

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

July 6, 2017 - 10:01 a.m.
Concord, New Hampshire

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RE: DG 17-070
NORTHERN UTILITIES, INC.:
Request for Change in Rates.
(Prehearing conference)

PRESENT: Chairman Martin P. Honigberg, Presiding

Sandy Deno, Clerk

APPEARANCES: **Reptg. Northern Utilities, Inc.:**
Gary Epler, Esq.
Patrick Taylor, Esq.

Reptg. Residential Ratepayers:
D. Maurice Kreis, Esq., Consumer Adv.
Brian D. Buckley, Esq.
Pradip Chattopadhyay, Asst. Cons. Adv.
James Brennan, Finance Director
Office of Consumer Advocate

Reptg. PUC Staff:
Paul B. Dexter, Esq.
Stephen Frink, Asst. Dir./Gas & Water

Court Reporter: Steven E. Patnaude, LCR No. 52

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P R O C E E D I N G

CHAIRMAN HONIGBERG: We're here this morning in Docket 17-070, which is Northern Utilities, a request for changes in rates. There's also a request for temporary rates, and a hearing has already been scheduled for that. We have a prehearing conference this morning that will be followed by a technical session.

Before we do anything else, let's take appearances.

MR. EPLER: Good morning, Mr. Chairman. Gary Epler, attorney for Northern Utilities, just make sure I've got the right company here. And with me as co-counsel in this case is Patrick Taylor, sitting to my right, one row back. Also this morning accompanying me is, immediately to my right, David Chong, Director of Finance; Dan Nawazelski, who is an Analyst in the Finance Division; behind me is Kevin Sprague, who is Director of Engineering; next to him, to his right, is George Simmons, who's Manager of the Regulatory Division. Thank you.

MR. KREIS: I guess that means it's

1 my turn. I'm D. Maurice Kreis, the Consumer
2 Advocate, here on behalf of the residential
3 customers of the subject utilities.

4 And I have my whole team with me here
5 today. To my immediate left is Pradip
6 Chattopadhyay, the Assistant Consumer Advocate;
7 to his left is Brian Buckley, our Staff
8 Attorney; and to his left is Jim Brennan, our
9 Director of Finance.

10 MR. DEXTER: Good morning, Mr.
11 Chairman. Paul Dexter, from the Commission
12 Staff.

13 With me today is Stephen Frink,
14 Assistant Director of the Gas and Water
15 Division.

16 CHAIRMAN HONIGBERG: I am aware of no
17 intervenor requests. Anybody aware of anyone
18 who's interested in intervening in this?

19 MR. DEXTER: Staff's not aware of
20 any.

21 CHAIRMAN HONIGBERG: Silence is
22 deafening on that one. Anything else we need
23 to do before the Parties state their positions?
24 I know we have some pending motions for

1 confidential treatment, and no objections have
2 been filed.

3 I assume the OCA and Staff are okay
4 with those two motions?

5 MR. KREIS: We are.

6 MR. DEXTER: Staff has no objection.

7 CHAIRMAN HONIGBERG: Yes. I expect
8 they will be granted. Although, since I'm the
9 only one here, that won't happen today.

10 Anything else we can deal with,
11 before hearing from the Parties on their
12 preliminary positions and identification of
13 what they think might be interesting in this
14 case?

15 *[No verbal response.]*

16 CHAIRMAN HONIGBERG: All right.

17 Mr. Epler, why don't you go first.

18 MR. EPLER: Yes. Thank you, Mr.
19 Chairman. I do have a prepared statement, if I
20 may.

21 CHAIRMAN HONIGBERG: And, when you
22 have a microphone on and in front of you, it
23 will be great.

24 MR. EPLER: Thank you, Mr. Chairman.

1 On June 5th, Northern Utilities filed with the
2 Commission its proposal for an increase in
3 permanent rates of 4.7 million for gas service
4 rendered on and after July 5th, 2017. As
5 stated in the Report of Proposed Rate Changes
6 submitted with the filing, this represents an
7 increase of 7.3 percent over total revenues
8 under present rates. Northern is also seeking
9 to institute temporary rates effective for
10 service rendered on and after August 1st, 2017,
11 and until the final order is issued on
12 permanent rates. The requested temporary rate
13 increase is slightly under \$2 million, or a
14 3.1 percent over total revenue under present
15 rates, and is proposed to be recovered on a
16 uniform 0.0285 cents [\$0.0285?] per therm basis
17 from all rate classes.

18 Northern's last base rate case, which
19 was Docket DG 13-086, was filed in March 2013,
20 and decided by the Commission in April 2014
21 with the approval of a comprehensive Settlement
22 Agreement. Under that Settlement, the Company
23 was allowed two step adjustments, in 2014 and
24 2015. The last time the Company had a base

1 rate adjustment was in May 2015 for plant
2 placed into service in calendar year 2014.
3 Therefore, the Company has not recovered its
4 utility plant additions and increases in
5 operating expenses since 2014. Since that
6 time, the Company's operating expenses and rate
7 base have grown significantly. From January 20
8 -- January 1st, 2015 through December 31, 2016,
9 Northern's investment in rate base has grown by
10 approximately 16 percent.

11 The step increases under the
12 previously approved Settlement Agreement
13 occurred on the date of the initial increase
14 and one year thereafter. The step increases
15 were to recover the revenue requirement
16 associated with the Company's investments in
17 its Gas Mains Extensions, New Hampshire Main
18 Replacement Program, and State and City Gas
19 Highway Projects.

20 In this case, the Company proposes a
21 new rate plan, with distinct step adjustments
22 to distribution base rates occurring on July 1
23 of 2018, 2019, and 2020, for calendar years
24 2017, 2018, and 2019, respectively. Similar to

1 the previous step increases under the last
2 Settlement Agreement, these step adjustments
3 would allow for recovery of Mains Replacement
4 Program, Gas Main Extensions and Gas Highway
5 Projects, as well as Farm Tap Replacements,
6 Excess Flow Valve Installations, and Rochester
7 Reinforcement Projects. The Company estimates
8 that the annual revenue requirement for the
9 three annual step increases in 2018, 2019, and
10 2020 will be approximately 2.3 million,
11 2.2 million, and 1.9 million, respectively.

12 The proposed rate plan includes
13 customer benefits and protections: An ROE
14 collar, which would allow the Company to file a
15 base rate case before 2020 only if the ROE is
16 under 7 percent, but provides for equal
17 earnings sharing between the distribution
18 customers and the Company if the ROE is greater
19 than 11 percent; and a general rate case filing
20 stay-out provision through the term of the rate
21 plan.

22 In rate design, the Company proposes
23 to continue on the path to recover a greater
24 portion of predominantly fixed costs associated

1 with the provision of service through the fixed
2 customer charge, consistent with the goal of
3 establishing cost-based rates.

4 The Company is prepared to work with
5 the Commission Staff, Consumer Advocate, and
6 any other interested party intervenor in
7 technical sessions and through discovery to
8 answer any questions they may have about the
9 filing. And I'd be happy to answer any
10 questions you may have, or if you prefer, you
11 may certainly ask direct questions to any of my
12 co-employees here. Thank you.

13 CHAIRMAN HONIGBERG: Thank you,
14 Mr. Epler. Mr. Kreis.

15 MR. KREIS: Thank you, Mr. Chairman.
16 The Office of the Consumer Advocate has a
17 reasonably high degree of optimism that this
18 particular rate case can be resolved, both in
19 its temporary and permanent phases, in an
20 amicable and negotiated fashion.

21 That said, I thought that the
22 Chairman's suggestion that we mention what's
23 interesting about this case was a suitable
24 query, and there are numerous interesting

1 things about this particular rate case. And
2 here are the ones I would like to highlight.

3 The OCA is always concerned about
4 rate cases that seek to increase rates and
5 invoke a lavish return on equity, in this case,
6 10.3 percent, while at the same time assigning
7 additional risk away from shareholders and onto
8 customers. And that is what this particular
9 rate case does through its step adjustment plan
10 and various proposals contained in the rate
11 case.

12 I have to say that I'm concerned
13 generally about a paradigm that seems to be
14 proliferating here, not just at this utility,
15 but at utilities generally here, that certain
16 capital expenditures are defined as so-called
17 "nonrevenue-producing capital expenditures".

18 In the view of the OCA, all capital
19 expenditures are revenue-producing, because
20 they're all expenditures made by the utility in
21 order to allow the utility to keep faith with
22 its obligation to provide safe and reliable
23 service for its customers pursuant to its
24 tariff.

1 So, the idea that there are certain
2 capital expenditures that deserve different
3 regulatory treatment because they are so-called
4 "nonrevenue-producing capital expenditures" is
5 something of a nonstarter from our standpoint.

6 We are concerned about the inflation
7 allowance for residual O&M expense. It's a
8 small item of \$137,000. But we believe that's
9 a bit of an anathema to cost of service
10 ratemaking.

11 The proposed increases of \$880,000 in
12 revenue requirement to reflect changes in
13 depreciation are concerning for the OCA.

14 And we are concerned about the rate
15 design trend that this utility continues to
16 manifest in connection with its rate case.
17 That means more of the utility's revenue
18 requirement would be produced through fixed
19 charges, rather than volumetric charges. That,
20 in our view, operates as a disincentive to
21 consumers to do all of the things that we think
22 consumers should be doing in order to -- in
23 order to be good utility customers.

24 We are concerned about the inequities

1 in the way that the revenue requirement is
2 assigned to various rate classes, such that, in
3 a rate case that proposes a 6.2 percent overall
4 rate increase, at least one of the residential
5 classes would see bills go up by 13.1 percent,
6 where commercial and industrial customers only
7 see a rate increase of 4.1 percent.

8 And I guess those are the only
9 highlights that I'd like to draw the
10 Commission's attention to. Now, again, in the
11 context of having a fair degree of optimism
12 that we can work through this rate case with
13 the Company and with the Staff and reach
14 agreement about all outstanding issues.

15 CHAIRMAN HONIGBERG: Thank you for
16 closing with the optimism again. I was feeling
17 a little down there in the middle of the
18 concerns.

19 MR. KREIS: I learned to deliver
20 compliment sandwiches from some consultant
21 somewhere. So, start with something nice, load
22 all your complaints on, and then close the
23 sandwich with another compliment.

24 CHAIRMAN HONIGBERG: And it's part of

1 every coaching seminar, too, for young players
2 in particular.

3 Mr. Dexter.

4 MR. EPLER: I thought I heard some
5 baloney in there.

6 *[Laughter.]*

7 MR. DEXTER: Thank you, Mr. Chairman.
8 So, Staff has done a preliminary review of the
9 case and identified several issues that we will
10 investigate. We will investigate all the
11 issues. The traditional issues in the rate
12 case that are present here are rates to recover
13 increases in payroll, pensions, property taxes,
14 uncollectible expense, working capital,
15 prepayments, inflation, depreciation, return on
16 equity, class allocation, rate design. It's
17 all in the package. So, it's a complete rate
18 case.

19 At this stage, there are several
20 areas that sort of jump out that will require
21 additional investigation which raise concerns
22 for Staff.

23 First, the payroll adjustment that is
24 proposed requests rate recovery for increases

1 that occurred during the test year or one year
2 after the test year, and then some that occur
3 one year beyond, beyond one year after the test
4 year. We will look at those to see if those
5 are too remote to be considered "known and
6 measurable".

7 Like the OCA, we have a concern about
8 the inflation adjustment, which applies an
9 inflation factor to a host of expenses,
10 including things like gasoline and natural gas,
11 which recent history would show are volatile,
12 it can go up, it can go down, and don't
13 necessarily move with the rate of inflation.

14 Staff has concerns with the length of
15 the rate plan. In the Settlement last time,
16 there was two step adjustments. The Company
17 has proposed three in this case. And we also
18 want to look closely at the three categories of
19 expanded expenditures that are proposed to be
20 included in the step adjustment.

21 Staff has concerns with the tripling
22 and the quadrupling of the turn-on fees that we
23 noticed. The Company has proposed to
24 significantly increase those fees. And we

1 haven't found any sort of corresponding
2 proforma adjustment on the revenue side that
3 might reflect some of those increased fees, if
4 they were approved.

5 And, finally, the Company for a long
6 time has implemented a Residential Low Income
7 Assistance Program, consistent with Commission
8 precedent. And Staff will be looking at
9 proposing an adjustment to that, to keep it in
10 line with the original parameters of the
11 program. Where the price of gas has dropped
12 since that program was implemented, the percent
13 of the discount on the total bill has gotten
14 higher than the original parameters called for.
15 And Staff will be looking at that and likely
16 proposing an adjustment for that.

17 So, substantively, those are the
18 issues that we plan to look at.

19 I just wanted to note on the record
20 that Staff and the OCA and the Company had a
21 brief discussion about discovery service in
22 this case. And the Company indicated that they
23 will be filing discovery via email in all
24 cases, except where the content is such that

1 email is not practical. And, in those cases,
2 they will be providing answers on either disks
3 or memory sticks, which is a slight variation
4 from the discovery rules, but I wanted to
5 indicate that all Parties are in agreement with
6 that.

7 CHAIRMAN HONIGBERG: All right. On
8 that very last point, disks and sticks, I guess
9 I would just caution everyone to make sure that
10 you go through all of the required procedures
11 from the Department of Information Technology
12 regarding importing any data that originates
13 outside the State. They have been pretty
14 strict, in terms of making sure that media like
15 that are fully cleaned and reviewed before they
16 get put onto any State system.

17 Mr. Epler, in light of what Mr. Kreis
18 and Mr. Dexter have talked about, anything you
19 want to add to what you said before?

20 MR. EPLER: No, Mr. Chairman. I
21 think that the issues that were raised are all
22 appropriate for review in the rate case, and
23 the Company is certainly prepared to address
24 them. And, in the spirit that was raised by

1 the Consumer Advocate, we're certainly open to
2 compromise and wanting to get this case
3 underway and resolved as quickly as possible.
4 So, I appreciate that.

5 CHAIRMAN HONIGBERG: In terms of how
6 long "as quickly as possible" would mean, when
7 do we think this case would be ready to go to a
8 hearing on the merits?

9 MR. DEXTER: Well, we have a -- I
10 have circulated a proposed procedural schedule
11 to the Parties, which we're going to talk about
12 at the tech session. But, if you give me a
13 moment, I can pull that out and --

14 CHAIRMAN HONIGBERG: Sure. I'm just
15 trying to get a sense. Is this a four-month
16 case? An eight-month case?

17 MR. DEXTER: Well, the schedule has
18 it as a twelve-month case.

19 CHAIRMAN HONIGBERG: There we go.

20 MR. DEXTER: Which is what the
21 suspension period in the statute allows for.
22 And we tentatively have hearings set up for
23 April of 2018.

24 MR. EPLER: Yes. And, as with other

1 cases, certainly, if we could resolve it
2 sooner, we would try to schedule the hearing
3 sooner on it.

4 CHAIRMAN HONIGBERG: I mean, it's
5 nice to hear optimism. I mean, Mr. Kreis's
6 optimism was encouraging there. And, no, I
7 understand. I mean, there's a lot of issues.
8 As Mr. Dexter, this is a complete rate case,
9 and the filing is substantial. I can see it on
10 some of the tables, and I was looking at it
11 upstairs. So, we know how much there is to do.

12 I was just really just trying to get
13 a sense whether there was something you had
14 seen that indicated we were going to get this
15 one early in 2018. But April was kind of what
16 I expected, the 12 months. We'll go from
17 there.

18 You guys will have your technical
19 session, work out the specifics of the schedule
20 and file something with us, and we'll deal with
21 it as quickly as we can.

22 Anything else before we adjourn?

23 *[No verbal response.]*

24 CHAIRMAN HONIGBERG: All right.

1 Thank you all.

2 *(Whereupon the prehearing*
3 *conference was adjourned at*
4 *10:19 a.m., and a technical*
5 *session was held thereafter.)*
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