

**DG 06-138**

**NEW HAMPSHIRE GAS COMPANY**

**2006/2007 Winter Cost of Gas**

**Order Approving Cost of Gas Rates**

**ORDER NO. 24,686**

**October 27, 2006**

**APPEARANCES:** Meabh Purcell, Esq. of LeBoeuf, Lamb, Greene & MacRae LLP, on behalf of New Hampshire Gas Corporation and F. Anne Ross, Esq., for the Staff of the New Hampshire Public Utilities Commission.

**I. PROCEDURAL HISTORY**

On September 28, 2006, New Hampshire Gas Corporation (NHGC), a public utility engaged in the business of distributing propane air gas in Keene, filed with the New Hampshire Public Utilities Commission (Commission) its proposed Cost of Gas (COG) rate and Fixed Price Option (FPO) rate for the period November 1, 2006, through April 30, 2007. NHGC's filing was accompanied by the pre-filed testimony and supporting attachments of Jennifer M. Boucher, Manager of Regulatory Economics for Berkshire Gas Company (Berkshire). NHGC is an affiliate of Berkshire, which provides certain management services to NHGC. An Order of Notice was issued on October 3, 2006, scheduling a hearing for October 24, 2006. On October 24, 2006, NHGC submitted a revised COG filing. There were no intervenors in this docket and the hearing was held as scheduled.

**II. POSITIONS OF THE PARTIES AND STAFF**

**A. NHGC**

NHGC witnesses Jennifer M. Boucher and David Grande, General Manager of NHGC, addressed the following issues: (1) calculation of the COG rate and the impact on customer bills;

(2) the FPO rate; (3) reasons contributing to the increased rates; (4) gas supply purchasing policies; (5) supply reliability; (6) unaccounted-for gas losses; and (7) charging the COG and FPO rates on a bills-rendered basis.

### **1. Calculation of the COG Rate and Customer Impact of Rate Increases**

The proposed 2006/2007 winter COG rate of \$1.3956 per therm, as revised, was calculated by decreasing the anticipated cost of gas of \$1,489,675 by a prior period over-collection and related interest of \$39,254, and dividing the resulting total anticipated costs of \$1,450,421 by projected therm sales of 1,023,838. This represents an increase of \$0.0214 per therm over the 2005/2006 average winter COG rate of \$1.3742 per therm.

The proposed higher winter COG rate results in an increase in gas costs of \$20 for a typical residential heating customer over the course of the winter. The proposed Deferred Revenue Surcharge of \$0.0546 per therm was calculated based on four months of actual and thirty-two months of proposed recoveries. This represents a \$0.0058 per therm increase related to the Deferred Revenue Surcharge implemented May 1, 2006, as established in *New Hampshire Gas Corporation*, 87 NH PUC 859 (2002) and approved in *New Hampshire Gas Corporation*, Order No. 24,617 (April 28, 2006). The net combined increase for a typical residential heating customer will be \$72, a 3.4 percent increase, over last winter.

### **2. Fixed Price Option Program**

In *New Hampshire Gas Corporation*, 86 NH PUC 566 (2001), the Commission approved NHGC's FPO program for implementation during the 2001/2002 winter COG period. Volumes to be offered under the program were set at 50 percent of weather-normalized sales. Order No. 24,516 (September 19, 2005) approved a revised FPO program for NHGC. Based on the approved FPO rate calculation methodology, whereby the FPO rate is set \$0.02 per therm above

the proposed COG rate filed with the Commission on or before October 1, the 2006/2007 winter FPO rate is set at \$1.4741 per therm, which is a \$0.0519 decrease from the 2005/2006 winter FPO rate of \$1.5260 per therm.

The FPO customer enrollment period ended October 19, 2006, and as of that date FPO customers had subscribed for approximately 25 percent of the total volumes for the 2006/2007 winter period. Unsubscribed FPO supplies will be used to satisfy non FPO supply requirements and serve as a hedge against price fluctuations for the COG customers.

### **3. Factors Contributing to Projected Increased Rates for Non-FPO Customers**

Ms. Boucher explained that the projected non-FPO gas costs for the upcoming winter period are projected to be higher than those paid last winter because propane prices dropped sharply last winter, starting in February, as a result of warmer than normal weather.

### **4. Gas Supply Purchasing Policies**

Ms. Boucher testified that NHGC has implemented its propane purchasing stabilization plan as approved in *New Hampshire Gas Corporation*, Order 24,617 (April 28, 2006). NHGC issued a request for proposals (RFP) to area propane suppliers and based on the responses to those requests contracted with Texas Liquids for its pre-purchase propane supply volumes. The premium for locking in those volumes is expected to be \$0.05 to \$0.06 per gallon.

### **5. Supply Reliability**

Ms. Boucher testified that NHGC has pre-purchased about 65 to 70 percent of its anticipated winter supply requirements. Although NHGC has contracted for delivery of propane volumes to the Selkirk Texas Eastern terminal (Selkirk) in New York, Texas Liquids has assured NHGC that it can provide delivery from a number of other locations in the event delivery to Selkirk is interrupted.

## **6. Unaccounted-for Gas Losses**

Mr. Grande testified that NHGC had filed a plan of action with Staff, and implemented the proposed plan, to address the high percentage of unaccounted-for gas on the NHGC system. The plan includes the following steps: (1) prioritize and actively repair leaks; (2) lower the distribution system pressure during the summer; (3) test and change out approximately 35 percent of its largest gas meters, and (4) change the customer billing cycle to ensure the largest meters are read early in the cycle. While all the steps have yet to be completed, the percentage of unaccounted-for gas has dropped from 7.05 percent in the prior year to 6.44 percent for the current year. Mr. Grande testified that additional steps are being implemented, such as installing a state-of-the-art computer system at the gas plant to provide more accurate vaporization readings and using a more accurate meter type in the large meter replacement program. Mr. Grande stated that 65 of the approximately 300 commercial and industrial meters have been replaced under the large meter replacement program. NHGC expects to replace an additional 30 commercial and industrial meters before the end of 2006.

## **7. Rate Changes on a Bills-Rendered Basis**

NHGC requested the Commission waive N.H. Code Admin. Rules Puc 1203.05(b), which requires rate changes to be implemented on a service-rendered basis, noting that the Commission has granted the waiver in previous COG and delivery rate proceedings.

### **B. Staff**

Staff's witness, utility analyst Robert Wyatt, commended NHGC on its efforts to reduce unaccounted-for gas and recommended that NHGC continue its efforts and report back to the Commission on the actions taken and results of those efforts in subsequent COG proceedings.

In an effort to stabilize NHGC gas rates, Mr. Wyatt recommended that NHGC develop a comprehensive list of potential propane supplies, continue to seek ways to diversify its supply portfolio from multiple sources and to standardize its RFP for its pre-purchase supply requirements. Mr. Wyatt suggested that in future proceedings NHGC provide Staff with its cost-benefit analysis performed in analyzing responses to its RFP for pre-purchasing propane supplies.

Staff recommended approval of NHGC's revised proposed Cost of Gas rate for several reasons. The Commission Audit Staff reviewed the 2005-06 Winter Period reconciliation and found no exceptions. The NHGC sales forecast and supply planning is consistent with past practices and reflects recent growth on the system. Finally, actual 2006-07 winter gas costs and revenues will be reconciled prior to the 2007-08 winter COG allowing any concerns that may arise to be addressed in that proceeding.

### **III. COMMISSION ANALYSIS**

After careful review of the record in this docket, we find that NHGC's proposed winter COG rate and FPO rate will result in just and reasonable rates pursuant to RSA 378:7. Accordingly, we approve such rates.

The issue of lost and unaccounted-for gas is important, as customers must pay for losses through the COG, and the cost of those losses can be substantial at today's prices. We encourage NHGC to continue its effort to reduce the percentage of unaccounted-for gas and to apprise the Commission of those efforts and the results of those efforts in future COG proceedings.

N.H. Code Admin. Rules Puc 1203.05 provides that, in general, rate changes must be implemented on a service-rendered basis. However, 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. As a result of prior Commission waiver of N.H. Code Admin Rules Puc 1203.05, NHGC customers are accustomed to rate changes on a bills-rendered basis and a change in that policy may result in customer confusion. In addition, the current billing system is not designed to accommodate billing on a service-rendered basis and such a change would necessitate modifying or replacing the existing billing system at some cost to NHGC. Based upon these considerations, we 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**, NHGC's request for waiver of N.H. Code Admin. Rule Puc 1203.05 (b) is GRANTED; and it is

**FURTHER ORDERED**, that NHGC's proposed winter COG rate of \$1.3956 per therm and the FPO rate of \$1.4741 per therm for the period November 1, 2006 through April 30, 2007 are APPROVED effective for bills rendered on or after November 1, 2006; and it is

**FURTHER ORDERED**, that NHGC may, without further Commission action, adjust the approved winter COG rate of \$1.3956 per therm 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 COG; 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 rate schedules 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 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 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 October, 2006.

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Thomas B. Getz  
Chairman

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Graham J. Morrison  
Commissioner

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Clifton C. Below  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director & Secretary