages led to a spike in propane costs that was reflected in last winter's actual COG rates. Tr. at 7. Mr. Maloney pointed to the intense winter weather and the use of large volumes of propane in the Midwestern United States for crop-drying purposes as two specific events that were not likely to recur at the same magnitude during the upcoming winter. Tr. at 13. Mr. Maloney confirmed, in response to Commission questioning, that NHGC, despite the

challenging conditions last winter, was able to remain in compliance with the Commission's seven-day supply requirement pursuant to N.H. Code Admin. Rules Puc 506.03. Tr. 11-12. Also, Mr. Maloney noted that, in addition to NHGC's own increased storage and hedging efforts, the U.S. propane industry as a whole had increased its winter preparations for this year in response to last year's winter conditions, through measures such as the construction of new rail terminals in the Midwest, expanded storage facilities, and streamlining of the regulatory process for approval of trucking-hour exemptions for propane haulers. Maloney Testimony at 9, Tr. at 7-8.

4. Rate Changes on a Bills-Rendered Basis

NHGC asked that the Commission waive Puc 1203.05(b), which requires NHGC to implement changes on a service-rendered basis, so that NHGC could implement the proposed changes on a bills-rendered basis. Mr. Maloney testified that it would be less confusing to NHGC customers who are accustomed to the bills-rendered basis method, and that NHGC's current billing system would have to be replaced at substantial cost to allow for service-rendered billing. Maloney Testimony at 10.

5. Expiration of Deferred Revenue Surcharge

In 2009, the Commission approved a substantial rate increase for NHGC, ordered that NHGC phase in the increase over three years (which resulted in an under-collection over those first three years), and authorized NHGC to impose a deferred revenue surcharge over years four and five to recover the under-collection that accrued during those first three years while the new rates were phased-in. *New Hampshire Gas Corporation*, Order No. 25,039 (Oct. 30, 2009) at

3-4. Mr. Maloney confirmed that the surcharge would expire before the commencement of this winter COG period, on October 31, 2014, and that the residual over-collected balance estimated at approximately \$3,400 would be refunded to customers in the November 2014 COG reconciliation. Maloney Testimony at 9; Tr. at 10-11.

B. Staff

In its closing, Staff supported NHGC's proposed 2014-2015 winter COG and FPO rates, and the waiver request to allow NHGC to continue billing on a bills-rendered basis. Tr. at 14-15. Staff stated that the sales forecast and supply plan for the 2014-2015 winter period were consistent with prior years. Tr. at 15. Staff noted that there will be a reconciliation of forecast and actual costs, and that concerns that may arise related to the actual usage and costs during the upcoming winter can be addressed in next year's COG proceeding. *Id.* The Commission Audit Staff reviewed the 2013-2014 winter COG reconciliation and found no exceptions. *Id.*

III. COMMISSION ANALYSIS

Based on our review of the record, we approve the proposed 2014-2015 winter period COG and FPO rates as just and reasonable rates pursuant to RSA 378:7. The rates appear to be calculated in a manner consistent with past practices, and Staff's review did not reveal any deficiencies. We note that pursuant to *New Hampshire Gas Corp.*, Order No. 24,962 (April 30, 2009), the approved non-FPO rate may be adjusted monthly without further Commission action to eliminate or reduce over or under recoveries in a timely and efficient manner, although rate increases are limited to no more than 25 percent of the approved rates. The monthly COG rate can thus be adjusted to reflect actual costs and revised cost projections

throughout the period while limiting rate increases. We also approve the refund of the over-collection from the expiring deferred revenue surcharge.

We commend NHGC's efforts to enhance its propane hedging and storage capabilities, in response to the challenging conditions of last winter. Finally, we address NHGC's request to waive Puc 1203.05, which requires that companies implement rate changes on a service-rendered basis. To obtain a waiver, NHGC must address, to the extent possible, such issues as potential customer confusion, implementation costs, the matching of revenue with expenses, and the objective of adequate customer notice. *See* Puc 1203.05(c). NHGC asserted, as it has in previous COG proceedings, that its customers will not be confused by a continuation of rate changes instituted on a bills-rendered basis, and that its current billing system would have to be replaced at substantial costs to allow for service-rendered billing. We find NHGC's argument to be persuasive and, accordingly, we grant NHGC's request for a waiver of the requirement that it implement the rate changes on a service-rendered basis pursuant to Puc 201.05.

Based upon the foregoing, it is hereby

ORDERED, that NHGC's COG rate of \$1.7069 per therm and FPO COG rate of \$1.7269 per therm for the period November 1, 2014 through April 30, 2015 are **APPROVED**, effective November 1, 2014, on a bills-rendered basis, in accordance with the above; and it is

FURTHER ORDERED, that NHGC may, without further Commission action, adjust the COG rate based upon the projected over- or under-collection for the period, the adjusted rate to be effective the first of the month and not to exceed a maximum rate of 25 percent above the approved rate with no limitation of reductions to the COG rate; and it is

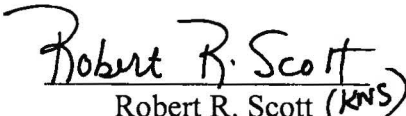
FURTHER ORDERED, that NHGC shall provide the Commission with its monthly calculation of the projected over- or under-collection, along with the resulting revised COG rate for the subsequent month, not less than five business days prior to the first day of the subsequent month. NHGC shall include a revised tariff page 24, Calculation of the Cost of Gas, and other revised tariff pages if NHGC elects to adjust the COG rate; and it is

FURTHER ORDERED, that the over- or under-collection shall accrue interest at the monthly prime lending rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates, the rate to be adjusted each month; and it is

FURTHER ORDERED, that the Commission accepts the proposed refund of approximately \$3,400 to NHGC customers from the over-collection resulting from the deferred revenue surcharge expiring on October 31, 2014; and it is

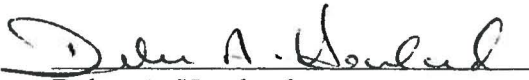
FURTHER ORDERED, that NHGC shall file properly annotated tariff pages in compliance with this order no later than 15 days from the issuance date of this order, as required by N.H. Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of October, 2014.


Robert R. Scott (KNS)
Commissioner


Martin P. Honigberg
Commissioner

Attested by:


Debra A. Howland
Executive Director