STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 20, 2015 - 9:02 a.m.
Concord, New Hampshire

RE: **DG 15-393**
NORTHERN UTILITIES, INC. - N.H. DIVISION:
Winter 2015-2016 Cost of Gas.

PRESENT: Chairman Martin P. Honigberg, Presiding
Commissioner Robert R. Scott
Commissioner Kathryn M. Bailey

Sandy Deno, Clerk

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

Reptg. Residential Ratepayers:
Susan Chamberlin, Esq., Consumer Advocate
James Brennan, Finance Director
Office of Consumer Advocate

Reptg. PUC Staff:
Alexander F. Speidel, Esq.
Stephen P. Frink, Asst. Dir/Gas & Water Div.
Al-Azad Iqbal, Gas & Water Division

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

I N D E X

E X H I B I T S

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2	Winter 2015-2016 Cost of Gas Filing, comprised of Tariff Sheets, Table of Contents, Summary, Prefiled Testimony of Christopher A. Kahl, Prefiled Testimony of Francis X. Wells, Prefiled Testimony of Joseph F. Conneely, and Schedules 1-25 (09-17-15) *(Redacted - for Public Use)*	9
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P R O C E E D I N G

CHAIRMAN HONIGBERG: We're here this morning in Docket DG 15-393, which is Northern Utilities' Winter Cost of Gas Adjustment proceeding. They are proposing a per therm decrease, which I'm sure everyone will find to be good news, and they will explain the basis for that during the course of this proceeding.

Before we go any further, let's take appearances.

MR. TAYLOR: Patrick Taylor, for Northern Utilities. With me here today are Chris Kahl, Francis Wells, and Joe Conneely.

CHAIRMAN HONIGBERG: Off the record.

[Brief off-the-record discussion ensued.]

CHAIRMAN HONIGBERG: Back on the record.

MS. CHAMBERLIN: Good morning. Susan Chamberlin, Consumer Advocate. And, with me today is Jim Brennan.

MR. SPEIDEL: Good morning, Commissioners. Alexander Speidel, representing Commission Staff. And, I have with me Stephen Frink, Assistant Director of the Gas and Water Division, and Iqbal Al-Azad, Utility Analyst, Gas and Water Division.

CHAIRMAN HONIGBERG: All right. Before we go with anything substantive, let's talk confidentiality. Is there a motion? I don't see one.

MR. SPEIDEL: There is no motion, because it's a routine filing under the routine filing rules. Therefore, --

CHAIRMAN HONIGBERG: Then, let's talk about formatting of the document. In looking through the confidential version of the filing, I saw a number of places where it says "Confidential" at the top of the page, and then there's a little piece of -- a little instruction that a dark highlighted or a dark line box signifies "confidential treatment". And, implying that, if it doesn't have a heavy dark line around it, it's not confidential. That's really hard to follow. And, we have a rule about what is -- what it's supposed to look like if it's confidential in the confidential filing. It's supposed to be shaded.

There are other places in the filing where there is shading, which, in context, doesn't appear to be confidential. I think it's shaded for some other purpose. But the obvious conclusion is the Company knows how to shade when it needs to.

We're going to ask counsel to confer

with Staff. And, if the filing needs to be corrected or amended, to take care of that. It is -- I will tell you, Mr. Taylor, it's very hard to follow. And, I know your name's not on this one. But, if you take a look at it, and you find the confidential pages, if you take a quick glance at it, you will not be able to tell quickly what's confidential. And, the purpose of the shading is so that everyone who sees the confidential version knows what's confidential and what's not.

Mr. Speidel, I thought you looked like you wanted to say something. Was I mistaken? Sorry about that.

So, we don't need to deal with it right now. But, after the hearing's done, when you go back, if you could take a look at the filing, work with Staff, and get that filing cleaned up, we'd appreciate it.

MR. TAYLOR: Okay. We'll work with Staff. And, we'll endeavor to make it more easy to follow in the future.

CHAIRMAN HONIGBERG: Yes. Which, I mean, the rule is actually fairly easy to follow. And, if you shade the stuff that's confidential, we don't have to worry about it. And, we'll go from there.

COMMISSIONER SCOTT: Can I elaborate on

that?

CHAIRMAN HONIGBERG: Commissioner Scott.

COMMISSIONER SCOTT: An example, if you could look, not right this second, --

[Court reporter interruption.]

COMMISSIONER SCOTT: An example, you don't have to do it right now, but, when you do do that exercise, if you look on Bates 291, there are some numbers with the blocks around it, but it doesn't say "Confidential" on the top. So, it's unclear to me whether that's meant to be confidential or it's just blocked out to -- for illustrative purposes. So, that's an example of the confusion.

MR. TAYLOR: I understand.

CHAIRMAN HONIGBERG: If we want to highlight specific pages, a page on which I don't actually see a Bates number, but I'm sure it has one, in Schedule 8, Page 5 of 5, which is the last page of that schedule, there is a shaded line. So, you can see the shading. And, if you look on Page 165, Bates 165, you will see the "Denotes Confidential Information" box in the upper left-hand corner with a heavy line around it. And, on that page, it's a little easier to tell than on some others, because you can see the heavy line. But there are some others earlier in the document where there's a larger table that has lines around it and internal lines.

So, we'll stop beating this dead horse, because I think we've already spent too much time on it.

MR. TAYLOR: No, I appreciate you pointing it out. And, we'll do as the rules suggest in the future. Thanks.

CHAIRMAN HONIGBERG: All right. So, it looks like you have a panel of witnesses you're going to be putting on?

MR. TAYLOR: Yes. I have a panel here with me today. We also have three exhibits that we'd like to premark. So, I think we can get the panel of witnesses sworn in, and then perhaps premark the exhibits, and then we can proceed.

CHAIRMAN HONIGBERG: All right. Why don't we have the witnesses take their seats. We'll get them sworn in, and then you can play around with the exhibits.

(Whereupon ***Christopher A. Kahl***, ***Francis X. Wells***, and ***Joseph F. Conneely*** were duly sworn by the Court Reporter.)

CHAIRMAN HONIGBERG: Mr. Taylor.

MR. TAYLOR: So, the first thing that I

just wanted to address was the three exhibits that we've put in. "Exhibit Number 1" is the confidential version, which I know you're familiar with, of the filing that was submitted on September 17th, 2015. "Exhibit 2" will be the redacted and public version of that same filing. And, on October 2015 **[**October 15, 2015**?]**, the Company submitted supplemental testimony, which we'll address here today, and that will be "Exhibit 3".

(The documents, as described, were herewith marked as **Exhibit 1**, **Exhibit 2**, and **Exhibit 3**, respectively, for identification.)

CHAIRMAN HONIGBERG: All right. You may proceed.

CHRISTOPHER A. KAHL, SWORN

FRANCIS X. WELLS, SWORN

JOSEPH F. CONNEELY, SWORN

DIRECT EXAMINATION

BY MR. TAYLOR:

Q. I'm going to ask, starting with the left and going to the right, for each member of the panel to give their name and position with the Company.

A. (Kahl) Christopher Kahl, Senior Regulatory Analyst, Unitil Services Corp.

A. (Wells) Good morning. My name is Francis Wells. I'm the Manager of Energy Planning for Unitil Service Corp.
A. (Conneely) My name is Joseph Conneely. I'm a Regulatory Analyst with Unitil Service Corp.
Q. And, starting with Mr. Kahl, have you testified before the Commission previously?
A. (Kahl) Yes, I have.
Q. If you could refer to Exhibit 1, as I've introduced it to the Commission, and turn to the tab containing the Kahl testimony. Was this testimony prepared by you?
A. (Kahl) Yes, it was.
Q. Do you have any changes or corrections to your testimony today?
A. (Kahl) I do have one correction. This pertains to Schedule 15. This is Attachment E, Page 1 of 2, Bate Page 253. And, there is one number on here that is inaccurate. That is the normal -- normalized "Actual Sales". And, I do want to note that that number does not impact the cost of gas calculation in any way.
Q. And, since we're on the schedules, could you just identify for the Commission what schedules in this filing are associated with your testimony?

CHAIRMAN HONIGBERG: Well, before you do that, do you want to tell us what the error is?

WITNESS KAHL: I believe it did not pick up the most recent year's normalized data. It picked up -- it shows about "3,006,778". That is actually the number from the prior year. So, just doing an order of magnitude estimation, I think that number would be closer to 3.2 or 3.3 million, somewhere in that range.

CHAIRMAN HONIGBERG: Thanks.

BY MR. TAYLOR:

Q. So, with regard to the schedules, could you please identify the schedules in this filing that are associated with your testimony.

A. (Kahl) Yes. Schedules 1A and 1B, Schedule 3, Schedule 4, Schedule 9, Schedule 10A, Schedule 10B, Schedule 10C, also Schedule 14 and Schedule 15, also Schedule 18, also Schedule 19, Schedule 21, Schedule 22, Schedule 23, 24, and 25.

Q. And, did you prepare these schedules or were they prepared under your direction?

A. (Kahl) Yes.

Q. And, with respect to your testimony, if you were asked the same questions in your prefiled testimony today, would your answers be the same?

A. (Kahl) They would.

Q. Mr. Wells.

A. (Wells) Good morning.
Q. Have you testified before the Commission previously?
A. (Wells) Yes.
Q. If you could please refer to Exhibit 1, and turn to the "Wells Testimony" tab. Was this testimony prepared by you?
A. (Wells) Yes.
Q. And, with regards to the testimony alone, do you have any changes or corrections to the testimony?
A. (Wells) I have two corrections. The first, on Page 2 of my testimony, Bates Page 29 of the filing, on Line -- Line 3 -- excuse me. I mean, excuse me, I mean on Line 5, it should read the "2015-16 Winter Period", rather than the "2014-15 Winter Period".
And, then, on Page 11 of my testimony, I indicate that there are "two" peaking supply agreements, that is on Line 7. It should be there are "four separate peaking supply agreements".
MS. CHAMBERLIN: Could you state the page number again?
WITNESS WELLS: It's Page 11 of my testimony, Bates Page 38 of the overall filing.
BY MR. TAYLOR:
Q. With those corrections in mind, if asked the same

questions in your prefiled testimony today, would your answer be the same?

A. (Wells) Yes.

Q. What schedules in this filing are associated with your testimony?

A. (Wells) I prepared Schedule 2, this is the contracts ranked on a per unit basis. I prepared everything on Tab 5, Schedule 5A, the attachment to Schedule 5A, and the Schedule 5B, relating to demand costs and capacity assignment revenues. I prepared everything in Tab 6. This is commodity cost forecasts and the detailed city gate cost calculations, Schedules 6A and 6B. I prepared Schedule 7, related to the Hedging Program. I prepared the attachments to Schedule 10. This is the meter distribution deliveries forecasts, the sales service forecasts, and related SENDOUT forecasts, and also company gas allowance calculations. I prepared everything on Tab 11, related to SENDOUT volumes and capacity utilization. I prepared everything on Tab 12, capacity path diagrams and an overview of Northern's portfolio. I prepared Schedule 13, related to load migration. And, I believe those are all the schedules that I prepared for this filing.

Q. And, I realize this question may seem a bit redundant, but the schedules and attachments that you just referenced, were -- those were prepared by you or under your direction, correct?

A. (Wells) Yes.

Q. Do you have any changes or corrections to those schedules that you'd like to note now?

A. (Wells) I do not.

Q. Before I move on to Mr. Conneely, I just want to go back to Mr. Kahl for a moment. Mr. Kahl, if you could reference Exhibit 3, which was the supplemental testimony that was filed. Was this testimony prepared by you?

A. (Kahl) Yes, it was.

Q. And, do you have any changes or corrections to the supplemental testimony?

A. (Kahl) I do not.

Q. And, if you were asked the same questions that appear in the supplemental testimony today, would your answers be the same?

A. (Kahl) They would.

Q. Thank you. Mr. Conneely, have you testified before the Commission previously?

A. (Conneely) Yes, I have.

Q. If you could refer to Exhibit 1, and go to the

"Conneely Testimony" tab. Was this testimony prepared by you?
A. (Conneely) Yes, it was.
Q. And, do you have any changes or corrections to this testimony?
A. (Conneely) No, I do not.
Q. Are there any schedules in this filing that are associated with your testimony?
A. (Conneely) Yes. I put together Exhibit 8 and number 16.
Q. And, those schedules were prepared by you or under your direction, correct?
A. (Conneely) Correct.
Q. And, are there any changes or corrections that you want to note to those schedules today?
A. (Conneely) None.

MR. TAYLOR: With that, I'd like to make the panel available for questions.

CHAIRMAN HONIGBERG: Ms. Chamberlin.

MS. CHAMBERLIN: Thank you.

CROSS-EXAMINATION

BY MS. CHAMBERLIN:
Q. Compared to last year, the most significant driver of the cost decrease is the price of gas, is that correct?

A. (Kahl) We have two factors going on here. We have a significant drop in our commodity costs in the price of gas. We also have a significant reduction in demand costs resulting, in part, from the refund we're getting from PNGTS, and also from the reduced rate of PNGTS. Now that that rate case has been settled, we're paying a significantly lower rate. So, this adds to our savings also.

Q. Okay. Is one significantly greater than the other or are they about half and half?

A. (Kahl) Yes. I believe the commodity is a little larger contributor to that decrease in price.

Q. Okay. And, do you have any sense if this is a -- something that will happen again next year or is it too soon to tell?

A. (Kahl) On the demand charges, as we get into the '16-17 season, you're not going to get that benefit of now having a lower rate on PNGTS, because it will already have been in place. Second of all, you'll be into what is the second year of the PNGTS refund. And, if you recall, the settlement agreement on how to refund those dollars determined that we would refund 50 percent the first year, 30 percent the second year, and 20 percent the third year. So, '16-17 will be into the second year, so, the amount refunded to customers will be smaller. So, on the demand end, you're not going to get nearly as large a change in your rates as you are this year.

Q. And, in terms of the gas commodity price, do you have any sense of the market?

A. (Kahl) I'll let Mr. Wells answer that one.

A. (Wells) So, the Company is actually still concerned about prices in New England, I do discuss that in the body of my testimony, due to the fact that, you know, we have a pipeline system that is pretty much maxed out, relative to -- relative to its capacity. And, you know, there are a variety of reasons for that.

But, you know, until -- you know, so long as Northern has exposure to those New England prices, and you can see in, you know, in Schedule 6, I show that we are purchasing significant volumes that are based on a New England delivered service. You can see that actually on Bates Page 142, that's labeled "Schedules 6A Page 2", you can see we have PNGTS delivered supplies and Maritimes delivered supplies in significant volumes. And, because of the, you know, the way that the portfolio is currently constructed, you know, Northern has significant need for, you know, delivered supplies in New England. So, that is going to be a cost driver for the Company. You know, to be able to project where that price is going to be, when we are back here a year from now, is very difficult.

I can say that I would expect there to be continued high prices. I know that one of the drivers in the lower commodity price for this winter period has been the softening of those New England delivered prices relative to last year. So, put another way, the New England delivered prices that we purchased for the '14-15 Winter were higher than the prices that we are purchasing for 2015-16, in regards to New England delivered supplies.

But, you know, in general, the reliance on these supplies does bring an element of, you know, price volatility, if you will, to Northern's cost of gas rates. And, so, in the longer term, the Company is seeking to address that by increasing the amount of pipeline capacity that it has available to serve sales service customers. One thing that we have done to address that, and this will begin in November 2017, is we are participating in the PNGTS C2C project, that will give us a little bit more capacity. We'll be able to reduce the amount of New England delivered supplies that we rely on in order to meet our sales service obligations.

Now, you know, as the system grows, we need to, you know, we need to be continually looking and seeing where to take the portfolio next. But that's one area of concern that we do have.

So, I guess to answer your question, to come -- to directly answer your question, I can't tell you, you know, even that C2C capacity doesn't start for next winter. We will, you know, probably be needing to purchase similar volumes. And, so, I think it's a big lever in our rates is what those prices are going to be when we go to buy that gas, which will probably be sometime -- we try to buy it early in the procurement season, we'll probably be looking to secure these supplies in, you know, the end of this winter period for next winter, to try to be ahead of the curve a little bit. Because with the, you know, with the market as it is, we're concerned about waiting until the last minute to be purchasing those types of supplies that we really need to serve our customers reliably.

Q. Thank you. On the LDAC charge for the low income program, compared to last year, is this an increase,

decrease, about the same?
A. (Conneely) The low -- the Residential Low Income Assistance and Regulatory Assessment costs in the LDAC is slightly lower.
Q. Can you identify a particular driver or is it just --
A. (Conneely) This part of the LDAC, the RLIARA, is actually comprised of two components. There's the Low Income Assistance Program, and then we have in here the regulatory assessment that the Company pays to the PUC, and that has gone up slightly. And, I think the count of the Residential Low Income Program has stayed steady to increased slightly.
Q. You said it "stayed" -- "increased slightly"?
A. (Conneely) It's flat to a little bit above last year's.

MS. CHAMBERLIN: Thank you. That's all I have.

CHAIRMAN HONIGBERG: Mr. Speidel.

MR. SPEIDEL: Thank you, Chairman Honigberg.

BY MR. SPEIDEL:
Q. I think we'll begin with a discussion of the proposed changes and capacity assignment that Northern filed in Maine, and the changes agreed to the settlement Northern reached in Maine. And, I direct this to the

panel generally. The question is "please describe the proposed changes and capacity assignment that Northern filed in Maine and the changes agreed to the settlement Northern reached in Maine?"

A. (Wells) So, you're asking for a comparison of what we filed to what we achieved, is that --

Q. Yes. In general terms.

A. (Wells) Okay. In general terms, what we filed for was to modify Maine's Capacity Assignment Program to look much more like the New Hampshire Capacity Assignment Program, insofar as the resources that are being allocated. Namely, rather than assigning only storage and peaking resources to Maine retail marketers, we would begin assigning all resources on the system. So, all resources that are designated as "pipeline storage" and "peaking", so, the entire portfolio would be subject to assignment.

The second major change that we proposed in Maine was to modify the price, both the demand charge to marketers and commodity charge to marketers under the Capacity Assignment Program. Under the prior program, prices charged to marketers were based on estimated rather than actual costs. And, so, what we have converted that to is that both demand and commodity prices would be on actual costs, which is the same as what we have in the New Hampshire program.

The one area where the Maine and New Hampshire programs will diverge is that, following this winter period, we will no longer be offering peaking service as a company-managed service. Under Maine's program, we will be, for any off-system peaking supplies, and you can see that we have a significant amount of off-system peaking supplies, if you look at Schedule 12, shows an overview of the portfolio. And, of the approximately 121,000 decatherms of capacity that Northern has procured for the upcoming winter period, approximately 42,000 are Peaking Contracts 1 through 4. These are off-system peaking contracts. So, you know, basically, peaking supplies that are not at the LNG plant in Lewiston, Maine. So, anything that relates to a peaking contract, we will be giving marketers or assign marketers only the Granite capacity that would be necessary to move that supply onto our system, rather than any supply itself.

So, one feature, under the current program, is that we, in essence, buy off-system peaking to assign it to retail marketers. And, so, the marketers and the Company have agreed that we'll stop doing that. And, that will be effective in the upcoming winter period.

So, this is, in essence, what we proposed for changes to the program back in January 2015. You know, there are -- continue to be issues in that case that will, you know, the process will continue. One thing that has not changed is that customers in Maine are assigned only 50 percent of their design day requirements. So, for example, if a customer requires 100 decatherms on a design day, and they elect to switch from sales service to delivery service, the Company would only assign 50 decatherms of capacity. Now, going forward, that will be capacity that's based on a slice of our system, rather than just storage and peaking resources. And, those resources will be priced at cost, rather than at estimates. But, you know, for now, it will still be 50 percent.

The Company can -- the Company's proposal to change that to a 100 percent capacity assignment will continue to be discussed at the Maine PUC, and that process we are hopeful that will wrap up by the end of April 2016.

Q. Is there any expectation of an impact on New Hampshire ratepayers from a final decision or is it too early to tell?

A. (Wells) Well, I mean, the settlement pertaining to what we call "Phase 1", which is really the price of resources that are allocated and the resources themselves that are allocated. You know, we have -- we don't have an order on that, but, you know, Maine PUC has accepted that settlement in deliberations. So, I guess I would consider that to be, you know, a final action on that, that settlement.

In regards to that settlement, we would not change, you know, we prepared this filing based on the prior Capacity Assignment Program. However, taking a, you know, 10,000-foot view, when I, you know, when I prepare the -- when I prepare the filing, my estimates are based on what we think it's going to be, right? So, I don't think my estimates would change. It's just that, when we go to actually reconcile costs, it will, you know, the prices will be -- will better track what we actually incur for costs. So, I would say that it won't change -- it would not change the proposal for our COG rates in Maine or New Hampshire, but the reconciliation will be impacted, in that the fact that the Maine program had sort of this adverse incentive to nominate supplies that weren't actually economic, because we were basing them on estimated prices rather than actual prices. That element will go away. And, so that, you know, if a peaking supply for next winter is nominated in -- by a Maine marketer, it will be based on the actual contract cost. And, so, that would be a resource that, you know, the market deems to be economic at the time, as opposed to, under the current program -- or, the prior program, I apologize for that misstatement, under the prior program, there was the possibility that, if our estimates were wrong, we said that, you know, if we put an estimate out of $15 per decatherm for a particular resource, and the actual cost of that resource ended up to be higher than that, you know, marketers would nominate it, and the Company was potentially exposed to having to purchase gas at a higher rate in support of revenue that was much lower.

So, we feel that this is actually going to result in a much more equitable allocation of costs between the states, because it eliminates this -- this issue that we -- this concern that we have with the prior program.

Q. Thank you. Could you all explain the adjustment that the Company made for the migration of the Portsmouth Naval Shipyard to Maine Division sales service. Why was it necessary?

A. (Wells) Well, I do discuss this in my testimony. And, to summarize that, in essence, and you can find this discussion actually beginning on Bates Page 41, Page 14 of my testimony. Beginning on Line 18, I do have Q&A related to the adjustment that this question refers to. But I will attempt to paraphrase this response.

In essence, Portsmouth Naval Shipyard is a customer in Maine Division, and it's approximately a 1 million decatherm customer per year. One of our very largest customers. Order of magnitude, I don't believe we have any other million decatherm customers per year on our system, either Maine or New Hampshire Division. One element of the current PR Allocator is that capacity-assigned customers are treated as 50 percent, you know, towards Maine's PR Allocation. Maine's sales service customers are treated as 100 percent of the PR Allocation.

And, so, when this customer migrated on April 1st, 2015, you know, the PR Allocation process requires Northern to restate loads from May through April 2015, adjusted for design conditions. And, so, you had this one customer, who was very large, that would have been treated under, really, the very rigid interpretation of the settlement between Maine and New Hampshire as 50 percent of the Shipyard's loads from May through March, because they were a delivery service customer during that period, and then one month, April, of 100 percent, that they would have been treated as a sales service customer.

And, we felt that, because we knew that the Shipyard, because the Maine tariff required the Shipyard to be on delivery service -- excuse me, on sales service for at least 12 months, that we knew that we would be purchasing capacity in order to service that customer's incremental capacity requirements through the winter. And, the Company felt it was appropriate that the cost of that -- that the PR allocation of Maine reflect the fact that we were planning for 100 percent of this customer for that period.

And, so, what we did was, instead of taking 50 percent of the Shipyard's usage into account for May through March, we simply took 100 percent of their usage May through March, because we knew that, for the 2015-16 period, we would be serving 100 percent of their load, due to the fact that they would be in sales service for that period of time.

Q. And, Mr. Wells, has the Maine Commission granted its approval for this approach thus far?

A. (Wells) The Maine approval is pending. We did receive an examiner's report. Now, I want to caution the Commissioners and the other parties that an examiner's report can be overturned by the Commission, and it's subject to exceptions, and the other parties in the case may have different opinions. But at least the hearing examiner did spend some time addressing the adjustment that we propose and recommends approval of it.

With the -- there are some caveats to it, for example. If there is a large customer that is going the other direction, that they would like us to make that adjustment in the future. So, I would expect, as an example, if -- when the Shipyard is eligible for delivery service on April 1st, 2016, if they were to elect to do so, and the Company had actual knowledge that, you know, next winter they would only be responsible for 50 percent of that customer in the PR Allocation process, we would make the corresponding adjustment to, you know, reflect only 50 percent of the Shipyard's consumption for the 2016-17 PR Allocation.

Q. Thank you. In general, did Northern experience any operational problems or supply disruptions during the past year?

A. (Wells) So, I would start by saying that, for the 2014-15 Winter Period, you know, we had many baseload supply agreements, asset management agreements, peaking supply agreements, LNG agreements, lots of supply agreements related to serving our customers' requirements for 2014-15. And, all of those supplies were delivered in accordance with their terms. So, we had no supply disruptions, in that sense.

I would say, however, that, you know, the 2014-15 winter did present operational challenges in regards to the pipeline system in New England. There were several periods that, you know, on the south side of Northern, the feed into Granite is Tennessee Gas Pipeline. You know, Pleasant Street, being at the very end of that line, which is -- I apologize, Pleasant Street is the interconnection between Tennessee Gas Pipeline and Granite Pipeline, which feeds Northern. The pressures feeding that Pleasant Street interconnection, there were times that it was relatively low, and Granite had to take action of reducing the available capacity at Pleasant Street. This didn't impact Northern. We sort of plan for the worst, and are able to get our Tennessee sourced supplies either through the exchange or, you know, through our Granite. So, between Bay State exchange capacity -- or, our basic exchange agreement and our Granite capacity, there was no inability to utilize our Tennessee supplies.

However, on the -- you know, moving to the northern part of the system, or the joint facilities, where we have, you know, Lewiston and Westbrook and Newington and Eliot interconnections on Granite, I apologize, Lewiston is not an interconnection with Granite, Lewiston is an interconnection with Northern. One issue that did occur, the pipeline that operates all of those interconnection points is Maritimes. And, there were imbalance warnings for a significant period of time throughout the winter period, either due to supply disruptions feeding Maritimes, could have been Sable Island disruptions, Deep Panuke disruptions. You know, those types of supply disruptions, not necessarily targeting the supply feeding -- that was under Northern's contract, but just supplies in general, or just high demands on the system. You know, we had some very cold weather. You know, I believe, you know, February was off-the-charts for planning purposes. You know, we typically plan for a 1-in-33 year winter for design -- that's our design cold winter. And, I believe February was like -- it was, yes, February and March were even beyond the 1-in-33 year standard.

So, you know, there were -- and, then combined with just the high utilization of pipeline capacity in New England, you know, there were definitely many operational issues. We were fortunate that, you know, by having a robust portfolio with some good suppliers, that we were able to manage through these situations. But, certainly, I would say that, you know, the pipeline grid in New England could stand to have some more capacity and reduce the amount of these imbalance warnings and operational flow orders that we've been experiencing these past few winters.

Q. Thank you, Mr. Wells. In general terms, is it fair to say that, in your testimony, on Bates Pages 37 through about Bates Page 40, that narrative discussion really represents and presents the information related to any material changes in Northern's supply plan compared to last winter?

A. (Wells) I show it on Bates Page 39, Page 12, beginning on Line 19.

Q. So, the preface is more just a general explanation, --

A. (Wells) Oh.

Q. -- but the actual changes are on 39 and 40?

A. (Wells) Yes.

Q. Do you have anything to elaborate on these, on these items, or would these present the changes for this year fairly well, do you think?

A. (Wells) I am comfortable with the written response in my prefiled testimony.

Q. Thank you very much. Are all the winter contracts of significance in place at this time?

A. (Wells) Yes.

Q. Thank you. And, approximately what percentage of the gas supplies in this forecast are hedged, pre-purchased, or otherwise tied to a predetermined fixed price?

A. (Wells) We target 70 percent.

Q. Thank you. How does the proposed 2015-16 Winter Cost of Gas rate compare to last year's seasonal average rate?

A. (Conneely) The proposed Winter Period 2015-2016 rate of 0.6570, for a typical residential heating customer, is 0.3219 lower than last year's seasonal average of 0.9789. And, that's actually in Attachment 8, Page 1

of 5, shows the typical bill analysis.
Q. And, Mr. Conneely, the rate impact on a typical residential heating customer is also presented in Attachment 8, is that right?
A. (Conneely) Correct. Page 1 of 5, it shows the typical residential heating customer, using 639 therms for the upcoming winter period, will see a total bill of $931.88. This is $182.35, or 17 percent lower, than the total bill for these customers in the 2014-2015 Winter Period.
Q. Thank you. How do the current NYMEX futures prices compare to those used in the cost of gas filing?
A. (Kahl) NYMEX prices are down from that time period.
Q. If Northern were to use the current NYMEX futures prices, how would that impact the cost of gas rates in an estimation of the Company?
A. (Kahl) I think it would be bring the rates down a few cents, maybe 2, 3 cents. I do want to mention that, in our winter portfolio, we have a very significant amount of gas in storage. So, that price is already locked in. And, that's not going to be impacted by changes in the NYMEX. So, actually, in your summer period, the NYMEX has a greater influence on price impacts than it does in the winter.

Q. Thank you. And, in the opinion of the Company, do the proposed maximum cost of gas rates allow enough flexibility to absorb this and other normal price fluctuations through monthly rate adjustments, without adjusting the rate at this time?

A. (Kahl) Yes.

Q. Mr. Kahl, you submitted supplemental testimony about the PNGTS refund. Could you provide a narrative description or perhaps point us to the specific place where an explanation of how this refund impact for each rate class is presented?

A. (Kahl) Yes. In this supplemental testimony that I submitted on October 15th, I wanted to get on the record how the PNGTS refund would specifically impact each rate class on a per unit basis. And, that resulted -- those calculations resulted in about a 15.3 cents reduction for a residential customer, 15.48 reduction for a low load factor customer, and a 7.59 cents reduction for a high load factor customer.

Q. In the opinion of the Company, is the methodology compatible with Commission Order Number 25,816, in Docket Number DG 15-090?

A. (Kahl) Yes, it is.

Q. Thank you. How does the demand forecast for this

winter compare to last winter's demand forecast?
A. (Wells) Referring to Schedule 9, which is on Bates Page -- oh, it's -- the hole punched out. I think it's 170 --
Q. -- 5 [175], I think, follows in sequence from 174.
A. (Wells) So, this shows, actually, cleanly what last winter actual was and the forecast for this winter is. Actual last winter was 35,764,140 therms; our forecast is 33,294,125 therms. And, most of this accounts for the variance of negative 2,470,000, approximately. This really relates to weather normalization.
So, in New Hampshire, there has not been, you know, most of the growth that we would see in sales service has been just basic organic growth of the distribution system. In fact, I would say that probably deliver service impact, migration impact, is that this is going to be -- we expect there to be slightly more migration to delivery service in 2015-16 than there was in 2014-15. So, we see sales service being relatively flat for New Hampshire for this upcoming winter.
Q. Does the Company identify an operational risk or supply risk or both associated with reverse migration for the coming winter? And, how does that relate to both

capacity-assigned and capacity-exempt transportation load?

A. (Wells) In terms of New Hampshire, we do not view there to be an operational risk for returning capacity-assigned customers. Because as capacity-assigned customers choose sales service in Northern -- choose Northern's sales service, they would be returning, you know, they would be coming back with capacity that would -- the Company would use to serve that customer.

To the extent that capacity-exempt customers were to return to sales service, that presents a different challenge. We have had some experience with returning capacity-exempt customers, primarily in the Maine Division. I think that was an issue in the 2014-15 cost of gas proceeding. And, you know, we have been able to manage that, either by more highly -- you know, higher utilization of current resources and purchasing additional resources mid-winter, as necessary.

You know, for the 2014-15 Winter, we didn't need to purchase additional resources. But, you know, we do have to keep in mind that we do have customers that, you know, have returned to sales service that are capacity-exempt. This is less so in New Hampshire. We don't have a lot of experience with and the data doesn't show a lot of New Hampshire customers returning to sales service from capacity-exempt transportation. But it's certainly -- there's certainly plenty of capacity-exempt load in New Hampshire that that is a potential exposure.

We would want to try to keep all of our, you know, we want to make sure that our customers have excess to supply. If that situation were ever to arise, I think the -- you know, we would take what appropriate action to keep the customers -- to keep the customers on.

And, we would, obviously, stay in touch with the parties, both Staff and the OCA, to let them know if we had to take any extraordinary measures because of capacity-exempt customers coming back to sales service.

Q. So, the Company would view the impact on demand forecasting of reverse migration in New Hampshire to be relatively modest, but perhaps more significant in Maine?

A. (Wells) I would -- I will agree, and then add a caveat. I agree that we have observed more reverse migration in

Maine for capacity-exempt load. I mean, you know, candidly, every customer in Maine, who is on delivery service, has, you know, even capacity-assigned customers are only assigned 50 percent. So, any customer that returns to Northern from Maine sales service has some exposure to capacity-exempt load. And -- but, while we have not yet observed, you know, capacity-exempt customers in New Hampshire returning to sales service, there's certainly that possibility.

You know, we have, in our other -- you know, in other jurisdictions, in Massachusetts, there's been, you know, other utilities have seen capacity-exempt customers coming back to utility sales service because of the high prices in New England. And, so, while we haven't seen it yet in New Hampshire, I would caution everybody to say that that doesn't mean it can't happen or won't happen.

Q. So, it's something in the back pocket of the Company, preparing for the future, where there is evidence of more reverse migration, there could be more incorporation of reverse migration effects into demand forecasting in the future?

A. (Wells) That certainly is a possibility.

Q. Thank you, Mr. Wells. And, one final question from

Staff for the panel. Is Northern contemplating yearly, as opposed to summer and winter cost of gas filings, following next winter's cost of gas? And, if so, please explain why, and how Northern expects to proceed with this issue?

A. (Kahl) Yes. Northern is contemplating it at this time. However, we are very early in this process. So, internally, we have to have a lot of discussions on mechanics of how we think that would work. We would want to talk with Staff well ahead of proposing any type of a filing. So, yes, we are contemplating it. But, at this time, we don't have an outline of how we intend to potentially submit a filing on that.

MR. SPEIDEL: Thank you very much. Thank you, gentlemen, in general. And, that would be it for Staff. Thank you.

CHAIRMAN HONIGBERG: Commissioner Scott.

COMMISSIONER SCOTT: Good morning.

BY COMMISSIONER SCOTT:

Q. I think I'll start with Mr. Kahl's testimony. A couple quick questions, hopefully. So, on Bates 23 of your testimony, you discuss "bad debt expenses". And, I was just curious, how the bad debt schedule you have compares to prior years? Is there a trend or --

A. (Kahl) Actually, the way we project our bad debt, I talked with our Billing Department, and, you know, they look at history of what we've seen in the last few years. And, by the time the filing is made, we have the first six months of 2015. And, we look at that. We apply a percentage that historically those first six months tend to represent, and take that and boost it up by that percentage. So, if it's 50 percent, then we would double it in that case. I think the percentage is a bit different than 50, but as an example.

So, I believe what happened this past year was actual write-offs were a bit lower, and so that the bad debt projection came in a bit lower than in the prior year. And, it's a fairly straightforward process.

Q. Any idea why the change?

A. (Kahl) Really don't. I really don't.

Q. Perhaps the economy, I don't know.

A. (Kahl) Yes. One thing to keep in mind about write-offs is that they accumulate over a period of months, and it's different with every customer. You may have a customer that's having trouble paying their bills, maybe they're deficient, but they're still paying partially. They could have -- they could be in arrears, going back six months, maybe even 12. So, it depends on what was the cost of gas, as well as the base rates, 12 months ago. So, you have this lag effect where the amount of the write-off for that particular customer is going to depend on exactly when they were behind in their payments.

You could have another customer, maybe they moved and they didn't pay their last month, they left the state. So, they might only have one or two months of write-offs. And, again, so, the lag there is going to be smaller.

One thing I can say is that last winter we did drop cost of gas rates three times, I believe. So, that may have had -- that may have been beneficial, any later write-offs, the amount was lower. Also, because you have lower rates, it's possible that people were able to continue paying, even if they were in arrears, that weren't written off. So, that's my speculation.

Q. Thank you. Similar question for Mr. Wells. You discuss "lost and unaccounted for gas". I was curious if there was a trend there? I know you talk about a "48-month average". So, I would assume you're seeing a horizon there.

A. (Wells) Right. Actually, you know, I talk a bit in my testimony about removing the net unbilled from our calculation. And, really, what that accomplishes is that you can, you know, I see in history that lost and unaccounted for is much more stable when you remove the net unbilled. So, I'm not sure that our unbilled calculations were adding a lot to the process. In fact, you know, if our estimates were too high, it was, you know, biased too high, it would have a tendency to depress lost and unaccounted for. So, while there would be some timing difference between billed sales and SENDOUT, because SENDOUT is a calendar month basis, billed sales are, obviously, you know, on bill cycles, I think the fact that we're spreading it out over 48 months sort of, you know, you're taking that, you know, that last month and spreading it over a four-year period, you know, whatever the difference is on timing. I think we've got -- you know, when I look at the data, I see much more stable -- the system seems much more stable in regards to lost and unaccounted for over that four-year period than before.

So, I think I talk about -- I think I may have talked about this, it was probably a discovery response, basically, the range of lost and unaccounted for over a period of time was lower, when I looked out -- when we removed the unbilled calculation from the factor.

So, when I do that, I see the lost and unaccounted for being relatively stable. It's around one percent. You know, we've reported lost and unaccounted for as lower. And, you know, I -- and I think it was probably on the basis of lost and -- or, on net unbilled that turned out to not be realistic. So, obviously, as we were replacing that unbilled calculation with actuals, they weren't -- you know, the actuals weren't as quite as much as what we were projecting for unbilled.

So, I'm hopeful that we're going to have much less variance in lost and unaccounted for, or that, when we do see a variance in lost and unaccounted for, it will be because of a more, you know, more about the physical plant than it will be -- or, what's going on on the system than it will be about an accounting issue. So, that was what I was hoping to accomplish, is to sort of remove those accounting issues from what should really be about physical flows on the system.

Q. So, to summarize what you just said, it's fairly stable, you're not seeing a trend --

A. (Wells) That's right.
Q. -- when you back out the billing issues?
A. (Wells) Yes.
Q. Thank you. You also talk about the "Bay State Gas Company Exchange Agreement". I was curious if you could briefly elaborate on -- more about that?
A. (Wells) Sure. Just as a bit of background, you know, Northern Utilities was previously owned by Bay State, and as was Granite State Gas Pipeline. And, so, when Northern, you know, when basically all these upstream pipeline contracts were broken up under like Order 636, the contracts were not allocated to Northern and Bay State based on necessarily where their delivery points were on the system. So, in essence, Northern has contracts that deliver to Bay State city gates, the Agawam gate station, in like central Massachusetts, we've got some capacity that goes to near Mendon -- not Mendon, Brockton, which is in like southeastern Massachusetts, off of Algonquin. And, prior to Northern's ownership, I'm sure there were others. But the Exchange Agreement was really a construct to allow Northern to be able to utilize this capacity. So, we basically give gas to Bay State at their city gates, they have capacity on Portland that they use to give

gas to Northern at its city gates. And, this allows us to -- we do -- there is a certain level of cooperation between the two utilities, so that we can both utilize the legacy capacity contracts that we have.

You know, one thing that, you know, this period of, you know, we're seeing lots of pipeline projects being proposed into New England, and the price of that capacity is very high relative to what these legacy capacity contracts' cost of service has been. And, so, the capacity is very valuable. And, being able to, you know, utilize a relationship contract with Bay State, in order to bring those supplies into Northern's system, is very valuable to the Company.

You know, we are -- you know, one feature of the contract, I would say, is, though, is that neither party is really committed long term. You know, basically, the contract continues year-to-year, with about a six-month notice provision for termination.

So, you know, it's our hope that we can continue with that agreement. You know, I think we have worked well with Bay State to sort of meet its needs, and they have worked with us to meet ours. So, I think it's a -- you know, so long as it's a mutually beneficial relationship, we hope to be able to continue with it.

Q. Thank you. That's helpful for me. During the cross-examination from the OCA, you -- I just want to make sure I understood a statement you made. So, you talked about the "C2C project" --

A. (Wells) Uh-huh.

Q. -- and "in November '17", you're participating in that. Are you talking an existing contract or are you anticipating a new contract?

A. (Wells) We are going to actually -- the existing Portland contracts that we have will be replaced with C2C. And, then, there will be a portion of C2C that's a little bit extra. I can talk a little bit more detail about that. In essence, referring to Schedule 12, Page 1 of my -- or, rather, Page 2 of Schedule 12, this Chicago City Gate path, what we're -- what we're planning to do -- what C2C will allow us to do is this TransCanada contract, that goes from Parkway to Iroquois, we're going to be replacing that, basically, that TransCanada contract, we're going to take that all the way up to East Hereford, which is the interconnection between TransCanada and Portland. And, so, rather than having TransCanada capacity that feeds

Iroquois, that ultimately feeds Bay State city gates, we're going to take that capacity, we're going to keep the downstream, if you see here, we've got some Tennessee that goes to Bay State city gates and we've got some Algonquin that goes to Bay State city gates, we're going to keep that capacity. But we're going to take the TransCanada, the upstream of that path, and that's going to end up being utilized to feed Portland. So, we'll have more gas where our -- on the northern part of our system.

So, right now, we have a 33,000 decatherm contract that's winter only. And, we're going to be replacing that with a 34,000 decatherm contract that's going to be year-round. And, upstream of that will be a 34,000 decatherm contract from TransCanada, and we will replace that with some storage. We're going to replace Washington 10 with another storage contract. It's probably go to be at Dawn, rather than back on Vector.

And, then, we're going to have, in addition to that, we're going to have about -- it's going to end up being around 6,000 decatherms, it will be about 6,003 decatherms of Portland capacity, with around 6,003 decatherms of TransCanada capacity that also goes back to Dawn.

And, so, we'll have a little bit more capacity on Portland. It will be -- it will cover our October and April peaks better, because we won't have a winter-only contract. And, it will be about the same cost.

COMMISSIONER SCOTT: Thank you. That's all I have.

CHAIRMAN HONIGBERG: Commissioner Bailey.

COMMISSIONER BAILEY: No questions. Thank you.

CHAIRMAN HONIGBERG: I think I have one.

BY CHAIRMAN HONIGBERG:

Q. And, this is a total process question. You went through who was responsible for each of the schedules in this filing. But nobody owned up to Schedule 17, which has to do with environmental costs?

A. (Conneely) I'm sorry, Commissioner. That was also mine. It's filed with the cost of gas. And, there's a ERC invoice filing. This is -- presents it in the cost of gas as well.

CHAIRMAN HONIGBERG: Remarkably, I actually think I understood the schedule itself. I don't think I had any other questions.

Mr. Taylor, do you have any questions for your witnesses?

MR. TAYLOR: I have no redirect. No.

CHAIRMAN HONIGBERG: All right. I think, if there's nothing else, we're done with the witnesses. You can stay where you are, because I don't think we're going to be here for much longer.

Any other business we need to transact, other than striking ID and allowing the parties to sum up?

[No verbal response]

CHAIRMAN HONIGBERG: All right. We will strike ID, unless there's an objection?

[No verbal response]

CHAIRMAN HONIGBERG: Seeing none. Let's hear from the parties then. Ms. Chamberlin.

MS. CHAMBERLIN: Thank you. The OCA does not object to the rates going in as proposed. It is a decrease from last winter. And, the rates appear to reflect the general market price of gas supplies, plus the fixed costs as allocated.

CHAIRMAN HONIGBERG: Mr. Speidel.

MR. SPEIDEL: Thank you. Staff recommends Commission approval of Northern's proposed

2015-2016 Winter Period cost of gas rates, subject to reconciliation, including any potential reconciliation items arising from the current ongoing Maine/New Hampshire allocation investigation.

The Local Delivery Adjustment Charge, or LDAC, is comprised of a number of surcharges, all of which have been established in other proceedings, and the actual rate determined in the winter cost of gas and effective for one year. Staff recommends approval of these LDAC charge components.

Staff has also reviewed the proposed supply balancing charges, the Company gas allowance factor, and the capacity allocator percentages, including Maine/New Hampshire interstate aspects, and recommends Commission approval for these charges.

The Commission Audit Staff has reviewed the 2014-2015 peak period cost of gas reconciliation and environmental remediation costs and found no exceptions.

Staff also looks forward to exploring a single annual filing system for cost of gas proceedings in the future with the Company and with the other parties. Thank you very much.

CHAIRMAN HONIGBERG: Thank you. Mr. Taylor.

MR. TAYLOR: I have nothing to add that hasn't already been addressed by the witnessers today, except to say that we believe this is a very straightforward filing that merits your approval. Thanks.

CHAIRMAN HONIGBERG: Thank you all very much. We are adjourned. We'll get an order out as quickly as we can.

(Whereupon the hearing was adjourned at 10:14 a.m.)