

DG 06-039

NORTHERN UTILITIES, INC. – PELHAM DIVISION

2006 Summer Season Cost of Gas

Order Approving Cost of Gas Rate

ORDER NO. 24,616

April 28, 2006

APPEARANCES: Seth L. Shortlidge, Esq., of Pierce Atwood LLP, on behalf of Northern Utilities, Inc.; and Edward N. Damon, Esq., for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On March 15, 2006, Northern Utilities, Inc. – Pelham Division (Northern) filed with the New Hampshire Public Utilities Commission (Commission) a proposed rate adjustment pursuant to the Cost of Gas (COG) Clause in its tariff for the period May 1, 2006 through October 31, 2006 (2006 Summer Season COG), applicable to Northern's propane service to 18 commercial customers located in Pelham, New Hampshire. The filing was accompanied by supporting schedules and the direct testimony of Joseph A. Ferro, Manager of Regulatory Policy.

On March 21, 2006, the Commission issued an Order of Notice scheduling a hearing for April 13, 2006. There were no intervenors in this docket. On April 12, 2006, Northern filed with the Commission a revised COG filing with an updated proposed rate. The hearing on Northern's COG filing was held as scheduled on April 13, 2006.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

Northern witness Joseph A. Ferro addressed a number of matters, including the following: 1) calculation of the proposed COG rate and customer bill impact; 2) reasons for the rate increase; and 3) plans for the future operation of the Pelham Division.

1. Calculation of the Proposed COG Rate and Customer Bill Impact

The proposed 2006 Summer Season COG rate of \$1.4474 per therm was calculated by increasing the anticipated cost of gas of \$23,053 by the prior period under-collection of \$3,190 and related interest of \$56 and dividing the resulting anticipated costs of \$26,298 by projected sales of 18,170 therms. Northern's proposed 2006 Summer Season COG rate of \$1.4474 per therm represents an increase of \$0.2995 per therm from the 2005 average weighted Summer Season COG rate of \$1.1479 per therm. Under the proposed rate, a typical Pelham customer using 273 therms will pay a total gas bill of \$598 for the 2006 Summer Season compared to a total gas bill of \$517 for the 2005 Summer Season, an increase of \$81 or 15.76%.

2. Factors Contributing to the Increased COG Rate

Northern testified that the increase in the proposed COG rate as compared to last summer's rate can be primarily attributed to two factors. First, Northern forecasted higher propane prices as compared to last summer's average actual propane prices and, second, there was an increase in the under-collection this year versus last year.

3. Plans for the Future Operations of the Pelham Division

In 1988, Northern purchased the Pelham and Salem franchises from a previously regulated propane supplier, Petrolane Southern New Hampshire Gas Company. Although Northern expanded natural gas service to Salem, it stated that it cannot economically provide that service to Pelham in the foreseeable future. In *Northern Utilities, Inc.*, 87 NH PUC 269, Order No. 23,958 (2002), approving the Northern – Pelham Division 2002 Summer Cost of Gas, the Commission directed Northern to work toward developing a plan to deregulate propane service at Pelham Plaza and minimize customer impacts.

As he has in prior COG dockets, Mr. Ferro reviewed the recent history of Northern's attempts to discontinue regulated service. *See also Northern Utilities, Inc.*, 89 NH PUC 620, Order No. 24,391 (2004) and *Northern Utilities, Inc.*, Order No. 24,537 in Docket No. DG 05-148 (October 31, 2005). In the latter order, the Commission directed Northern to file (1) an explanation of how it would provide unregulated propane service if the Commission were to determine that unregulated service would be appropriate and (2) an analysis of the applicability of the test set forth in *Appeal of Zimmerman*, 141 N.H. 605 (1997). Northern provided the required analysis and a proposed plan for "light-handed" regulation and possible deregulation in its 2006 Summer Season COG filing.

Northern stated that the two suppliers who had initially expressed interest in bidding on a request for bids issued by Northern have expressed no continuing interest in doing so. However, Northern stated that it has recently become aware of possible interest by two other unregulated propane suppliers, EnergyUSA and Suburban Propane, in acquiring Northern's Pelham Plaza facilities and providing propane service to customers.

Northern testified that it is willing to pursue the sale of the Pelham Plaza facilities to an unregulated company using the previously prepared request for bids, subject to finalization of the terms and PUC approval of that transaction. If Northern is unsuccessful in obtaining reasonable assurance within 60 days of the order in this docket that such a sale can be consummated, then Northern would report back to the Staff about the situation and Staff would then recommend to the Commission that a new docket be opened to address the situation at the Pelham Plaza.

B. Staff

Staff supported Northern's proposed 2006 Summer Season COG rate, as the sales forecast and supply planning is consistent with past practices and reflects market expectations, the

2006 Summer Season gas costs and revenues will be reconciled prior to the 2007 summer COG, and any concerns that might arise would be addressed in that proceeding.

Staff further stated that, since there appears to be some interest by reputable propane dealers in acquiring the Pelham system, it is appropriate for Northern to continue to explore that possibility. Staff noted that the sale of the Pelham System has been an issue for some time and that setting a deadline of 60 days to determine if such a sale is going to take place is reasonable. Staff stated that if Northern is unsuccessful in obtaining reasonable assurances that such a sale is feasible, opening a docket to specifically address the question of discontinuing regulated propane service to the Pelham Division would help remove the uncertainty that has existed since the issue was raised in the 2002 Summer Season COG proceeding.

III. COMMISSION ANALYSIS

Based on our review of the record in this docket, we approve the proposed COG rate as a just and reasonable rate pursuant to RSA 378:7. We will not, however, address at this time Northern's proposed plan for a change in the regulation of the Pelham Division and its analysis of the applicability of the *Appeal of Zimmerman* case at this time. The analysis and proposal require a thorough review and there is insufficient time in the current COG proceeding to give them adequate consideration. In addition, the current proposal may be rendered moot if the system is sold to an unregulated propane supplier, two of which have expressed an interest and are considering Northern's request for bids. We direct Northern therefore to continue its sales efforts and file a report regarding the status of its sales efforts by June 30, 2006. Barring a serious offer from an interested party within that period, Northern is requested to file its proposed plan regarding the continued regulation of the Pelham Division and its analysis of the applicability of the *Appeal of Zimmerman* case as the basis for opening a separate docket by the Commission

Based upon the foregoing, it is hereby

ORDERED, Northern Utilities, Inc. - Pelham Division's proposed 2006 Summer Season COG rate of \$1.4474 per therm for the period May 1, 2006 through October 31, 2006, is **APPROVED**, effective for service rendered on or after May 1, 2006; and it is

FURTHER ORDERED, that Northern may, without further Commission action, adjust the approved COG rate upward or downward monthly based on Northern'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 Northern shall provide the Commission with its monthly calculation of the projected over or under-calculation, along with the resulting revised COG rates for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. Northern shall include revised tariff page 40 - Calculation of Cost of Gas Adjustment and revised rate schedules under separate cover letter if Northern elects to adjust the COG rates; and it is

FURTHER ORDERED, that any 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; and it is

FURTHER ORDERED, that Northern shall file by June 30, 2006, a report regarding the status of its efforts to sell the Pelham system; and it is

FURTHER ORDERED, that Northern 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 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