

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 15-090

NORTHERN UTILITIES, INC.

2015 Summer Period Cost of Gas Adjustment

Order Approving Cost of Gas and Other Rates

O R D E R N O. 25,783

April 28, 2015

APPEARANCES: Gary M. Epler, Esq., for Northern Utilities, Inc.; Wayne Jortner, Esq., of the Office of the Consumer Advocate, on behalf of residential ratepayers; Patricia M. French, Esq., of Bernstein, Shur, Sawyer & Nelson, P.A., on behalf of Global Montello Group Corp. and Sprague Operating Resources LLC; and Michael Sheehan, Esq., and Rorie E. Patterson, Esq., for the Staff of the Public Utilities Commission.

In this order, we approve the 2015 Summer Period Cost of Gas rates proposed by Northern Utilities, Inc., including a residential rate of \$0.3238 per therm. When compared to last summer's residential cost of gas rate, the new rate will cause a typical residential heating customer's bill to decrease by \$37.13, or about 12.55 percent, over the course of the six-month 2015 summer period. We also continue this docket for the sole purpose of determining the appropriate methodology to distribute a PNGTS refund.

I. PROCEDURAL HISTORY

Northern Utilities, Inc. (Northern), is a public utility distributing natural gas in the southeastern and seacoast areas of New Hampshire. On March 17, 2015, Northern filed proposed rate adjustments pursuant to the cost of gas (COG) clause in its tariff for the period May 1 through October 31, 2015.¹ Northern requested confidential treatment of some portions of its filing pursuant to N.H. Code of Admin. R. Puc 201. The filing included the direct testimony and supporting schedules of Christopher A. Kahl and Joseph F. Conneely for Unutil

¹ Exhibit 1 is the confidential version of Northern's filing. Exhibit 2 is a copy of the same document redacted to protect those sections for which the company sought confidential treatment.

Service Corporation, a Northern affiliate. Northern's filing and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, are posted on the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2015/15-090.html>.

On March 25, 2015, the Commission issued an order of notice scheduling a hearing for April 22, 2015. The Office of the Consumer Advocate (OCA) notified the Commission of its participation on behalf of residential ratepayers pursuant to RSA 363:28. On April 16 and 17, Northern made revised summer 2015 COG filings. On April 20, 2015, Northern filed its affidavit of publication, as required by the Order or Notice, and two retail gas suppliers, Global Montello Group Corp. (Global) and Sprague Operating Resources LLC (Sprague), filed a joint petition to intervene. On April 21, Global and Sprague propounded data requests upon Northern.

The Commission's Staff conducted discovery and a technical session, which representatives of the OCA attended. The hearing was held as scheduled and presided over by a hearing examiner. During the hearing, witnesses on behalf of Northern adopted their pre-filed testimony, with one minor correction, and provided additional live testimony. Also, the hearing examiner took the Staff and parties' positions on Sprague and Global's intervention request. On April 27, 2015, the hearing examiner filed a report and recommendations.

II. COST OF GAS ADJUSTMENT MECHANISM

The cost of gas adjustment mechanism was implemented in 1974 during an era of rapidly-changing prices, to provide a way to immediately pass on to customers any price increases and decreases in supply costs without having to go through an extended proceeding to change delivery rates. Supply costs make up approximately 70% of a residential heating customer's annual bill and are primarily made up of commodity prices (*i.e.*, the cost of the

natural gas itself), the cost to transport the gas over the pipelines, and storage costs. The Company has no control over the price of natural gas, which is an unregulated commodity, or over pipeline transportation rates, which are set by the Federal Energy Regulatory Commission (FERC). The COG mechanism allows the Company to directly pass those costs to customers but prohibits any mark-up of, or profit on, those costs. COG rates are initially set using projected costs and sales for the upcoming summer or winter period. The Company may adjust COG rates monthly to take into account changes in the natural gas market, based on actual costs to date and projected costs for the remainder of the period.

The cost of gas purchased, transported, and stored during the summer to meet winter demand are recovered through winter rates. Therefore, winter supply rates are typically much higher than summer supply rates.

All supply costs and revenues are reconciled semi-annually. During each summer COG rate proceeding, the Commission reconciles the actual costs and revenues from the prior summer period. Likewise, during each winter COG proceeding the Commission reconciles the actual costs and revenues of the prior winter. The results of the reconciliations are reflected in the COG rates going forward. A more detailed description of supply costs and how rates are set can be found on the Commission's website at <http://www.puc.nh.gov/Gas-Steam/gas-steam.htm>.

Another rate the Commission sets within the context of COG proceedings is the local delivery adjustment clause (LDAC) charge. The LDAC allows for recovery of expenses the Commission has approved in prior dockets through a per therm surcharge to be determined and implemented in a COG proceeding. These expenses include costs associated with the Company's low-income financial-assistance and energy-efficiency programs, environmental remediation related to manufactured gas plants, and costs related to distribution rate cases such

as rate case expenses and reconciliation of temporary and permanent rates. The expenses approved for recovery and revenues collected through the surcharge are reconciled and future rates adjusted according. The Commission typically reviews and adjusts the LDAC during the winter COG proceeding, although the LDAC may be adjusted during the summer period as well.

III. POSITIONS OF PARTIES AND STAFF

A. Northern

Northern ultimately proposed residential, commercial/industrial (C&I) high winter use, and C&I low winter use summer COG per-therm rates of \$0.3238, \$0.3297, and \$0.2612 per therm, respectively. Northern also proposed LDAC per-therm surcharges of \$0.0446 per therm for residential customers and \$0.0234 per therm for C&I customers. The following table compares the proposed rates with the weighted-average rates for last summer and the expected bill impact based on average usage. The table also reflects Northern's proposed increase in delivery rates filed in February 2015 and approved by the Commission determination in Order No. 25,779 (April 15, 2015).

Per Therm Rates (weighted average) & Bill Impacts (average usage) in Dollars								
Class	Rate				Cost (6 months)			
	Charge	2014	2015	Change	2014	2015	Change	% Change
R-3 Residential Heating	COG	0.6500	0.3238	(0.3262)	93	46	(47)	-50%
	LDAC	0.0692	0.0446	(0.0246)	10	6	(4)	-36%
	Delivery	1.3500	1.4411	0.0911	193	206	13	7%
	Total	2.0692	1.8095	(0.2597)	296	259	(37)	-13%
G-41 C&I Medium Annual High Winter	COG	0.6893	0.3297	(0.3596)	2,656	1,270	(1,386)	-52%
	LDAC	0.0430	0.0234	(0.0196)	166	90	(76)	-46%
	Delivery	0.4388	0.4686	0.0297	1,691	1,805	115	7%
	Total	1.1711	0.8217	(0.3495)	4,512	3,166	(1,347)	-30%
G-51 C&I Medium Annual Low Winter	COG	0.5883	0.2612	(0.3271)	4,812	2,137	(2,676)	-56%
	LDAC	0.0430	0.0234	(0.0196)	352	191	(160)	-46%
	Delivery	0.2164	0.2311	0.0146	1,770	1,890	120	7%
	Total	0.8716	0.5412	(0.3304)	7,130	4,427	(2,703)	-38%

At the hearing, Northern's witnesses testified that its demand forecast for summer 2015 is approximately 10-12% higher than its demand forecast for summer 2014. When compared to summer 2014 actual demand, however, the 2015 demand forecast is similar. In terms of differences in its summer 2015 and summer 2014 supply plans, Northern noted the return to Maine division sales service of the Portsmouth Naval Shipyard and the consequent need to secure additional Portland Natural Gas Transmission System (PNGTS) supply for this customer.

Northern's revised filing included lower demand charges on PNGTS's and TransCanada's pipelines, which are the result of FERC rate cases. The PNGTS case also resulted in an expected refund of \$22,054,911 for rates paid during the pendency of that case, with \$11,605,241 allocated to the Maine Division and \$10,449,670 allocated to the New Hampshire Division. To distribute the refund to firm sales and non-grandfathered transportation customers, Northern proposed a refund methodology that is different from the Supplier Refund provision of its tariff, which requires distribution through a separate refund account over a 12-month period, with interest calculated at the prime interest rate. Instead, Northern's "Alternative Refund Proposal" uses a credit to offset COG costs over the next three years, with interest calculated at the company's short-term-debt interest rate and a proposed refund based on projected sales over the next three years. Northern estimated that distributing the PNGTS refund over 12 months, per its tariff, would result in a summer 2015 COG rate of approximately \$0.11 per therm, compared to the COG rate resulting from the proposed 3-year refund period of approximately \$0.32 per therm.

Also at the hearing, due to the time-sensitive nature of the COG rate and the lack of consensus among the parties on the issues raised in Global and Sprague's intervention petition, Northern agreed to work directly with Global and Sprague to resolve their alleged capacity-

allocation issue and to resolve the PNGTS-refund issues through a subsequent adjudicative process such as a limited-scope continuation of this COG proceeding.

B. Global and Sprague

Global and Sprague did not oppose the proposed COG based on an understanding that their issues could and would be addressed through other means. With regard to their allegation that Northern had failed to “correctly and timely allocate capacity[,]” Global and Sprague agreed, if necessary, to file a complaint with the Commission. To address their PNGTS refund issues, Global and Sprague agreed to address these through a subsequent adjudicative process.

C. OCA

The OCA requested that the Commission require Northern to return the PNGTS refund to firm sales customers over a 12-month period, or over a 36-month period at the prime interest rate. The OCA noted that Liberty Utilities (EnergyNorth Natural Gas) Corp., d/b/a Liberty Utilities (Liberty), the other New Hampshire natural gas distribution company, has agreed to distribute its PNGTS refund over a 12-month period at the prime rate, and the OCA suggested that the Commission should require Northern to be consistent with Liberty. The OCA rejected concerns about rate stability; it observed that the rate difference arising from its refund-methodology proposal, when compared with the company’s Alternative Refund Proposal, is not outside the norm of COG rate fluctuations. The OCA also expressed concern that the company’s proposed 3-year refund period could increase the risk that the customers, who paid the higher PNGTS rate during the FERC rate case, would not receive their fair share of the refund. In the alternative, the OCA indicated that it would not object to the Commission’s approval of the revised COG rate, including a portion of the PNGTS refund based on the Alternative Rate

Proposal, so long as the Commission provided the subsequent adjudicative process proposed by the Company, Staff and the intervenors, and reconciled its decision back to May 1, 2015.

D. Staff

The Staff supported the COG rates as proposed by the company's revised filing, and agreed with the Company and intervenors to address the PNGTS refund issues through a subsequent adjudicative process.

IV. HEARING EXAMINER'S RECOMMENDATIONS

The hearing examiner's report summarized the review of, and rulings on, Global and Sprague's motion to intervene and the marking of Northern's exhibits. The hearing examiner recommended approval of Northern's revised COG rates, subject to reconciliation. The hearing examiner also recommended that the Commission issue a supplemental order of notice within this proceeding, to enable the further exploration of, and a Commission determination on, the company's Alternative Refund proposal for the PNGTS refund.

V. COMMISSION ANALYSIS

As an initial matter, we accept the hearing examiner's recommendation 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 1-4 into evidence in this proceeding. In addition, we accept the recommendation to schedule an additional adjudicative process on the PNGTS refund issue. Because we consider sufficient the notice provided by the company's filings and the Order of Notice, with respect to the PNGTS refund issue, we decline the hearing examiner's recommendation to issue a supplemental Order of Notice.

The Commission exercises broad authority, expressly granted it by the legislature, *In re Appeal of Verizon New England, Inc.*, 153 N.H. 50, 64 (2005), as well as “powers inherent within its broad grant” of express statutory authority. *Id.* at 64, 64-65 (citations omitted) (PUC impliedly authorized to employ revenue imputation to redress utility’s misconduct). The Commission exercises its just and reasonable ratemaking authority when it sets COG rates. *See* RSA 374:2 (public utilities to provide reasonably safe and adequate service at “just and reasonable” rates); 378:7 (PUC required to determine and fix the utility’s just and reasonable or lawful rates).

With the exception of the PNGTS refund, we find the proposed, revised, summer 2015 COG rates just and reasonable, and we approve these rates for effect May 1 through October 31, 2015. We agree with the proposal to continue this docket for the sole purpose of determining the appropriate methodology to distribute the PNGTS refund and, pending that determination, we authorize the company to begin the refund, subject to reconciliation, pursuant to its Alternate Refund proposal. The following procedural schedule will govern the PNGTS refund review.

Northern’s responses to Global/Sprague PNGTS-refund data requests ²	5/5/15
Testimony of Global/Sprague and OCA	5/14/15
Data requests on Global/Sprague and OCA testimony	5/20/15
Global/Sprague and OCA data responses	5/28/15
Hearing on PNGTS Refund issues	6/2/15, 10 am

Pursuant to Northern Utilities, Order No. 24,961 (April 30, 2009), and consistent with its tariff, Northern may adjust the approved COG rates each month without further Commission action, to reflect actual costs and revised cost projections, and to eliminate or reduce projected

² The OCA and Staff had the opportunity to ask data requests before the hearing.

over or under recoveries during the COG period. The cumulative total of any COG rate increases, however, are limited to no more than 25 percent of the approved rates.

Based upon the foregoing, it is hereby

ORDERED, that Northern's revised 2015 summer period COG rates per therm, for May 1 through October 31, 2015, are **APPROVED** as set forth in this Order, effective for service rendered on or after May 1, 2015, as follows:

Customer Class	2015 Summer Cost of Gas	2015 Summer Maximum COG
Residential	\$0.3238	\$0.4048
C&I, high winter	\$0. 3297	\$0.4121
C&I, low winter use	\$0. 2612	\$0.3265

and it is

FURTHER ORDERED, that Northern may, without further Commission action, adjust the COG rates based upon the projected over/under-collection for the period, the adjusted rate to be effective the first of the month and not to exceed, cumulatively, a maximum rate of 25 percent above the approved rate, as indicated above, with no limitation on reductions to the COG rates; and it is


FURTHER ORDERED, that Northern shall provide the Commission with its monthly calculation of the projected over- or under-collection, 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. Northern shall include revised tariff pages 43, 96 & 97 – Calculation of Cost of Gas Adjustment and revised rate schedules under separate cover letter if Northern elects to adjust the

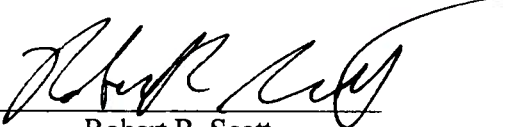
COG rates, with revised tariff pages to be filed as required by N.H. Code Admin. Rules Puc 1603; and it is

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

FURTHER ORDERED, that Northern shall file properly annotated tariff pages in compliance with the Order no later than 15 days from the issuance date of this Order, as required by N.H. Admin Rules, Puc 1603.

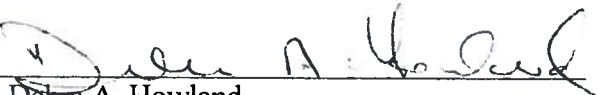
By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of April, 2015.



Martin P. Honigberg
Chairman

Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with: DEBRA A HOWLAND
EXEC DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429
- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.
- c) Serve a written copy on each person on the service list not able to receive electronic mail.