STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NEW ENGLAND GAS COMPANY'S	:
FILING RE PROVGAS' GAS CHARGE	: DOCKET NOS. 1673 & 1736
CLAUSE AND VALLEY GAS' PURCHASED	:
GAS PRICE ADJUSTMENT FACTORS	:

REPORT AND ORDER

On December 3, 2001, the New England Division of Southern Union Company, n/k/a New England Gas Company ("NE Gas"), which includes Providence Gas Company ("ProvGas") and Valley Gas Company/Bristol & Warren Gas Company ("Valley Gas"), filed with the Rhode Island Public Utilities Commission ("Commission") proposed reductions in ProvGas' Gas Charge Clause ("GCC") and Valley Gas' Purchased Gas Price Adjustment ("PGPA") factors[1] for effect December 15, 2001. Specifically, NE Gas proposed to reduce Valley Gas' current PGPA factor from $0.2967 to $0.2639 per Ccf, a decrease of $0.0328 per Ccf. For a typical Valley residential heating customer using an average of 140 Ccf per month, this will result in a 3% billing decrease or a savings of approximately $13 during the period January through March 2002. NE Gas also proposed to reduce ProvGas' current GCC factors by $0.0513 per Ccf, resulting in the following factors: $0.3585 per Ccf for Residential and Small C & I customers, $0.7926 per Ccf for Medium and

[1] The GCC and PGPA are purchased gas cost adjustment tariffs designed to recover the cost of wholesale gas supplies purchased by ProvGas and Valley Gas. Pursuant to these tariffs, NE Gas is permitted to recover from ratepayers only the those purchased gas costs which are reasonably and prudently incurred, as determined by the

Large C & I customers and $0.7663 per Ccf for Extra Large C & I customers. For a typical ProvGas residential heating customer, this will result in a 4% billing decrease or a savings of approximately $21 during the period January through March 2002.

In support of the filing, NE Gas provided the pre-filed testimony of Peter C. Czekanski, its Director of Pricing. Mr. Czekanski indicated that, during the period since the present GCC/PGPA factors went into effect in December 2000, the natural gas market has experienced steady decreases in wholesale commodity prices. As a result, the actual NYMEX commodity prices for the January through December 2001 period and current NYMEX prices for the January through June 2002 period have decreased by 18 percent, when compared to the NYMEX prices for the same period as of November 17, 2000 and upon which the current GCC/PGPA factors are based.[2] Mr. Czekanski explained that initially, the higher than projected wholesale natural gas costs for December 2000 through February 2001, combined with colder than normal weather, resulted in a combined GCC/PGPA undercollection of approximately $35 million by the end of March 2001.[3] By the end of October 2001, however, due to declining wholesale natural gas prices, the undercollection has been reduced to approximately $28 million and, based on current projections, NE Gas estimated that, at present GCC/PGPA rates, there would be an overcollection of approximately $7.4

[2] Mr. Czekanski's pre-filed testimony, p. 3.

million by the end of June 2002.[4] To minimize this anticipated overcollection of gas costs, he explained, NE Gas was proposing to reduce the GCC/PGPA rates at this time rather than wait for the Commission's annual review of these rates in June 2002.

Mr. Czekanski explained that, notwithstanding the 18 percent decrease in NYMEX commodity costs, NE Gas was proposing bill reductions of only 3 to 4 percent because only 50 percent of a customer's gas bill represents gas costs and 30 percent of those gas costs are fixed costs associated with pipeline reservation fees which have not changed.[5] In addition, he noted that recovery of the $35 million undercollection in gas costs is included in the calculation of the proposed GCC/PGPA factors and adds 20 percent to projected gas costs over the December 2001 through June 2002 period.[6] Lastly, Mr. Czekanski stated that the benchmark purchasing parameters associated with the Gas Purchasing Program approved by the Commission in February 2001 will now be based on November 28, 2001 NYMEX monthly future prices.[7]

On December 12, 2001, the Division of Public Utilities and Carriers ("Division") filed a memorandum in support of NE Gas' proposed GCC/PGPA reductions. The Division indicated that NE Gas' assumptions were reasonable and the proposed reductions in the GCC

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[3] Id., pp. 3-4.
[4] Id., p. 4.
[5] Id., p. 6.
[6] Id., pp. 6-7.
[7] Id., p. 7.

and PGPA rates were appropriate.[8] The Division also concurred with NE Gas' use of a new benchmark for determining the purchasing parameters for the gas purchasing program based upon the recent (November 28, 2001) NYMEX strip used to develop the proposed GCC/PGPA factors.[9]

At an open meeting on December 13, 2001, the Commission considered the evidence presented, and approved NE Gas' proposed reductions of $0.0513 and $0.0328 per Ccf, respectively, in GCC/PGPA rates effective December 15, 2001 as just and reasonable and in the best interest of the ratepayers.[10] On December 14, 2001, NE Gas filed a letter with the Commission indicating that, in compliance with the $0.0513 per Ccf GCC reduction approved by the Commission, ProvGas' Compressed Natural Gas ("CNG") commodity rate would also be reduced from $0.6175 to $0.5662 per Ccf.

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[8] Division's Memorandum dated 12/11/01.

[9] Id.

[10] Historically, it has been the Commission's general practice to approve and implement an uncontested rate reduction without a hearing and on less than the 30-day notice required by R.I.G.L. § 39-3-11 pursuant to the discretion afforded to the Commission by R.I.G.L. § 39-3-12. Pursuant to R.I.G.L. § 39-3-12, the Commission may, "in its discretion and for good cause shown," waive the hearing and the notice requirements of R.I.G.L. § 39-3-11. In this instance, we find that NE Gas has proposed rate reductions that are endorsed by the Division and will benefit the ratepayers. Therefore, we find that "good cause" exists for the Commission to approve the proposed rate reductions without 30 days notice and a hearing so that lower rates for customers can be implemented as soon as possible. We also point out that, because the GCC/PGPA rates recover purchased gas costs which, by tariff, are "passed through" to ratepayers, the GCC/PGPA rates are reviewed annually by the Commission in duly noticed, public evidentiary hearings in which NE Gas, the Division and other interested parties participate.

COMMISSION FINDINGS

The proposed reductions in the GCC/PGPA factors are consistent with the objectives of the Mitigation Strategy Plan approved by the Commission in February 2001. The Mitigation Strategy Plan, which includes a Gas Purchase Program and a Gas Price Mitigation Program, was designed to avoid the need for further GCC/PGPA rate increases while, at the same time, eliminating the undercollection in last winter's purchased gas costs by June 30, 2002.[11] The proposed GCC/PGPA rates will provide ratepayers with billing reductions of 3 to 4 percent while still eliminating the undercollection from the winter 2000-2001 period.

As fuel prices have declined, the Commission has been incrementally reducing Narragansett Electric's Standard Offer Service ("SOS") rates in Docket Nos. 3379 and 3402. However, in the interest of maintaining rate stability for customers, and mindful of the number of rate increases necessitated by the unprecedented rise in fuel prices nearly two years ago, the Commission was not "overly aggressive in reducing the SOS rate" in Docket No. 3379.[12] Given the volatility of fuel prices, the Commission did not want to reduce electric rates so low as to create another undercollection that, in turn, would require a subsequent rate increase to recover. The Commission intends to follow the same tempered approach with regard to reducing the GCC/PGPA rates at this

[11] Order No. 16745 (issued October 17, 2001), pp. 67-69, 71.
[12] Order No. 16731 (issued October 2, 2001), pp. 7-8.

Accordingly, it is

(16909) ORDERED:

1. The Valley Gas PGPA factor of $0.2639 per Ccf is approved for effect on and after December 15, 2001.
2. The ProvGas GCC factors of $0.3585 per Ccf for Residential and Small C & I customers, $0.7926 per Ccf for Medium and Large C & I customers, and $0.7663 per Ccf for Extra Large C & I customers are approved for effect on and after December 15, 2001.
3. The ProvGas CNG factor of $0.5662 per Ccf is hereby approved for effect on and after December 15, 2001.
4. A new benchmark pricing strip for the Gas Purchasing Program based on the November 28, 2001 NYMEX monthly futures prices is hereby approved.
5. NE Gas shall comply with all other findings and instructions contained in the Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO AN

OPEN MEETING DECISION ON DECEMBER 13, 2001. WRITTEN ORDER ISSUED FEBRUARY 5, 2002.

PUBLIC UTILITIES COMMISSION

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Elia Germani, Chairman

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Kate F. Racine, Commissioner

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Brenda K. Gaynor, Commissioner

* Commissioner Racine concurs but is unavailable for signature.