STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: January 11, 2018
AT (OFFICE): NHPUC

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NHPUC 11JAN'18PM3:56

SUBJECT: IR 15-009 Investigation into the Cost Allocation Methodology
Northern Utilities, Inc.

TO: Commissioners
Docket File
Service List

Summary of Recommendation

Staff recommends that the Commission close docket IR 15-009, as changes in capacity assignment in Maine will reduce the differences in the cost recovery policies in Maine and New Hampshire and will produce a reasonable alignment between costs and benefits. Staff believes that the changes in capacity allocation in Maine address the key issues of this investigation and achieve the goals of the "just and reasonable" ratemaking standard.

Background

Northern Utilities, Inc. (Northern) maintains a single gas supply portfolio for its Maine and New Hampshire operations. Supply-related capacity costs are allocated to each division based on the Modified Proportional Responsibility (MPR) allocation methodology which was first approved in 1995[1] and modified in 2006[2] when the Commission determined that it no longer achieved the "just and reasonable" ratemaking standard due to differences in the cost recovery policies in Maine and New Hampshire. The volatility in the Northeast gas market during the winter in recent years created a situation conducive to reconsideration of the methodology which was expressed by Staff in Northern's 2014-15 Winter Cost of Gas proceeding. Northern's filing with the Maine Commission (MPUC Docket No. 2014-00132) reflected similar concerns and offered a proposal to mitigate them. The issue at hand was that the Maine capacity assignment rules potentially produced a misalignment between costs and benefits, which could result in an inconsistency between cost causation and cost allocation.

[1] Docket No. DR 95-257 by Order No. 21,882 (October 30, 1995).
[2] Docket No. DG 05-080 by Order No. 24,627 (June 1, 2006).

On January 6, 2015, Staff filed a recommendation to the Commission to open a docket, pursuant to RSA 374:4 and 374:7, to investigate whether the current cost allocation methodology used by Northern to assign supply costs to its Maine and New Hampshire Divisions achieves the "just and reasonable" ratemaking standard required under RSA 378:7. Staff also recommended that, if needed, the Commission should establish a cost allocation methodology that will satisfy the standard by maintaining a gas supply portfolio to serve New Hampshire on a stand-alone basis. The overall goal is to protect New Hampshire customers from the risks associated with policy decisions being made outside of the State.

On March 27, 2015, the Commission published an Order of Notice. Citing the close inter-relationship between the matters to be examined in the current docket and the Integrated Resource Plan (IRP) docket (DG 15-033), the Commission consolidated the two dockets. The IRP element addressed the issues related to development of Northern's demand forecast, review of its current portfolio and future needs, potential alternatives to meet those needs and corresponding long-term decision making processes.

On April 17, 2015, a prehearing conference was held. On September 30, 2015, the Company submitted a New Hampshire Stand-Alone Dispatch Scenario Analysis. Staff propounded three sets of data requests on different issues related to the filing.

In parallel to this docket, Northern pursued a docket in Maine (MPUC Docket No. 2014-00132, a continuation of Docket No 2013-00259) which addressed the misalignment of cost causation and cost allocation by changing the capacity assignment policies in Maine to be compatible with those of New Hampshire. In phase one (Interim Proposal), changes were made regarding allocation and pricing of capacity and associated supply that is made available to Delivery Service customers or their marketers in its Retail Choice program. On May 20, 2016, Northern provided an update under DG 05-080 pursuant to settlement requirements. It identified a possible change in the Northern retail choice program mentioned in Maine Commission's Advisory Staff-issued Examiner's report, which could have impacted New Hampshire's allocated share under the Modified PR Allocator.

On July 7, 2016, the Maine Commission approved certain changes of the Retail Choice Program. It addressed the capacity assignment issue. In its analysis, the Maine Commission recognized the concerns presented in this docket: "The 50% Capacity Assignment level, which was established as part of a negotiated settlement in 2005, creates a clear risk for costs to be stranded and borne by Sales Service customers when customers migrate to Delivery Service." The Maine order requires that, for Capacity Assigned customers, the resources in Northern's portfolio will be assigned to marketers based on 100% of customer demand, rather than at the 50% level reflected in the existing Program. These changes will be implemented from November 1, 2019[3]. This is compatible with New Hampshire Capacity assignment policy and would resolve the most important potential cause of cost misallocation. On October 19, 2016, the Company provided an update stating that the Delivery Service Terms and Conditions tariff was approved by the Maine Commission in an Order dated October 14, 2016.

[3] MPUC, Docket No. 2014-00132, Order (July 7, 2016, p. 9)

STAFF REVIEW AND RECOMMENDATION

Staff reviewed Northern's responses to data requests regarding this investigation. Staff believes that the course of action the Company took to change the capacity assignment policies in Maine was reasonable and effective. The order in the Maine docket vindicated Staff's concerns identified in the recommendation to open this docket. The analysis of the alternative options in the absence of compatible capacity assignment policies in two states was useful. Staff believes that the Maine PUC order on August 7, 2016 and subsequent approval of the tariff on October 14, 2016 resolves the misallocation issue significantly. It will go a long way towards minimizing the inconsistency between cost causation and cost allocation. Staff also agrees that Northern's current practice of maintaining a combined portfolio is beneficial for both states given that the policies are now compatible. Although this outcome does not achieve the goal to protect New Hampshire customers from the risk for the policy decisions made outside of the State at this time, Staff is confident that any such future issues could be resolved in the way it was done in this case. As the outcome of the efforts to address the inconsistencies between the two states is satisfactory, Staff recommends that the Commission discontinue this investigation.

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