

DG 02-003

NEW HAMPSHIRE GAS CORPORATION

Petition for Rate Increase

Order on Motion for Clarification

O R D E R N O. 24,127

February 14, 2003

I. BACKGROUND

On December 5, 2002, the New Hampshire Public Utilities Commission (Commission) held a hearing to consider a Settlement Agreement concerning New Hampshire Gas Corporation, Inc.'s (NHGC) permanent rate increase. By Order No. 24,102 (December 23, 2002), the Commission approved the Settlement Agreement and authorized NHGC to increase its permanent rates. The Commission also approved a rate implementation mechanism whereby NHGC could raise rates incrementally but defer collection of the rate increases until a later date. On January 6, 2003, Staff filed an Assented-To Motion for Clarification (Motion) concerning Order No. 24,102.

II. MOTION FOR CLARIFICATION

In its Motion, Staff seeks clarification as to whether NHGC is expressly authorized to recover the deferred revenues in the event it does not raise rates to the maximum allowed. In support of its Motion, Staff states the Settlement Agreement does not set a maximum rate cap, per se, on the deferred revenue surcharge, although it does set a maximum amount to be recovered

and a definitive surcharge period, dependent on the amount of deferred revenues. Staff states that as the order is presently written, NHGC would only be able to recover deferred revenues once the approved maximum rates are in place. Staff avers this places economic pressure on NHGC to implement the maximum rates in order to allow recovery of deferred revenues and does not give NHGC the intended flexibility to not raise rates to the maximum allowable, should competitive circumstances warrant.

Additionally, Staff requests clarification as to whether the Commission intends that a cap be placed on the deferred revenue surcharge.

To further illustrate its point, Staff proposes the following language changes to Order No. 24,102:

NHGC may begin recovery of the deferred amount six month after implementation of maximum rates, or May 1, 2006, whichever ever comes first, with recovery to be over an 18 month period if less than \$100,000 or over 36 months if equal to or greater than \$100,000. (Order No. 24,102 at 8)

Under the terms of the Settlement, the rate impact of any deferred revenue surcharges will not occur until the maximum rates have been in place a minimum of six months or until May 1, 2006, whichever comes first. Based on test year revenues and the approved revenue increase, the rate impact of the deferred revenue surcharge would be less than 4 percent during the recovery period and will be capped at approximately \$0.0250 per therm. (Order No. 24,102 at 11)

Lastly, Staff notes the order erroneously cites the hearing as June 20, 2002 when the record shows the hearing as having been held on December 5, 2002.

III. COMMISSION ANALYSIS

The Commission may grant motions for clarification where the Commission's intent has not been made sufficiently clear and where evidence exists in the record to support the Commission's intent. *Verizon New Hampshire*, Order No. 23,976 (May 24, 2002) slip op. at 9.

As we held in Order No. 24,102:

We believe it is both prudent and fair to allow NHGC the opportunity to recover a portion of the deferred revenues resulting from such an approach, to better enable NHGC to evaluate customer response over a longer period of time before implementing further price increases. Order No. 24,102 (December 23, 2002) slip op. at 11.

Our understanding that the parties intended that NHGC have the flexibility to raise annual revenues by a maximum of \$288,887 and defer collection of those revenues is supported by the record. At hearing, NHGC witness Mr. Mark Cole testified that under certain provisions of the Settlement Agreement: "[t]he Company will be permitted to collect the accumulated deferral from its customers at the conclusion of the period during which rates may be increased to the maximum of \$288,887." Hearing Transcript of December 5, 2002 ("12/05/02 Tr.") at 9 lines 3-6.

Further testimony explained that under the terms of the Settlement Agreement, NHGC would have the flexibility over the next three years to increase its rates up to the maximum of

\$288,887. 12/05/02 Tr. at 9 lines 18-21.

The Settlement Agreement itself supports that phased implementation of revenue increases was intended by the parties. Exh. 4 at 3. Section 5, *Stipulated Future Increases*, allows NHGC six opportunities to increase its delivery rates to achieve the full stipulated revenue requirement of \$288,887 and ties Commission review of these incremental increases to the winter and summer cost of gas adjustment proceedings. Exh. 4 at 4.

Section 6, *Deferred Revenue*, states "recovery of the deferred revenue may begin the first cost of gas period following the completion of the maximum delivery rate increase." Exh. 4 at 4. We understand this to mean that deferred revenues will not be collected until the company reaches its highest revenue increase, through the cost of gas proceedings, and that the revenue increase may be lower than the maximum amount of \$288,887. The "maximum" referred to in Section 6 is not the maximum of \$288,887, but rather the maximum revenue increase desired by NHGC within the range of \$187,777 to \$288,887 as achieved by the mechanism described in Section 5.

We have reviewed the record in the docket, including the Settlement Agreement and supporting testimony presented at the December 5, 2002 hearing. For the reasons specified above, we will clarify Order No. 24,102 (December 23, 2002) as requested. We will accept the language proposed by Staff in its

Motion to clarify that NHGC is authorized to collect deferred revenues even if NHGC wishes to raise its annual revenue by something less than \$288,887. Ample evidence exists in the record to support this conclusion.

With respect to the deferred revenue cap of \$0.0250 per therm, the Commission is aware the Settlement Agreement caps the deferred revenue balance at \$200,000 and does not set a per therm rate cap. Our calculation was intended to extrapolate the per therm surcharge, but the actual per therm surcharge will be determined based on the deferred revenues to be recovered and projected sales for the period over which deferred revenues are to be recovered, as per the terms of the approved Settlement Agreement. The reference to the \$0.0250 per therm surcharge as a rate cap in Order No. 24,102 was incorrect. At the hearing, Mr. Mark Cole of NHGC testified as to the likely rate impact upon customers. He indicated that the impact of the surcharge, if the full deferral were recouped, would be a 3.8% increase. 12/05/02 Tr. at 20 lines 1 - 11.

We will reiterate our finding that the terms of the Settlement Agreement permitting NHGC to phase in rate increases after evaluating customer reactions to each rate increase, and permitting deferred collection of those revenues are reasonable. These mechanisms are conservative approaches to minimizing losses in NHGC's customer base to local propane suppliers as a result of increases in NHGC's rates.

We will also clarify our inadvertent citation in Order No. 24,102 to the final hearing as having been held on June 20,

2002. We held a temporary rate hearing on June 20, 2002. The final hearing on the Settlement Agreement occurred on December 5, 2002.

Based upon the foregoing, it is hereby

ORDERED, Staff's Assented-To Motion for Clarification is GRANTED consistent with the above discussion.

By order of the Public Utilities Commission of New Hampshire this fourteenth day of February, 2003.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary