

DG 07-044

NEW HAMPSHIRE GAS CORPORATION

2007 Summer Season Cost of Gas

Order Approving Cost of Gas Rate

ORDER NO. 24,745

April 27, 2007

APPEARANCES: Meabh Purcell, Esq. of LeBoeuf, Lamb, Greene & MacRae LLP, 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 26, 2007, New Hampshire Gas Corporation (NHGC or the Company) filed with the New Hampshire Public Utilities Commission (Commission) a proposed cost of gas (COG) rate adjustment for the period May 1, 2007 through October 31, 2007 (2007 Summer Season). The filing was accompanied by supporting attachments and the direct testimony of Jennifer Boucher, Manager of Regulatory Economics for Berkshire Gas Company, an affiliate company that provides corporate services to NHGC.

On March 28, 2007, the Commission issued an Order of Notice scheduling a hearing for April 24, 2007. There were no intervenors in this docket. The hearing was held as scheduled on April 24, 2007. At hearing, NHGC filed with the Commission a revised COG filing using updated propane futures commodity prices.

II. POSITIONS OF THE PARTIES AND STAFF

A. NHGC

NHGC witnesses Jennifer M. Boucher and David Grande, Manager of Operations for Berkshire Gas Company and General Manager for NHGC, addressed a number of matters,

including the following: 1) calculation of the COG rate and customer impact; 2) reasons for the increase; 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 \$1.6817 per therm. This rate is calculated by increasing the anticipated cost of gas of \$470,835 by a prior period under-collection of \$44,740 and associated interest of \$2,280 and then dividing the resulting anticipated costs of \$517,855 by projected sales of 307,930 therms. NHGC's proposed 2007 Summer COG rate of \$1.6817 per therm represents an increase of \$0.3035 per therm from the 2006 weighted average Summer Season COG rate of \$1.3782 per therm.

The proposed 2007 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, 2007, for the months of May 2007 through October 2007, plus brokers' fees, pipeline transportation costs and trucking charges. Projected Summer Season sales of 307,930 therms are based on a one-year benchmark of actual sales which includes the new commercial development, Monadnock Marketplace.

The combined impact of the proposed COG rate and Deferred Revenue surcharge is a \$52 increase in the average residential heating and hot water customer's Summer Season gas costs, which represents a 12% increase from last summer's costs (\$485 compared to \$433).

2. Reasons for the Increase in the COG Rate

According to NHGC, the primary reason for the increase in the proposed COG rate, as compared to last summer's rate, can be attributed to increases in the projected spot market price of propane. Also contributing to the increase is a prior period under-collection expense of \$44,740 compared to an over-collection credit of \$1,183 that was included in calculating last summer's COG rate.

3. Propane Purchasing Stabilization Plan

In Order No. 24,617 (October 31, 2007), the Commission approved NHGC's Propane Purchase Stabilization Plan (Plan) as a pilot program. The Plan provides for NHGC's pre-purchase of up to 65% of its winter supplies over a six-month period, thereby reducing rate volatility, and for the diversification of NHGC's receipt locations at two separate propane terminals.

NHGC requested Commission approval of the Plan on an on-going basis, testifying that it was pleased with last year's results, as the premiums paid under the Plan had very little rate impact. NHGC has issued a request for bids to interested suppliers and has received two bids in response, which are currently being evaluated.

4. Rate Changes on a Bills-Rendered Basis

In her direct testimony, Ms. Boucher 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. Boucher 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. Order No. 24,617 (April 28, 2006) approved \$192,417 of deferred revenue to be recovered over a 36-month period. As detailed on Supplemental Schedule D of Ms. Boucher's testimony, the estimated remaining deferred amount to be recovered from May 2007 through April 2009 is \$131,665. The recovery of the remaining balance of deferred revenues results in a surcharge unit rate of \$0.0495, an increase of \$0.007 from the current surcharge unit rate will be \$0.0488 per therm.

6. Unaccounted for Gas Losses

In response to Staff questions at hearing, Mr. Grande provided additional detail pertinent to the Company's efforts to date to improve its level of unaccounted for losses. First, the number of leaks on the system has been reduced from 37 at this time last year, including 5 of the more pressing Class II leaks, to 15 leaks this year, including 0 in the more critical Class I or Class II categories. Second, NHGC recently installed a Remote Terminal Unit (RTU) at the propane plant. The RTU will allow the Company to have more precise, computerized control of plant output pressure and Btu levels. Third, the Company expects to have a turbine meter measuring the plant output into its distribution system in operation by the October-November 2007 timeframe. Fourth, the Company reports it is up to date on its larger commercial and industrial meter replacements. Mr. Grande expects that these changes, in addition to other

actions the Company has taken and previously reported to this Commission, will contribute to the reduction of unaccounted for losses on its system.

Mr. Grande also testified that NHGC has seen 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% and for year ending June 2006 these losses have been reduced to 6.44%. The Company will continue providing Staff with updates on the results of its actions related to reducing unaccounted for losses.

B. Staff

Staff recommends approval of the NHGC revised proposed Cost of Gas rate. Staff noted that the Commission Audit Staff reviewed the 2006 Summer Season reconciliation and found no exceptions. According to Staff, the sales forecast and supply planning appear reasonable and reflect recent growth on the system. Actual 2007 summer gas costs and revenues will be reconciled prior to the 2008 summer COG and any concerns that may arise will be addressed in that proceeding.

Staff recommends that NHGC continue the Propane Purchasing Stabilization Plan. Staff explained that the Plan reduces 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.

Staff points out that that NHGC's effort to reduce unaccounted for gas has had a positive impact and anticipates further improvements in that area as NHGC continues to implement proposed measures to address that issue.

Finally, Staff has reviewed the NHGC calculation of deferred revenues related to NHGC's gradual implementation of its approved rate increase in Docket No. 02-003 and verified its accuracy. Staff notes that the Deferred Revenue Surcharge is consistent with the terms of the Settlement Agreement approved in that docket.

III. COMMISSION ANALYSIS

Based on our review of the record in this docket, we approve the proposed 2007 Summer Season COG rate as a just and reasonable rate pursuant to RSA 378:7.

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 Propane Purchasing Stabilization Plan approved as a pilot program last year resulted in a minimal risk premium. Although warmer than normal weather during the first half of last winter prevented a run-up in propane prices during that period, that experience in no way reduces the price risks inherent in the industry and we approve NHGC's continued hedging under the Plan. That said, we expect NHGC to exercise its best judgment as to when and how much propane to pre-purchase in any given year, a key consideration being the reasonableness of the premium. We will expect NHGC to report at each COG proceeding as to the status of its hedging activities and to provide an analysis of the results.

NHGC has made reasonable progress in reducing the unaccounted for gas losses on its system and should continue to provide status reports at subsequent cost of gas hearings. We encourage NHGC to continue working with Staff to find effective measures to address this issue.

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 2007 Summer Season COG rate of \$1.6817 per therm for the period of May 1, 2007 through October 31, 2007 is APPROVED, effective for bills rendered on or after May 1, 2007; 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 \$0.0495 per therm for the period of May 1, 2007 through April 30, 2009 is APPROVED, effective for bills rendered on or after May 1, 2007; 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-seventh day of April, 2007.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Attested by:

ChristiAne G. Mason
Assistant Executive Director & Secretary