STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

NEW ENGLAND GAS COMPANY	:	
GAS COST RECOVERY CHARGE	:	DOCKET NO. 3696

REPORT AND ORDER

I. NEGAS' SEPTEMBER 1, 2005 FILING

On September 1, 2005, New England Gas Company ("NEGas"), a division of Southern Union, proposed increases in NEGas' Gas Cost Recovery ("GCR") factors for effect November 1, 2005. Specifically, NEGas proposed to increase its GCR factors on a per therm basis to: $1.1370 for residential and small commercial and industrial ("C&I") customers; $1.1309 for medium C&I customers; $1.1387 for large low load factor C&I customers; $1.1031 for large high load factor C&I customers; $1.1360 for extra large low load factor C&I customers; and $1.087 for extra large high load factor C&I customers. For a typical NEGas residential heating customer consuming 1,035 therms, this would result in a 13 percent increase, or approximately $188 per year, for a total bill of $1,639 per year.[1]

In support of its filing, NEGas submitted the pre-filed testimonies of Peter Czekanski, Director of Pricing for NEGas and Gary Beland, Director of Gas Supply for NEGas. Mr. Czekanski stated that the GCR factors are intended to recover $322.4 million in costs from November 2005 through October 2006. He explained that the five gas cost components for the GCR are supply fixed costs, storage fixed costs, supply variable costs, storage variable product costs, and storage variable non-product costs. He indicated that NEGas' current estimate of the deferred gas cost undercollection as of

[1] This bill impact analysis incorporates NEGas' proposed reduction in the Distribution Adjustment Clause ("DAC") factors effective November 1, 2005. The proposed DAC factors reduced the proposed increase by $5.00

October 31, 2005 is $10.4 million. Mr. Czekanski stated that the Natural Gas Vehicle ("NGV") rate reflects the supply variable costs included in the GCR rate and will be $0.8882 per therm. He also proposed increased various gas marketer charges and factors, specifically, $0.0449 per therm for the FT-2 Firm Transportation Marketer Gas Charge, $0.0023 per percent of balancing elected per therm for pool balancing charges, and $0.1308 per therm of capacity for the weighted average upstream pipeline transportation cost.[2]

In his pre-filed testimony, Mr. Beland discussed the estimated gas costs and the results of the Gas Purchasing Incentive Plan as well as the Asset Management Incentive Plan ("GPIP"). Mr. Beland stated that the GCR factors are based on prices for gas purchases locked under the GPIP and any non-locked purchases are based on the NYMEX strip as of the closing of trading on August 25, 2005. He stated that the GPIP requires NEGas to start locking in future gas prices over a 24 month horizon and these purchases are made in a structured series of monthly increments. Mr. Beland indicated that this dollar cost-averaging approach ensures that gas rates are less susceptible to short-term substantial price swings, but still gives NEGas the ability to make discretionary purchases when market prices appear favorable.[3]

Regarding the recent increase in gas prices, Mr. Beland explained that gas prices have increased because of the tightness in world oil supply, a record hot summer, and significant damage to gas infrastructure in the Gulf of Mexico because of exceptional hurricane activity. However, Mr. Beland noted that the GPIP has moderated the GCR increase. For instance, he noted that NEGas has locked in 72 percent of gas supplies for

[2] NEGas Ex. 1 (Czekanski's direct testimony), pp. 3-15.
[3] NEGas Ex. 2 (Beland's direct testimony), pp. 3-5.

September 2005 at a cost of $6.411 per dekatherm under the GPIP but the NYMEX closing price of August 29, 2005 for September 2005 was $10.947 per dekatherm and therefore, the GPIP has provided actual savings to customers of approximately $4.4 million.[4] Mr. Beland discussed the new Distrigas Firm Combination Service ("FSC") contract, which is a five year contract for 10,000 Dth per day. The contract has commodity pricing based on NYMEX and may be locked in at any time while the fixed charge is $2.40 per Dth. Also, the new FCS contract will provide NEGas with significant additional LNG liquid supply to restock NEGas' LNG tanks so that NEGas can use more LNG to offset higher daily prices.[5]

In discussing the GPIP, Mr. Beland stated that NEGas makes mandatory purchases beginning 24 months prior to the start of each month and ending four months before delivery. The mandatory purchases form the benchmark price for the incentive calculation. He stated that in all months, except in April and October, 70% of all projected purchases must be made four months before the month begins. If discretionary purchases are made below the benchmark, NEGas receives an incentive, but if discretionary purchases are made above the benchmark, NEGas incurs a penalty. Mr. Beland estimated a $148,485 penalty, but explained that was caused by prices rising due to Hurricane Ivan. He also calculated the estimated reduction in fixed costs to be $212,849 which results in an asset management incentive of $21,285. Lastly, Mr. Beland indicated that NEGas will exclude LNG used on an economic dispatch basis from the calculation of pressure support costs.[6]

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[4] Id., pp. 5-6.
[5] Id., pp. 16-18.
[6] Id., pp. 19-23.

II. NEGAS' SEPTEMBER 30, 2005 FILING

On September 30, 2005, NEGas proposed new increases in the GCR factors for effect November 1, 2005. Specifically, NEGas proposed to increase its GCR factors on a per therm basis to: $1.2890 for residential and small commercial and industrial ("C&I") customers; $1.2829 for medium C&I customer; $1.2907 for large low load factor C&I customers; $1.2550 for large high load factor C&I customers; $1.2880 for extra large low load factor C&I customers; and $1.2393 for extra large high load factor C&I customers. For a typical NEGas residential heating customer consuming 1,035 therms, this would result in a 23.8 percent increase, or $345 per year, for a total annual bill of $1,796.

In support of this supplemental filing, NEGas submitted the pre-filed testimonies of Peter Czekanski and Gary Beland. In his testimony, Mr. Czekanski stated that gas prices have escalated significantly since the original filing. He indicated that the gas cost undercollection as of October 31, 2005 is estimated to be $14.7 million. This undercollection would increase to $44.5 million by October 31, 2006 if only the GCR factors in the September 1, 2005 filing are approved. The new GCR factors are intended to recover $365.5 million from November 1, 2005 to October 31, 2006. NEGas also increased the NGV commodity charge to $1.0349 per therm. In addition, NEGas increased: the FT-2 firm transportation marketer charge to $0.0456 per therm; the pool balancing charge to $0.0023 per percentage of balancing elected per therm; and the weighted average upstream pipeline transportation charge to $0.1560 per therm of capacity.[7]

In his testimony, Mr. Beland stated that the average NYMEX price for the months of November to March increased from $10.68 per dekatherm to $14.48 per dekatherm

[7] NEGas Ex. 3 (Czekanski's supplemental testimony), pp. 2-5.

from the August 25, 2005 to September 28, 2005. Mr. Beland stated that the primary cause of the increase in the NYMEX prices is the damage to gas infrastructure by Hurricanes Katrina and Rita. Accordingly, NEGas utilized the NYMEX strip of September 28, 2005 to price unlocked volumes.[8]

At the end of September, NEGas also filed its semi-annual calculation of the seasonal Btu conversion factor for the period November 2005 through April 2006. The Btu conversion factor is used to convert volumetric meter readings into therms. The Company's proposed factor of 1.026 is based upon actual data for the previous six-month period ending April 2005.

III. DIVISION

On October 11, 2005, the Division of Public Utilities & Carriers ("Division") submitted the pre-filed testimony of Bruce Oliver. Mr. Oliver focused on NEGas' September 1, 2005 filing. Mr. Oliver stated that 86.2 percent of NEGas' GCR increase is due to supply variable costs. He agreed with NEGas' calculation of its Transitional Sales Service ("TSS") surcharge revenue, but recommended that NEGas provide documentation of the TSS surcharge revenues and volumes by month as part of its annual gas cost reconciliation report. Mr. Oliver recommended that the Commission consider a simplification of the GCR factors by merging the GCR factors into one single GCR charge or at a minimum two GCR charges: one for large and extra large high load factor C & I customers and the other for all other customer classes. He noted that this would moderate the proposed GCR increase for residential customers and most extra large and large customers are supplied by competitive suppliers. He stated NEGas had

[8] NEGas Ex. 4 (Beland's supplemental testimony), pp. 2-4.

appropriately calculated its gas procurement penalty and was prepared to absorb the entire amount reflected in the filing.[9]

Mr. Oliver noted that Hurricanes Katrina and Rita have had a substantial impact on gas production, gas processing and gas pipelines. As a result of these hurricanes, Mr. Oliver stated that gas prices have risen dramatically. Due in part to the hurricanes, he noted that gas prices for the winter of 2005-2006 has doubled in one year. He indicated that the effect of the hurricanes will work their way through the system by the end of the winter season. He also stated that demand reductions in response to higher natural gas prices typically exhibit significant time lags of at least a year. Furthermore, he opined that natural gas prices are not likely to be sustained below $10 per Dth unless world oil prices can be maintained at levels below $60 per MMBtu. Mr. Oliver pointed out that NEGas' requested 13 percent increase was the second lowest in a survey of 42 gas utilities across the country. He agreed with Mr. Beland that the GPIP helped to shield customers from current gas price increases. He agreed to grant NEGas a small Asset Management incentive. Mr. Oliver determined that the FCS contract reduces NEGas' exposure to the high cost of daily gas purchases with only a small increase in total annual fix gas costs. He concurred with NEGas' approach for ensuring a proper cost allocation for LNG.[10]

On October 19, 2005, the Division filed the supplemental testimony of Bruce Oliver in which he discussed NEGas' September 30, 2005 filing. Mr. Oliver stated that the larger GCR increase is necessary because NYMEX gas prices for non-locked volumes jumped $3.00 per Dth, or 30.6 percent, since the earlier filing. He did note some

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[9] Div. Ex. 1 (Oliver's direct testimony), pp. 5, 9, 14, 15 and 18.
[10] Id., pp. 19-31.

softening of gas prices but he stated there is no guarantee that lower prices will be sustained. He also indicated that although an argument can be made to defer some portion of the GCR increase, he expressed concern that it would raise the level of the GCR increase next year. Lastly, he noted with one exception, all of Massachusetts gas utilities would have higher GCR rates than NEGas.[11]

IV. HEARING

After published notice, a public hearing was conducted at the Commission's offices, at 89 Jefferson Boulevard, Warwick, Rhode Island, on October 21, 2005. The following appearances were entered:

FOR NEGAS:	Cheryl Kimbal, Esq.
FOR THE DIVISION:	Leo Wold, Esq. Special Assistant Attorney General
FOR THE ATTORNEY GENERAL:	William Lueker, Esq. Special Assistant Attorney General
FOR GEORGE WILEY CENTER[12]	B. Jean Rosiello, Esq.
FOR THE COMMISSION:	Steven Frias, Esq. Executive Counsel

NEGas presented Mr. Czekanski and Mr. Beland as their witnesses. Mr. Czekanski stated that the estimated gas cost undercollection at October 31, 2005 has decreased from $14.7 million to $13.2 million. Mr. Beland acknowledged that current NYMEX gas prices are somewhat lower than the NYMEX gas prices utilized in their September 30, 2005 rate filing.[13] Mr. Beland last recalled an increase of approximately 100 percent in gas prices in the period leading up to the winter of 2000-2001. At that

[11] Div. Ex. 2 (Oliver's supplemental testimony), pp. 5-8.
[12] There was no objection to the motions to intervene by the Attorney General and the George Wiley Center.
[13] Tr. 10/21/05, pp. 80-81, 85.

time, Mr. Beland recalled that the Commission established rates which resulted in an undercollection which was paid over a period of time longer than a year. Mr. Beland admitted that the gas cost undercollection should decrease if the weather is warmer than normal or if ratepayers conserve. He noted that the benefit of selling less gas on the commodity side is greater than the need to recover fixed costs.[14] Mr. Beland stated that NEGas has procured gas at a fixed price at the required percentages for the months of November through January, but was close to required percentage in February and about 10 percent below the required percentage for March. Mr. Beland explained that NEGas decided it would be prudent not to make their required purchases at prices immediately following the hurricane. He stated that at the appropriate time, after closely monitoring the market, NEGas would make these purchases when pricing was more favorable. Mr. Beland indicated that if the weather is slightly colder than normal, normal, or warmer than normal, gas prices will be lower than they are currently.

Mr. Czekanski stated there are cost allocation reasons for not unifying the various GCR rates into one or two GCR rates. Also, he indicated that most of the accounts that have switched from transportation and committed to firm sales service for at least 12 months have been from the medium class of customers.[15]

The Division presented Mr. Oliver as its witness. He indicted that the GPIP has worked well although he would like to see NEGas be a little more aggressive on their discretionary gas purchases earlier in the purchasing cycle. Mr. Oliver explained that natural gas prices are traditionally between the crude oil price and No. 2 heating oil price. He noted that $60 a barrel for crude oil is roughly equivalent to a gas cost of $10 per

[14] Id., pp. 115-16, 121-23.
[15] Id., pp. 124-25, 131-34.

MBtu while $2 a gallon for No. 2 heating oil price is approximately $14.50 per MBtu. He expected natural gas prices in the range of $10 to $14.50 per MBtu for the winter.[16]

V. POST-HEARING

On October 25, 2005, the George Wiley Center filed a motion for interim relief under which the proposed GCR increase would be stayed until January 1, 2006. The George Wiley Center indicated that a GCR increase would harm low income customers, and the stay would give time to the R.I. General Assembly to develop legislation to help low income customers. On October 26, 2005, NEGas filed record responses indicating what the GCR increases would be if the October 20, 2005 NYMEX strip was utilized and if the $13.2 million gas cost undercollection was deferred for one year. At an open meeting on October 26, 2005, a majority of the Commission approved GCR factors based on the NYMEX strip of October 20, 2005 and a deferral of the $13.2 million gas cost undercollection. It also denied the George Wiley Center's request to defer the GCR increase until January 1, 2006.

COMMISSION FINDINGS

At the outset, the Commission will address three issues of less significance that arose during this proceeding. First, the Commission will at an appropriate time review NEGas' GCR rate design to determine if NEGas' six current GCR rates should be consolidated. This rate filing is not an appropriate forum to review rate consolidation because large gas customers have not had adequate notice and have not participated. The Commission will be interested in determining if there is cost-based justification for maintaining six different GCR rates. Second, NEGas has agreed to absorb a gas purchasing penalty of approximately $148,485. NEGas made various gas purchases for

[16] Id., pp. 203-06.

the months of January and February 2005 which it deemed were mandatory because they were made at the suggestion of a majority of the Commission.[17] Subsequent to these purchases, gas prices declined. Under the circumstances, the Commission will deem these gas purchases to be considered mandatory. Third, for particular months after Hurricanes Katrina and Rita, NEGas did not make its monthly required gas purchases under the GPIP and thus did not reach its mandated level of fixed priced gas for certain winter months. NEGas decided not to make these purchases after consultation with the Division. This deviation from the GPIP is appropriate under the circumstances because gas prices were at abnormally high levels as a result of natural disaster. This is a good example of NEGas having the flexibility to depart from the GPIP to make gas purchases when it is in the best interest of ratepayers.[18]

With much regret, the Commission is challenged with a request for a significant increase in NEGas' GCR rates in order to better reflect current gas prices and to address the current gas cost undercollection. Unfortunately, since April 1, 2003, NEGas ratepayers have been required to pay essentially semi-annual GCR rate increases of approximately five percent each as a result of the long-term rising market for wholesale natural gas.[19]

Unlike these prior circumstances, the Commission must look back to the period prior to winter of 2000-2001. In the year preceding the winter of 2000-2001, wholesale gas prices doubled. From October to December 2000, the Commission was required to increase the typical Providence Gas ("ProvGas") residential heating bill by 29.2

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[17] NEGas' Quarterly Gas Purchasing Report (1/20/05). This majority consisted of a former Commissioner and the Commissioner dissenting from this Order.
[18] See Order No. 18273.
[19] Id.

percent.[20] Even with this large rate increase, there was an undercollection of $35 million as of March 2001, and no certainty that even an eighteen month recovery period would be sufficient to eliminate the gas cost undercollection.[21]

Similarly, since May 2005, wholesale gas prices have doubled in anticipation of the winter.[22] As a result, NEGas has requested a 23.8 percent increase. This is far in excess of the typical semi-annual 5 percent increase that has become necessary since April 1, 2003. Although the Commission is aware that wholesale gas prices have doubled in less than one year, the Commission must make every effort permissible under law to mitigate the rate shock of a nearly 25 percent increase. First, the Commission will utilize a more recent and lower NYMEX strip for gas prices. This is appropriate since a goal in rate setting is to establish rates which reflect likely future costs. Although it is possible that gas costs could increase above the prices of the October 20, 2005 NYMEX strip, under most scenarios except a colder than normal winter, gas prices should approximate or be lower than they were at the time of the hearing.[23] This approach reduces the increase to 20.6 percent.[24]

A major issue of dispute is whether to set rates to attempt to recover the current gas cost undercollection of $13.2 million, to defer recovery of the undercollection for another year, or to allow it to grow. As of October 20, 2005, the gas cost undercollection was $13.2 million. The Commission's past regulatory practice is to not allow an undercollection to grow to unmanageable levels. For instance, in 2000, the Commission approved in 2000 increases greater than 25 percent for ProvGas and Valley Gas rates in

[20] Order No. 16745.
[21] Order No. 16909.
[22] Div. Ex. 1.
[23] Tr. 10/21/05, pp. 124-25, 131-34.
[24] PUC Rec. Req. 1 (10/26/05).

order to avoid a $40 million undercollection.[25] However, the Commission has deferred gas cost undercollections for extended periods of time in order to avoid rate shock.[26] Since NEGas distribution revenues were set at approximately $129 million, an undercollection of $13.2 million equates to approximately ten percent of NEGas' distribution revenues.[27] Furthermore, NEGas' prior witnesses have stated that NEGas' pre-merger predecessors routinely had a combined gas cost undercollections of approximately $14 million.[28] Thus, an undercollection of approximately $13.2 million is a reasonable amount to defer recovering for one year. However, allowing a gas cost undercollection to grow to levels which would cause rate shock at a later date is not appropriate.[29] Since natural gas is a long-term rising market, allowing for significant growth in an undercollection would likely cause rate shock at a future date. Accordingly, the Commission reluctantly approves a rate increase of 17.3 percent and a deferral of $13.2 million.[30] A lower rate increase would have been ideal, but setting a rate at NEGas' original proposal of 13 percent appears to cause a $31.2 million projected undercollection.[31] Furthermore, this amount could have increased if gas prices increased or if there was a colder than normal winter. For similar reasons, the Commission denies the request to delay the GCR increase until January 1, 2006 because it would not have changed the need for the increase, and in fact, it would require a larger increase at that time since the undercollection would grow. Establishing a GCR rate which limits the

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[25] Order No. 16745.
[26] Order No. 17606.
[27] See Order No. 17381.
[28] Order No. 17606.
[29] Order No. 17970.
[30] PUC Rec. Req. 2 (10/26/05).
[31] PUC Rec. Req. 3 (10/26/05).

growth of the undercollection is reasonable and consistent with past regulatory practices.[32]

One approach would be to raise the GCR rate and order a 20.6 percent increase in order to eliminate the projected $13.2 million gas cost undercollection. Eliminating an undercollection is an appropriate regulatory goal but it is not the only or the primary regulatory goal of this Commission. It is a goal which is to be balanced against other goals such as the goal of avoiding rate shock. In weighing between eliminating a reasonable amount of undercollection and avoiding rate shock, the goal of avoiding rate shock will usually triumph.

Projecting future gas costs is always an inexact science. If prices rise or the winter is colder than normal, the $13.2 million undercollection could grow. For example, when the Commission last raised the GCR rates on May 1, 2005, the gas cost undercollection was projected to be $7.3 million.[33] This amount increased to $13.2 million due to the unforeseen doubling of gas prices over a few months. However, the Commission can not be held prisoner to worst case scenarios. If the gas cost undercollection grows to an unmanageable level, NEGas would likely file for a GCR rate increase. For now, the Commission should not set rates any higher than is absolutely necessary to avoid or at least mitigate rate shock now or at a future date. It would be cruel and unnecessary punishment to inflict on ratepayers an increase above 20 percent when the deferral of reasonably sized undercollections would reduce the increase to closer to 15 percent.[34]

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[32] Order No. 17444.
[33] Order No. 18273.
[34] Thankfully, Rhode Island has experienced a rather mild winter and gas prices have dropped below $10 a dekatherm. Based on recent NYMEX gas prices, there appears to be a projected gas cost overcollection of

The Commission is well aware a 17.3 percent increase may still cause rate shock. It is cold comfort to many to repeat that this Commission can not regulate the price of wholesale natural gas.[35] However, the Commission has adopted a gas purchasing plan, which has resulted in giving NEGas residential heating customers the lowest GCR rates of the New England gas utilities during the winter.[36] Furthermore, based on monthly NYMEX closing gas prices, since the inception of NEGas' gas purchasing plan ratepayers have realized savings of approximately $45.9 million.[37] NEGas' purchasing plan has even appeared to outperform sophisticated gas purchasing plans, which utilize financial hedges.[38] Regrettably, this 17.3 percent increase will increase the typical NEGas residential heating bill by $250 from $1,451 to $1,701. Sadly, the Commission can make no promise to the ratepayers except it is making every effort it can under the law to promote rate stability. Fortunately, NEGas' gas costs in comparison to the market and other gas utilities demonstrate that the Commission has succeeded to a significant degree in protecting ratepayers from even larger and more painful gas cost rate increases.

$5.7 million. (NEGas' Gas Cost Undercollection Report of 1/20/06). This overcollection may prove ephemeral. However, it does demonstrate that at present there is no indication that the undercollection is growing beyond reasonable levels.

[35] Order No. 17606. The federal government deregulated the price of wholesale gas in the Natural Gas Policy Act of 1978 and preempted the states from regulating the price of wholesale natural gas. Transcontinental Pipeline v. State Oil & Gas Bd. 474 U.S. 409 (1986).

[36] Order No. 18273.

[37] PUC Rec. Req. 4 (10/26/05).

[38] PUC Data Resp. 2-7. Planalytics Energy's Gas Buyer client service advertised that their service produced $7.58 per dekatherm for September 2005, $7.21 for August 2005, and $6.50 for July 2005. In comparison, NEGas' gas purchasing plan for the same months was $6.41 for September 2005, $6.22 for August 2005, and $6.10 for July 2005 or averaging 12 percent lower than Planalytics.

Accordingly, it is

(18521) ORDERED:

1. The Gas Cost Recovery factors, set forth on a per therm basis, of: $1.1971 for residential and small commercial and industrial customers; $1.1906 for medium commercial and industrial customers; $1.989 for large low load factor commercial and industrial customers; $1.1607 for large high load factor customers and industrial customers; $1.1960 for extra large low load factor commercial and industrial customers; and $1.1438 for extra large high load factor commercial and industrial customers, are approved for effect November 1, 2005.
2. The Gas Marketer Transportation factors of: $0.0479 per therm for FT-2 Firm Transportation Marketer Gas Charge; $0.0024 per percent of balancing elected per therm for Pool Balancing Charge; and a weighted average upstream pipeline transportation cost of $0.1439 per therm of capacity are approved for effect November 1, 2005.
3. The Natural Gas Vehicle Rate of $0.9335 per therm is approved for effect November 1, 2005.
4. The Btu conversion factor of 1.026 is approved for effect for the period November 1, 2005 through April 30, 2006.
5. The George Wiley Center's motion for interim relief filed on October 25, 2005 is denied.
6. NEGas shall comply with the reporting requirements and all other findings and directives contained in this Report and Order.

EFFECTIVE IN WARWICK, RHODE ISLAND PURSUANT TO OPEN MEETING DECISION ON OCTOBER 26, 2005. WRITTEN ORDER ISSUED JANUARY 30, 2006.

PUBLIC UTILITIES COMMISSION

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Elia Germani, Chairman

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Robert B. Holbrook, Commissioner*

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Mary E. Bray, Commissioner

*Commissioner Holbrook dissented. His reasoning is attached hereto in a separate opinion.

Commissioner Holbrook, dissenting.

The issue in this case is not whether NEGas is allowed to collect the costs associated with purchasing gas on behalf of its customers, but rather, when. I believe that allowing customers to pay rates below the costs associated with serving those customers sends the wrong signal to both the customers and to NEGas. In fact, I believe that such a decision harms both the ratepayers and NEGas by failing to signal the need to conserve as a defense against higher prices and to prepare for the reality of higher gas prices. That is why I dissented from the majority decision setting rates which, according to projections in the record, will make no progress towards eliminating the existing under-collection, one toward which ratepayers will have to pay interest.

In setting rates, the Commission has a simple responsibility, which is to set rates which are no higher than they have to be and to make sure that the regulated utilities have sufficient revenue so that they can provide reliable service at reasonable cost. The rate the Commission sets for gas cost recovery is based, of necessity, on many assumptions about cost recovery. The Commission's noble desire to both avoid rate shock and set lower rates by changing the assumptions during each GCR case has led to a vicious circle of inadequate rates followed by increased under-collections followed by the need for higher rates.

For example, the rates set in November 2004 and May 2005 were insufficient to recover the NEGas' cost of purchasing gas during that period of time. In its current filing, NEGas projected a $13.2 million under-collection as of October 31, 2005. This is money the ratepayers owe and must pay to the utilities. Knowing this, it is irresponsible to now set rates on a going forward basis that are not designed to collect that debt which has already accrued. Furthermore, it is not reasonable to set rates which are not designed to collect the projected costs over the next recovery period. To do so puts ratepayers in the position of ever-increasing debt. It is time to break the cycle and set rates which are designed to recover both the accrued under-collection and the projected costs. Otherwise, we will be in the same position next year.

The debt may become so unmanageable that NEGas begins to see its credit rating suffer and experiences difficulty in providing service. Even if that does not happen, the Commission will certainly be faced with yet another rate increase that may be even higher than the one approved today. I believe that it is in the best interest of the ratepayers to approve a 20.6% increase now in order to avoid even higher percentage rate increases in the future, causing rate shock to customers. I believe it is in the best interest of customers to bite the bullet now and set an adequate rate to avoid more pain in the future.

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Robert B. Holbrook, Commissioner