STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 14-239

NORTHERN UTILITIES, INC.

Winter 2014-2015 Cost of Gas

Order Approving Cost of Gas Rates and Other Charges

O R D E R N O. 25,731

October 31, 2014

APPEARANCES: Gary M. Epler, Esq., for Northern Utilities, Inc.; Bernstein, Shur, Sawyer & Nelson, P.A., by Patricia M. French, Esq. (Edward J. Sackman, Esq., at hearing), for intervenors Global Montello Group Corp. and Sprague Operating Resources LLC; Rorie E.P. Hollenberg, Esq., of the Office of the Consumer Advocate, on behalf of residential ratepayers; and David K. Wiesner, Esq., for the Staff of the Public Utilities Commission.

In this order, we approve Northern Utilities' proposed cost of gas and other rate adjustments for the 2014-2015 winter period from November 1, 2014, through April 30, 2015, subject to conditions. Northern's proposed winter residential cost of gas rate is $1.1069 per therm, which represents a $0.2053 per therm increase above the actual 2013-2014 winter season total adjusted rate of $0.9016 per therm. The impact of the proposed firm sales cost of gas rate, coupled with other proposed rate changes, is an overall increase for the typical residential heating customer of $225, or 23%, compared to the 2013-2014 winter season bill. If the base rates increase from last winter is excluded, the proposed rate changes result in an increase of $140, or 14%, to the typical residential heating customer for the winter period, assuming gas supply conditions are as the company projects and normal weather conditions prevail.

I. PROCEDURAL HISTORY

On September 16, 2014, Northern Utilities, Inc. (Northern), a public utility providing natural gas service to approximately 29,000 customers in the seacoast region of southeastern

New Hampshire, filed its cost of gas (COG) and other rate adjustments for the 2014-2015 winter period from November 1, 2014, through April 30, 2015. Northern's filing included the pre-filed testimony of Christopher A. Kahl, a Senior Regulatory Analyst for Unitil Service Corp., an affiliated service company; Francis X. Wells, Manager of Energy Planning for Unitil Service Corp.; and Joseph F. Conneely, a Senior Regulatory Analyst for Unitil Service Corp. Northern also submitted as part of its COG filing certain information as confidential exhibits under N.H. Admin. Rules Puc 201.06(a)(25). This information included supplier commodity pricing and special terms of supply agreements.

The Commission issued an order of notice scheduling a hearing for October 23, 2014. The Office of the Consumer Advocate (OCA) notified the Commission of its participation on behalf of residential ratepayers pursuant to RSA 363:28. Global Montello Group Corp. (Global) and Sprague Operating Resources LLC (Sprague) filed a joint motion to intervene. No objection was filed to this motion to intervene.

The hearing was held as scheduled before Hearing Examiner Alexander F. Speidel. Hearing Examiner Speidel filed a report regarding the hearing on October 27, 2014, in which he recommended admission of all exhibits into the record, granting of the motion to intervene filed by Global and Sprague, and conditional approval of Northern's 2014-2015 winter season COG rates and related rates and charges. *See* Hearing Examiner's Report at 2-4. On October 30, 2014, Northern filed a motion for leave to file exceptions to the Hearing Examiner's report. No objection to Northern's motion was filed by any party.

II. POSITIONS OF THE PARTIES AND STAFF

A. Northern

As set out more fully below, Northern's witnesses Kahl, Wells, and Conneely testified to: (1) the calculation of the proposed COG rate and the resulting customer bill impacts, (2) the reasons for the change in COG rates, (3) Northern's gas supplies and hedging, (4) the local distribution adjustment charge (LDAC), and (5) other COG related charges.

1. Calculation of the Proposed Firm Sales COG Rates and Bill Impacts

Northern may adjust its firm gas sales rates on a semi-annual basis to recover the costs of gas supplies, capacity and certain related expenses, net of applicable credits, as specified in the COG clause of its tariff. For the 2014-2015 winter period, the proposed average COG rate of $1.1069 per therm, which would be the rate payable by residential customers, was calculated by adding the anticipated direct costs of $1.1847 and anticipated indirect costs which are a credit of ($0.0778). *See* Exhibit 1, Summary Schedule Page 4. Direct costs are those costs relating to pipeline transportation capacity, storage capacity and commodity charges, while indirect costs include working capital, bad debt, and overhead charges. *See* Exhibit 1, Direct Testimony of Christopher Kahl at 18-19. These costs are also subject to certain allowed adjustments and the indirect costs include a prior period over-collection causing a credit of ($3,607,559). *Id.*

Northern's filing proposes a 2014-2015 winter residential rate of $1.1069 per therm, which represents a $0.2053 per therm increase above the actual 2013-2014 winter season total adjusted COG rate of $0.9016 per therm. *See* Exhibit 1, Schedule 8. The impact of the proposed firm sales COG rate, coupled with other changes in the LDAC, is an overall increase for the typical residential heating customer using 633 therms during the 2014-2015 winter season of $225, or 23%, compared to the 2013-2014 winter season bill with the same consumption.

See Exhibit 1, Direct Testimony of Joseph Conneely at 10. If the base rates increase from last winter period is excluded, the proposed COG and LDAC rate changes result in an increase of $140, or 14%, to the typical residential heating customer for the winter period. *Id.* Northern's proposed commercial and industrial (C&I) low winter use (LW) and high winter use (HW) COG rates are $1.0063 and $1.1217 per therm, respectively, which represent comparable increases from last year's rates. *See* Exhibit 1 Summary Schedule Page 4. Northern's proposed COG rates reflect changes implemented in connection with the increased permanent base rates approved in Docket No. DG 13-086 by Order No. 25,653 (April 21, 2014). Northern may adjust COG rates on a monthly basis in response to changing supply costs without further Commission approval, provided monthly adjustments do not cumulatively exceed 25 percent above the approved COG rate. Therefore, the expected rate impacts may vary during the upcoming COG period depending on monthly rate adjustments and usage.

2. Reasons for the Increase in COG Rates

The increase in Northern's rates is driven primarily by higher forecasted demand and commodity costs, as well as a smaller prior period negative/credit reconciliation balance that occurred in the 2013-2014 winter season. *See* Exhibit 1, Direct Testimony of Christopher Kahl at 20. At hearing, Mr. Wells further explained that the increases in demand costs are attributable primarily to projected increases in charges by pipeline companies TransCanada and Granite Gas. *See* Transcript of October 23, 2014 Hearing (Tr.) at 23. Mr. Wells attributed the increase in commodity costs to the lack of relief of the pipeline constraints into New England, caused by increased New England demand without an increase of pipeline capacity into New England and Northern's increasing reliance on market area supplies. *See* Exhibit 1, Direct Testimony of Francis Wells at 16-17.

3. Gas Supply and Hedging

Consistent with its hedging program approved in the Commission's Docket No. DG 09-141, by Order No. 25,087 (March 30, 2010), Northern hedged approximately 70% of its winter gas supply through financial and supply hedges, of which approximately 25% is at a fixed price. Tr. at 70-71. In addition to its hedged supplies, Northern also addressed other matters relating to its gas supply portfolio. Specifically, Northern contracted for base load supply contracts deliverable to its city gates via the Tennessee Gas Pipeline, the Maritimes Northeast Pipeline, and the Portland Natural Gas Transmission System for the upcoming winter period. Northern has also contracted for pipeline-delivered peaking supplies and Liquefied Natural Gas supplies. *See* Exhibit 1, Direct Testimony of Francis Wells at 8-11.

At hearing, Staff questioned Northern's witnesses regarding the effects on its New Hampshire Division customers of the "reverse migration" of transportation customers experienced in Northern's Maine Division, especially in light of the capacity assignment procedures in effect in Maine. Tr. at 26-51. Northern addressed the potential for excess gas supply costs and related expenses incurred as a result of such reverse migration in Maine to be allocated to the Company's New Hampshire customers. Tr. at 42-51. Mr. Wells testified that the incremental gas costs related to reverse migration in the Maine Division that were allocated to the New Hampshire Division had been estimated by Northern and were "material, but not significant." Tr. at 50-51; *see also* Exhibits 6 and 7.

4. Local Distribution Adjustment Charge (LDAC)

Northern's updated filing proposes a per therm LDAC rate of $0.0649 for residential customers, a decrease from the current residential LDAC rate of $0.0692, and $0.0437 for C&I customers, an increase from the current C&I LDAC rate of $0.0430. *See* Exhibit 1, Northern

Tariff No. 11-Gas, First Revised Page 59 Superseding Original Page 59. The LDAC is a combined rate of various surcharges by Northern, including those relating to the residential low income assistance and regulatory assessment (RLIARA), demand side management (DSM), and environmental response costs. The LDAC charge also includes a rate case expense charge of $0.0042 per therm and reconciliation of permanent changes in delivery rates charge of $0.0161 per therm, charges approved in the delivery rate case effective May 1, 2014, through October 31, 2015. *Id.*

As to the specific components of the LDAC, Northern is proposing to increase the charges relating to the RLIARA from $0.0065 to $0.0078 per therm for all classes. The RLIARA is designed to recover estimated program costs and participation and the actual non-distribution portion of the annual Commission regulatory assessment, and the proposed rate accounts for a projected over-collection balance in the amount of ($163,883). *See* Exhibit 1, Direct Testimony of Joseph Conneely at 3-5.

Regarding DSM, which covers Northern's energy efficiency programs, Northern proposes decreasing the charge from $0.0393 to $0.0350 per therm for residential customers and increasing the charge from $0.0131 to $0.0138 per therm for C&I customers. The DSM charge is derived by customer class and includes an annual reconciliation of program costs and shareholder incentive with an adjustment for low-income discount costs. The proposed rates also account for over-collections in the beginning balance largely due to actual throughput being higher than forecasted for both classes of customers over the past year. *See* Exhibit 1, Direct Testimony of Joseph Conneely at 6-7.

Finally, Northern proposes to decrease the environmental response cost charge from $0.0031 to $0.0018, for all customer classes. Under this charge, Northern is permitted to recover environmental response costs associated with former manufactured gas plants. The decrease in this charge is primarily due to a decrease in Northern's environmental response costs, as well as a prior period reconciliation to account for an estimated over-collection in the amount of $37,340. *See* Exhibit 1, Direct Testimony of Joseph Conneely at 7-9.

5. Other Charges

Northern proposes to update its supplier balancing charge. In *Gas Restructuring-Unbundling and Competition in the Natural Gas Industry*, Order No. 23,652 (March 15, 2001), the Commission approved a supplier balancing charge and peaking service demand charge to be updated once a year, beginning with the November billing month. Supplier balancing charges relate to daily imbalances in each supplier's resource pool at Northern delivery points (city gates). The suppliers pay Northern's supplier balancing charges as compensation for costs incurred by Northern to stay within daily operational balancing tolerances. Northern proposes to maintain the current supplier balancing charge of $0.77 per MMBtu of daily imbalance volumes, and to increase the peaking service demand charge from $14.89 per MMBtu of peak maximum daily quantity (MDQ) to $18.86 per MMBtu of peak MDQ, based on an update of costs and volumes used to calculate the charges. *See* Exhibit 1, Schedule 5B at 6.

In addition, the capacity allocator percentages, which are used to allocate pipeline, storage, and local peaking capacity to a customer's supplier under the mandatory capacity assignment required by New Hampshire for non-grandfathered firm transportation service, have been updated to reflect Northern's supply portfolio for the upcoming year. Finally, the firm sales service re-entry fee has been increased from a monthly unit charge of $4.91 to $5.79 per MMBtu to reflect updated costs. *See* Exhibit 1, Tariff First Revised Page 171.

6. Exceptions to Hearing Examiner's Report

Northern filed an exception to the Hearing Examiner's recommendation that Northern's proposed COG, LDAC, and miscellaneous rates be approved, subject to the "condition that 2013-2014 winter costs misallocated to the New Hampshire Division of the Company will be subject to further Commission review and potential reimbursements to New Hampshire Division customers." (Emphasis supplied.) Northern asserted that the conclusion that any "misallocation" of 2013-2014 winter costs occurred is a "prejudgment not supported by the record," and requested that the Commission not adopt this portion of the Hearing Examiner's report. Northern Motion at 3-4. Northern argued that, in the absence of any finding of unreasonable or imprudent action by the Company, it would be impermissible for the Commission to deny recovery of any portion of Northern's gas commodity costs on the grounds that these costs should have been allocated to the Maine Division, if the costs in fact were allocated pursuant to the approved methodology. Northern Motion at 5.

B. Global and Sprague

Counsel for Global and Sprague questioned Northern's witnesses regarding differences in reported estimates of commodity costs between the Maine and New Hampshire Divisions of the Company, filed in Maine and New Hampshire proceedings, respectively. Tr. at 74-78. Attorney Sackman offered no closing statement but indicated that Global and Sprague might file a brief. Tr. at 79, 82. No further filing was received from Global and Sprague.

C. OCA

The OCA stated that it did not object to approval of Northern's proposed winter COG rates and related rates and charges. Tr. at 79-80.

D. Staff

Staff recommended approval of Northern's revised COG rates as filed, on the condition that any 2013-2014 winter costs misallocated to the New Hampshire Division be subject to further Commission review and potential disallowance. Tr. at 80. Staff indicated that, based on its preliminary investigation of the issue, the impact on last winter's gas costs, although material, would have only a small impact on the cost of gas rates. *Id.* Staff stated it would continue its investigation into the Maine capacity assignment and reverse migration issues. Staff intends to address any possible misallocation of gas costs related to Maine's capacity assignment requirements prior to next winter's cost of gas hearing and, if appropriate, propose a credit in that proceeding. *Id.*

Staff noted that the Commission's Audit Staff had reviewed the reconciliation from last year's winter period and found only one minor exception. Tr. at 81. Staff also recommended that Northern's proposed LDAC rate be implemented along with the COG rates on November 1. Tr. at 80-81. Staff reviewed Northern's proposed supplier balancing charges and capacity allocators, including Maine-New Hampshire interstate aspects, and recommended that these charges and allocators also be approved, as it appears the proposed charges and allocators are accurate and reasonable. Tr. at 81.

III. COMMISSION ANALYSIS

As an initial matter, we accept the recommendation of the Hearing Examiner with respect to the joint motion to intervene filed by Global and Sprague, and we grant their intervention. We also accept the Hearing Examiner's recommendation with respect to the proffered hearing exhibits, and we admit Exhibits 1-8 into evidence in this proceeding.

We find that Northern's proposed adjustments will result in just and reasonable rates as required by RSA 378:7; however, we share the concerns of Staff and the Hearing Examiner regarding the potential for excess costs incurred as a result of Maine customer reverse migration and the peculiarities of the Maine capacity assignment requirements to be imposed on New Hampshire customers through the Company's allocation procedures. We therefore approve Northern's proposed 2014-2015 winter period COG and Transportation COG rates subject to the condition that any such excess costs for the 2013-2014 winter period allocated to the New Hampshire Division will be subject to further Commission review and potential disallowance. We impose this condition without making any finding, based on the record before us, that any such costs have been "misallocated" by the Company to its New Hampshire Division. We will review *de novo* any allegation of "misallocation" in a future proceeding if and when the issue is presented for our adjudication. We do expect that Northern will work with Staff to analyze and quantify the potential excess costs and bring those excess costs to the attention of the Commission in the next COG proceeding, if advisable.

We also approve Northern's LDAC rate components consisting of the environmental recovery cost, DSM, and RLIARA charges, transportation supplier balancing rate, transportation peaking service demand rate, transportation capacity allocators, and the firm sales service re-entry fee. Since the COG rates are reconciled year over year, any adjustments needed as a result of further inquiry into these matters can be made in Northern's next winter COG proceeding.

Finally, we agree with the Hearing Examiner's assessment that contingency planning for the potential peak period return of significant numbers of Northern's capacity-exempt transportation customers is an important consideration. We direct Northern to provide timely communication to Staff regarding material increases in reverse customer migration in either New Hampshire or Maine, and to coordinate with Staff to develop proactive contingency plans to manage the potential effects of such reverse migration on Northern’s supply resources and associated costs.

Based upon the foregoing, it is hereby

ORDERED, that the joint motion to intervene filed by Global and Sprague is GRANTED; and it is

FURTHER ORDERED, that Exhibits 1-8 proffered as evidence and marked for identification at the hearing are admitted into evidence and shall become part of the record of this proceeding; and it is

FURTHER ORDERED, that Northern’s motion for leave to file exceptions to the Hearing Examiner’s report is GRANTED; and it is

FURTHER ORDERED, that Northern's proposed 2014-2015 Winter period COG rates of $1.1069 per therm for Residential, $1.0063 per therm for C&I low winter use and $1.1217 per therm for C&I high winter use for the period November 1, 2014, through April 30, 2015, are APPROVED, effective for service rendered on and after November 1, 2014, subject to the condition that any excess costs for the 2013-2014 winter period incurred as a result of Maine customer reverse migration and the Maine capacity assignment requirements that have been allocated through the Company’s allocation procedures to the New Hampshire Division will be subject to further Commission review and potential disallowance; and it is

FURTHER ORDERED, that Northern may, without further Commission action, adjust the COG rates upward by no more than 25 percent and downward so far as is necessary based upon its projected over-collection or under-collection; and it is

FURTHER ORDERED, that Northern (1) provide the Commission with its monthly calculation of the projected over-collection or under-collection calculation, along with the resulting revised COG rates for the subsequent month, not less than five business days prior to the first day of the subsequent month, and (2) include revised tariff pages and rate schedules if Northern elects to adjust the COG rates; and it is

FURTHER ORDERED, that the over-collection or under-collection shall accrue interest at the monthly prime lending rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates; and it is

FURTHER ORDERED, that Northern's 2014-2015 LDAC per therm rates for the period November 1, 2014, through October 31, 2015, are APPROVED, effective for service rendered on and after November 1, 2014, as follows:

	RLIARA	DSM	ERC	RCE	RPC	Total
Residential	$0.0078	$0.0350	$0.0018	$0.0042	$0.0161	$0.0649
C&I	$0.0078	$0.0138	$0.0018	$0.0042	$0.0161	$0.0437

and it is

FURTHER ORDERED, that Northern’s proposed transportation supplier balancing charge of $0.77 per MMBtu of daily imbalance volumes is APPROVED; and it is

FURTHER ORDERED, that Northern’s proposed transportation peaking service demand charge of $18.86 per MMBtu of peak MDQ is APPROVED; and it is

FURTHER ORDERED, that Northern’s proposed transportation capacity allocators as filed in Proposed First Revised Page 168, Superseding Original Page 168, are APPROVED; and it is

FURTHER ORDERED, that Northern's proposed annual firm sales service re-entry fee per unit charge of $5.79 per MMBtu is APPROVED; and it is

FURTHER ORDERED, that Northern 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. Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of October, 2014.

Robert R. Scott (KNS)
Commissioner

Martin P. Honigberg
Commissioner

Attested by:

Debra A. Howland
Executive Director

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