STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 11, 2016 - 10:11 a.m.
Concord, New Hampshire

RE: DG 16-819 NORTHERN UTILITIES, INC. 2016-2017 WINTER AND SUMMER SEASONS COST OF GAS ADJUSTMENT
Hearing on the Merits

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.
George H. Simmons, Jr.

Reptg. PUC Staff:
John S. Clifford, Esq.
Stephen Frink
Asst. Dir. Gas & Water Division
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COURT REPORTER: SUSAN J. ROBIDAS, N.H. LCR NO. 44

I N D E X

P R O C E E D I N G S

CHAIRMAN HONIGBERG: We're here this morning in Docket DG 16-819, which is the Northern Utilities Cost of Gas Adjustment proceeding. We're doing a hearing on the merits this morning. Before we do anything else, let's take appearances.

MR. TAYLOR: Good morning. Patrick Taylor, senior counsel for Northern Utilities. With me here this morning are George Simmons, Joseph Conneely, Christopher Kahl and Francis Wells.

MR. CLIFFORD: Good morning. John Clifford, Staff Attorney for the Public Utilities Commission. And with me at counsel table is Steve Frink, Assistant Director of the Gas and Water Division, and Al-Azad Iqbal, Staff Analyst in the Gas and Water Division.

CHAIRMAN HONIGBERG: No OCA today?

[No verbal response]

CHAIRMAN HONIGBERG: Seems not. All right. Anything in the nature of preliminary matters before we begin?

MR. CLIFFORD: We don't have

anything.

CHAIRMAN HONIGBERG: Mr. Taylor.

MR. TAYLOR: Thank you. This morning I'd like to put on a panel of three witnesses: Christopher Kahl, Francis Wells and Joseph Conneely. We'd also like to premark three exhibits for the hearing.

CHAIRMAN HONIGBERG: What would those exhibits be?

MR. TAYLOR: Exhibit 1 is going to be the confidential version of the filing submitted on September 16, 2016; Exhibit 2 will be the redacted version of that same filing, and Exhibit 3 are updated tariff sheets submitted on October 6, 2016, reflecting certain corrections that we wanted to make for the Commission.

(Exhibits 1, 2, 3 marked for identification.)

* * * * *

(WHEREUPON, CHRISTOPHER KAHL, FRANCIS WELLS and JOSEPH CONNEELY were duly sworn and cautioned by the Court Reporter.)

DIRECT EXAMINATION

BY MR. TAYLOR:

Q. I'll start with Mr. Kahl. Please give your name and position with the Company.

A. (Kahl) Christopher Kahl, senior regulatory analyst with Unitil.

Q. Have you previously testified before the Commission?

A. (Kahl) Yes, I have.

Q. Please refer to Exhibit 1, and turn to the tab containing your testimony. Is that testimony prepared by you?

A. (Kahl) Yes.

Q. Do you have any changes or corrections that you'd like to make to your testimony today?

A. (Kahl) No.

Q. Can you please identify the schedules in this filing that are associated with your testimony?

A. (Kahl) Yes. Schedule 1A, 1B, 3, 4, 9, Schedules 10A, 10B, 10C, Schedule 14, Schedule 18 and Schedules 21 through 26.

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

A. (Kahl) Yes.

Q. 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) Yes.
Q. Thank you.
Mr. Wells, could you please state your full name and position with the Company.
A. (Wells) Yes. My name is Francis Wells. I am the manager of energy planning for Unitil Service Corp.
Q. Have you previously testified before the Commission?
A. (Wells) I have.
Q. As with Mr. Kahl, would you please turn to Exhibit 1 and turn to the tab containing your testimony.
A. (Wells) Yes.
Q. Was this testimony prepared by you?
A. (Wells) It was.
Q. Do you have any changes or corrections you'd like to make to your testimony today?
A. (Wells) No.
Q. And could please identify the schedules in the

filing that are associated with your testimony.
A. (Wells) Schedules 2, 5, 6, the attachments to Schedule 10, Schedule 11, Schedule 12, Schedule 13, Schedule 19.
Q. And did you prepare these schedules, or were they prepared under your direction?
A. (Wells) I did.
Q. If you were asked the same questions as in your prefiled testimony today, would your answers be the same.
A. (Wells) They would.
Q. Thank you.

Mr. Conneely, could you please state your name and position with the company.
A. (Conneely) Good morning. My name is Joseph Conneely. I'm a senior regulatory analyst with Unitil Service Corp.
Q. Have you previously testified before the Commission?
A. (Conneely) Yes.
Q. Could you please turn to your testimony in Exhibit 1. Did you prepare your testimony?
A. (Conneely) Yes.
Q. Do you have any changes or corrections that

you'd like to make to your testimony today?

A. (Conneely) No.

Q. Are there any schedules associated with your testimony in the filing?

A. (Conneely) Yes. Schedules 8, 16 and 17.

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

A. (Conneely) Yes.

Q. If you were asked the same questions in your prefiled testimony today, would your answers be the same?

A. (Conneely) Yes.

MR. TAYLOR: I have no further questions.

CHAIRMAN HONIGBERG: Mr. Clifford.

CROSS-EXAMINATION

BY MR. CLIFFORD:

Q. Yes. I'm just going to address this to the panel, so whichever witness feels most comfortable with the questioning and with the schedules I'm talking about, feel free to answer.

Would you state for the record how the proposed 2016-2017 cost of gas rate compares to last year's seasonal average, both winter, summer, and explain the difference, if any, and why there is such a difference.

A. (Conneely) Schedule 8, which is the typical residential heating bill, the first page -- it's Bates stamp Page 193 of 324 -- essentially, the schedule breaks down the annual typical heating bills, the first page being residential, and a few of the commercial and industrial larger-size customers behind there.

So, for the winter of 2016-17, a typical residential heating customer using 695 therms for the winter would see a total cost in their bill of $1,076.23. And that is $90.20 or 90.15 percent higher than the 2015-2016 winter season.

Below on this schedule, on the top half is the components that affect the overall increase. And there's nothing for base rates. The cost of gas is actually the main driver. And the LDAC is increasing a little bit.

Q. And so, can you account for the major factors that are causing this increase at this time?

A. (Kahl) I can address that. If you look at Schedule 9, Bates Page 203, you can see on the first two columns a comparison of what we proposed to the cost that we actually incurred last winter. So these are the costs from our reconciliation. And basically, some of the main components of that are that in last year's filing, the reconciliation was a credit of about $2 million, and this year it's about $850,000 the other way. So that's a big part of it. Also, demand charges are lower by several million dollars. That is due, in part, to the PNGTS refund, which is refunded 50 percent in the first year. So it's a smaller refund. It's only about 30 percent in the second year. So the demand costs, we've taken the PNGTS refund and blended that into our demand cost to help reduce those costs. So those two issues are a big factor of why rates are a bit higher this year.

Q. And can you explain how much in percentage the PNGTS refund was disbursed last year, and is it compatible with the Commission order in 25,816?

A. (Kahl) Yeah, the methodology that we wanted to use and implement was to attempt to refund 50 percent in Year 1, 30 percent in Year 2 20 percent in Year 3. We ended up basically refunding about closer to 59 percent in Year 1. And this was really due to a miscalculation in the portion that would go to marketers, and so we had underestimated how much the marketer share would be. So when we were into the winter period, or actually towards the end of the winter period, we realized that we were refunding too much, in a sense, but it was really too late to modify that at that point.

Q. Okay. And can you explain how the current Nymex -- and this may not be a question for you. But how does the current Nymex Futures prices compare to those used in the cost of gas filing for the winter versus the summer, so we can go on the record explaining how this process is going to work going forward?

A. (Kahl) The Nymex prices for?

Q. Winter versus summer use.

A. (Kahl) Are we talking about '16-'17 winter compared to the 2017 summer or --

Q. Right. We're talking about the '16-'17 winter and going into the 2017 summer, how the process will work going forward.

A. (Wells) That refers to my testimony. I provide the Nymex prices in the attachment to Schedule 5A, which is the supplier prices that I prepared for this filing. Line 23 provides the Nymex prices.

CHAIRMAN HONIGBERG: Stop for a second. Can you give us a Bates page reference so we can catch up with you?

WITNESS WELLS: I apologize. There actually is not a Bates page on my copy.

CHAIRMAN HONIGBERG: All right. Give us a page X of 36 within this.

WITNESS WELLS: It's actually Page 1 of 36.

CHAIRMAN HONIGBERG: All right.

WITNESS WELLS: I apologize. There's also a hole punch right through the page number on my attachment.

CHAIRMAN HONIGBERG: All right. I think we've all caught up now.

A. (Wells) Line 23 of Page 1 of the attachment to Schedule 5A provides Nymex prices that were used for the commodity cost forecast that are presented in this filing. And so the winter prices range from $3.02 per decatherm up to $3.34 per decatherm; the summer prices range from $2.98 a decatherm to $3.05 a decatherm.

Q. So I want to ask you -- and that's based upon the selling price for August of 2016. So can you update us to what that would be today, the price differential today?

A. (Kahl) In our Maine Division, Northern Utilities Maine Division, we provide an update forecast every time. And that's due, in part, because Maine doesn't have an automatic 25-percent increase or unlimited decrease in rates on a monthly basis, so they like to get an updated Nymex and have that change the rates. So that was submitted, actually, yesterday. We had taken a Nymex price. I believe it was October 3rd. And the average Nymex price was maybe only about a penny and a half difference, so I did not see a lot of variation.

But I also want to address that the initial filing was made for the Maine Division in mid-August. So, between we'll say early August to early October, we haven't seen a lot of fluctuation in Nymex prices.

Q. So that leads me to my next question. Do the proposed maximum rates allow enough flexibility to absorb normal price fluctuations or anticipated price fluctuations through the monthly adjustment mechanism?

A. (Kahl) We think it will. We think it will.

Q. So there's nothing in your forecast that would lead you to deviate wildly from what you proposed.

A. (Kahl) That is correct.

Q. Okay. And then how does your demand forecast for this winter compare to last winter's, and then explain your summer forecast as well.

A. (Wells) By "demand forecast," are we referring to demand costs or referring to sales?

Q. We're referring to sales.

A. (Wells) Okay. Thank you.

I present -- in Schedule 10 there are several attachments to it that I prepare that provide sales forecast data. On a total system basis, this includes both sales service and delivery service volumes. On Page 1 of Attachment 1 to Schedule 10B, and that's Bates Page 216, we show winter growth for the total system of about 0.8 percent and summer growth of about 2.8 percent.

Q. And of that, how much is due to, say, organic growth? And is there any due to migration, customer migration, or switching from sales service?

A. (Wells) So, any growth is organic growth in this forecast. There's, you know -- this past winter we're coming out of a period of relatively low migration either to or from sales service. There was not a lot of movement. You know, in essence, the customers that were already on sales service tended to stay on sales service. The customers that were on delivery service tended to stay on delivery service. So that assumption is sort of reflected through our forecast.

Q. Okay. Thank you. And then can you compare the impact on last winter's demand forecast as filed in the cost of gas proceeding in Maine and New Hampshire with actual demand as a

result of any reverse migration?
A. (Wells) Maine actually had a very similar experience. There was very little migration either to or from sales service. And so, you know, we had a period of relatively low activity on a net basis for customers moving to and from. Also in the Maine Division, any growth is attributable more to organic customer growth or change in customer demands, not necessarily related to migration. There's a period of relative stability in the retail market.
Q. Okay. And has Northern experienced any operational problems or supply disruptions during the past year that we should be aware of?
A. (Wells) Well, you know, one issue that is more operational in nature that the Company has faced, and this is one that's faced by many utilities in New England area, is lower pressures on Tennessee. And that's been an issue that's sort of been more of a regional one. And that has affected customers with city-gates on Tennessee in the northeast,

Tennessee on Zone 6. You know, that operational issue, you know, Northern has probably a little bit more flexibility to manage that, where it has city-gates off of, you know, Portland and also Maritimes that sort of help to deal with any lower -- you know, any inability to get gas in off of Tennessee, we can always get our gas in off other city-gates in order to fill that demand. So, operationally, you know, that is an issue and one that we have been looking at as an organization. But, you know, given our current situation, we've been able to manage it.

Q. Okay. And are all your current contracts of significance in place currently?

A. (Wells) They are.

Q. Okay. And I'd like you to explain -- this may not be a question for you -- but explain the new item that you proposed under the LDAC, which is the -- I think you referenced that as "lost revenue recovery charge."

A. (Conneely) Yeah. The Company is proposing a new component to the LDAC. The LRR is a new rate component to recover lost distribution revenue related to the Company's energy-efficiency programs. I speak about it a little bit on Page 6 of 10 of my testimony and on Page 71 Bates Stamp. And this new mechanism is being established in accordance with Order 25,932 in DE 15-137. Essentially, it's to recover these lost revenues due to the installation of energy-efficiency measures which begin January 1st, 2017.

Q. And just for the record, can you state what that rate is going to be for the charge --

A. (Conneely) Yeah.

Q. -- beginning November 1st?

A. (Conneely) The Company proposed an LDAC for November 1st, which does not have this rate. January 1st would be the beginning of this new rate, the LRR. And it would be .0006 for the residential classes and .0002 for the C & I customers.

Q. Okay. Thank you.

And then I wanted to circle back to can you speak to the outcome of the changes in capacity assignment that Northern filed in Maine and how that's going to impact your planning and impact on New Hampshire ratepayers?

A. (Wells) So, on July 7th, 2016, the Maine Commission did issue an order in Docket No. 2014-000132. In that order, the Commission approved a change in the percentage of capacity assigned from 50 to 100 percent. That was to be effective November 2019. They approved an open season for customers that are currently capacity-assigned, who have been on delivery service prior to November of 2005. That open season would allow a customer that is currently capacity-assigned to convert to capacity-exempt delivery service. And those elections are due November 2016, and the elections would be effective, I believe, by May 2017.

The Commission also approved changes to the rates that would be charged to sales service customers that are returning to delivery service. Those rates would be equal to our incremental cost less any -- and disregarding any prior period credits or over-recoveries.

Finally, there were some changes to the

types -- the form of capacity assignment. The rules for whether or not a particular capacity resource would be designated as capacity-release or company-managed, and those rules, generally speaking, any resource that can physically connect to Northern's system would be subject to capacity-release unless there were contractual limitations that prevented that from happening. Only on-system peaking capacity would be, generally speaking, subject to company management, and any capacity resource that did not physically connect to Northern's system.

Q. Okay. So, overall, that is similar to the New Hampshire --

A. (Wells) Well, there are --

(Court Reporter interrupts.)

Q. Sorry. Or describe how it may be similar or dissimilar operationally, if you can.

A. (Wells) There are several areas of similarity and some areas of dissimilarity. You know, one area that I neglected to mention in the initial response is there is a concept of a "capacity ratio" in Maine. And that basically requires the Company to adjust the amount of capacity assigned to each customer by the amount that the total -- that Northern's system is long or short. So that's something that, whereas in New Hampshire it's basically strictly based on the customer's design day, in Maine, there would be an adjustment factor based on how the system is relative to customer demands. So that's one area of difference.

Another area of difference would be the treatment of customers returning from delivery service to sales service. The rate mechanisms have been updated in New Hampshire -- excuse me -- rather, in Maine, that have a different approach than is currently taken in New Hampshire. Other than that, I think the programs will be rather similar. And, you know, the Company is, you know, still being in the compliance phase of the Maine Capacity Assignment Program proceeding. You know, we will consider what changes as a result of that proceeding are appropriate to make to our New Hampshire program, with the ultimate goal of better aligning the two programs going forward.

Q. Thank you.

MR. CLIFFORD: I have no further questions of the witnesses at this time.

CHAIRMAN HONIGBERG: Commissioner Scott.

QUESTIONS BY CMSR. SCOTT:

Q. Good morning. My usual caveat: Whoever feels they have the best answer, please go ahead.

So, first I want to talk a little bit about the -- inquire about the commodity itself, the commodity price. I was curious if anybody would like to opine. Are we expecting -- are the Nymex prices looking at any kind of volatility this winter? Obviously, two winters ago we had a lot of volatility. Last winter, we didn't have a winter, so there was less volatility. About three winters ago. Excuse me. So we've had some variance here. I'm just curious. My look at the Nymex prices, I'm not seeing a lot of risk for volatility reflected. Is that a correct assessment?

A. (Wells) I think under the current market, I think that's a fair assessment based on what we know, that we haven't seen a lot of Nymex volatility recently. The volatility in commodity pricing tends to be more in the adder to that Nymex price that a party would pay for New England-based deliveries rather than for Nymex, which is more reflective of, as close as can be, more of a national price, more of a supplier price. And so with the current supply outlook, where you have, you know, a relatively new supply base that seems to have plenty of capacity to produce more supply, I would generally agree that in the near term, Nymex volatility would be relatively lower than what we've seen historically. The Company continues to be concerned, however, about the volatility of New England-delivered supplies, just because where we have seen in recent winters when there is relatively cold weather, higher demands, there's been a very marked spread between the Nymex price and what someone would pay for supply delivered to New England if they are just buying that without the benefit of any capacity to go back to the supply-producing regions.

Q. Having said that, is Nymex the right benchmark to use still?

A. (Wells) Well, if I were to trying to benchmark volatility in New England, I would probably use the sum of Nymex and Algonquin city-gate basis, which is what I use when I'm looking at the price that we would project to pay for any delivered supplies. And that's probably going to give you a better understanding of the locational price, which is really probably what's going to affect New Hampshire costs more than only looking at the Nymex price.

The challenge with the Algonquin -- I mean, it is posted publicly on the Futures. It's not going to have nearly the liquidity of the Nymex. But, you know, when I look at the open contracts, we're talking about thousands of contracts. So there's still enough money in it to make you think that that Forward contract has some validity to it.

Q. So, having said all that, the analysis you did for this filing reflects that.

A. (Wells) Yes.

Q. Okay. Thank you.

The manufactured gas plant remediation

costs, I was curios. What's the long-term projection? Where's the Company on that remediation? So that's Exeter and Rochester; is that correct?

A. (Conneely) Correct. The Company historically has sought recovery for expenses in the ERC: Mowing the lawn, plowing out, maintaining the properties. July 2015 to June 2016, the Company undertook a larger remediation project to -- for the purpose of closing this Exeter site down. So there is larger invoices for this ERC, but the goal is to, going forward, have a very small ERC. I spoke with the environmental compliance manager, and things are on track and they're pretty cleaned up. So, going forward, the Company expects closer to the historical invoice costs each year or less.

Q. Is that for both sites or just one site?

A. (Conneely) The big project was for the Exeter site.

Q. Okay. So --

A. (Conneely) But there's still maintenance costs with the Rochester site going forward.

Q. I'm also curious about the bad debt allowance in the filing. I was curious if you could outline it a little bit. What are you doing to reduce that? What efforts does the Company have -- I mean, I guess there's a certain amount to be expected, I understand.

A. (Kahl) Yes. In the cost of gas filing, what we typically do is we talk with our billing department and get their projection -- so, you know, what is their projection of layoffs going to be -- and we simply incorporate that into the cost of gas filing. The reconciliation will show you what has happened over the past year and where the balance is. But, you know, I would not be able to comment on any procedures that are being taken to mitigate write-offs or you know, try to assist. I mean, obviously, customers do fall behind in payments. The Company does try to work out arrangements. And a write-off is not declared until that meter is actually shut off.

Q. You may not be able to -- I was going to opine on is the amount in there, is that a reasonable number? Is it high? Is it low?

A. (Kahl) I believe that number is lower than it's been in the last few years. I believe the number historically has been over 500,000.

So I'm referring to Schedule 4, Bates Page 90. And looking at the projected number, on Line 14, which is 438,000. Of that amount, a portion is allocated to the supply component and a portion of that is allocated to each season. But focusing on Line 14, the 438,000, I believe that is lower than what we've seen in the last few years.

Q. Thank you. And I think my last question -- I think Mr. Wells, but I can't remember -- in a discussion with Mr. Clifford regarding migration, and I was -- what I think I heard was it's pretty stable, projected to be pretty stable. What would cause that to be unstable?

A. (Wells) I think what would cause it to be unstable is, generally speaking, changes in delivered supply costs, delivered supply prices. You know, particularly for customers that are not 100-percent capacity-assigned. Customers that are 100-percent capacity-assigned, it's going to be more of a -- less of a spread between what the utility rate would be and what a marketer rate would be because the supply costs will be about the same based on what the utility would buy versus what a marketer would buy. And so there could be -- you know, if there were changes in Nymex, that might affect that. You can have more flexibility if you are a retail marketer and be able to implement lots of different strategies that the utility service wouldn't offer. But generally speaking, when it comes right down to it, it's going to be less spread between utility and marketer cost for a 100-percent capacity-assigned customer.

And so, really, the volatility in migration rates becomes more exacerbated, if you will, when you've got customers that are not 100-percent capacity-assigned. And that's why, when we look at, you know, the last few winters, when there was lots volatility in the delivered supply price, there was customers coming to and from the New Hampshire Division. There was some migration, but it was much less so than what we saw in the Maine Division because there was such a big difference between delivered supply costs. And so, you know, ultimately I think that when we eventually get to a point where we are 100-percent capacity-assigned for the majority of our system again, that, you know, migration will be more of a steady thing. It'll be more driven by -- you know, marketers move into a service territory because they think it's a stable place to be able to grow a business, rather than necessarily based on, you know, volatility in, you know -- or perceived volatility and whether or not there are advantages or disadvantages that are just so dramatic based on delivered -- you know, the difference between delivered price and sort of a capacity, you know, a 100-percent capacity price.

Q. I'm not going to hold you to an exact number, but approximately what percentage are we right now in New Hampshire within your service territory for capacity assigned?

A. (Wells) I want to say on a design-day basis it's approximately -- well, you know what? I actually think I've got a schedule that provides... I believe it's Schedule 11 that gives some relative... so, on Schedule 11D, which is marked Page 234 -- and this data is presented in therms, just to make sure we are looking at these numbers correctly. New Hampshire non-capacity-exempt transportation, so that would be capacity-assigned, is about 10,000 decatherms, or around 107,216 therms. Capacity-exempt, the design day is about 16,000 decatherms, or 163,534 therms, to give a relative idea between our capacity-assigned and capacity-exempt in New Hampshire.

You know, one thing I would comment on the capacity-exempt in New Hampshire is that it tends to be customers that are more industrial in nature, that are more, you know, probably more committed to staying on delivery service regardless of, you know, the volatility and under any particular market situation; whereas, you know, perhaps the mix in the Maine Division, because of the rules, tend to err towards smaller usage customers, and that may have been why those customers tended to come back a little bit more than what we saw in New

Hampshire when there was volatility, which was clearly not this past winter.

Q. So I asked all those questions, so I guess what I was getting at is, if we go back, and this winter ends up being like we had three years ago, I was just curious what the impact would be. It sounds like we're --

A. (Wells) Hard to say because so much has changed since then. You know, it really would be hard for me to conjecture as to how -- you know, for one thing, we still don't really have -- we haven't really seen any volatility in the New England market. You know, you haven't seen the spread between Nymex and New England-delivered, like, creep up at all; in fact, if anything, going into the winter it's been trending down. And that would probably give us a good precursor, because a lot of contracts do come up for renewal in November on the retail market. So we probably would be starting to see customers requesting a return to, you know, sales service, if that was in fact happening. I haven't seen that. Absent some major change in market circumstances, I wouldn't -- I'm not expecting this to be a winter where there is significant migration to or from. You know, it is possible that when there is some finality to the rules in Maine, that may provide, if anything, some migration into delivery service when parties have some finality on what some of the rules will be for that market. But as far as the New Hampshire market, I don't -- you know, those rules right now are codified. There's not anything that's planned to change in the immediate future. I just don't see how, absent some, you know, dramatic change in the market fundamentals, that we start seeing dramatic increases or decreases in the relative sales and delivery service volumes.

Q. Thank you.

CHAIRMAN HONIGBERG: Commissioner Bailey.

QUESTIONS BY CMSR. BAILEY:

Q. Following up on that last line of questioning, I didn't really understand the answer. I thought Commissioner Scott asked you what percentage of capacity was allocated on your highest-degree-demand day. So the converse would be how much space do you have left over? And I didn't get the -- and it's maybe because I don't understand your answer.

A. (Wells) Completely fair question. So, our total portfolio of Northern Utilities is approximately 120 decatherms of supply going into the current winter period. I have provided a breakout of those supplies on, I believe it's Table 3 of my testimony, and again on Schedule 12, which is Page 237. So, to give relative numbers, we assign -- or we have approximately 120 decatherms of supplies for this coming winter; of that, I project around 10,000 per each division will be assigned out to retail marketers, leaving the Company with approximately 100,000 decatherms of supply going into the current winter. And that would be to manage the demand requirements of both New Hampshire and Maine Divisions.

Q. And what are the highest-demand-day requirements?

A. (Wells) Right. Going back to Schedule 11, the same page we were referring to previously, if I can find it again --

Q. Page 234?
A. (Wells) Thank you. So, the Maine firm sales requiring is about 47,500 decatherms on a design-day basis. So that's a "1 in a 33-year, this is what we think the highest peak demands would be on the New Hampshire system for sales service." And for the Maine Division, it's approximately 56,000 decatherms.
Q. So that's a total of 103 decatherms?
A. Yes.
Q. And you have 100,000 -- I mean you have 100 decatherms?
A. A hundred thousand. Yeah, we are actually...
Q. You have 100,000 therms.
A. (Wells) No, we have 100,000 -- and I apologize. This schedule, Schedule 11D, is in therms. So my Schedule 12 is in decatherms, so --
Q. Right. But didn't you convert the New Hampshire firm sales to 47 decatherms?
A. (Wells) Yes, I did.
Q. And so if you add 47 and 56, you get 103 decatherms; right?
A. A hundred three thousand decatherms.
Q. And how much capacity do you have, according to

Schedule 12?

A. (Wells) We have 118,000, of which approximately 10,000 -- I don't have the numbers right in front of me -- but I do believe that we -- if you look at this Schedule 11, it shows -- it adds the capacity-exempt back in. It shows we have a design-day demand of the total system of 1,583,000 therms; that would be 158,000 decatherms. And we have supplies of 1,583,000 therms of the same amount.

One thing to sort of keep in mind is that in the New Hampshire Division -- excuse me -- in the Maine Division, the peaking capacity of -- any offsets in peaking capacity we don't actually allocate to retail marketers; whereas, we are assigning 10,000 decatherms of capacity, we're not going to assign all of the supply. And so one thing to keep in mind is that it did affect -- we're actually buying less capacity for the total system, or less peaking, less off-system peaking capacity for the whole system because part of our capacity-assignment obligation in Maine doesn't require that we assign off-system peaking contracts. So, in essence, the difference between 103,000 and 100,000 is this is off-system peaking capacity that we're only going to be assigning granite capacity for in Maine rather than any supply requirement. I understand it's very complicated, and I apologize. There are a lot of moving parts with that. With the capacity assignment program, it's a little bit in flux right now.

Q. Okay. Thank you.

Mr. Kahl, on Page 29, Bates Page 29 of your testimony, and this is also shown on the schedule that you pointed us to, it looks to me like your bad debt is increasing from 390,000 actual bad debt ending July of 2015 to your projected of 438,000, rather than what I thought I heard you say, which is "this lower than it has been."

A. (Kahl) I meant it was lower than what we had projected it to be in prior cost of gas filings. So we would get the forecast, again, from our billing department and incorporate that.

Q. It shocked me to hear you say they give you a number and you just take it. Whose job is it to try to mitigate that?

A. (Kahl) Well, I mean, there's the projection. So this is what they think will happen. And then the mitigation is a different issue. And, you know, from the conversations I've had with our billing department, the last thing they want to do is write off the account. So they would try to work with the customers that are in arrears to get a payment schedule.

Q. But what incentive do they have to do that if they can just put it back in rates on other people? You know, you just said the last thing you would expect them to do is not try to get people to pay their bills. But if they don't pay their bills, you still get the money anyways. So what difference does it make? How hard do they have to try?

A. (Kahl) I think you're getting into an area of how the collection process works and how they handle accounts that are in arrears, and I don't have the information on that. But, you know, I do speak with them. I do try to get a projection of if it's up or if it's down, what the rationale is behind that. And, you know, I can go back and I can -- hang on a second.

(Witness reviews document.)

A. (Kahl) Yeah, I can -- again, my recollection is that we were projecting closer to 500,000. But I would have to actually go back and see those prior cost of gas filings to see what was in those.

Q. You mean in prior cost of gas filings you estimated that the uncollectibles would be $500,000, a half million dollars?

A. (Kahl) For Northern in total, yes. Now, a portion of that is allocated to the cost of gas, roughly about 50 percent, and then from there it's allocated to the seasons.

Q. Are these strictly New Hampshire uncollectibles?

A. (Kahl) Yes.

Q. Okay. Could I ask for a record request, to give me the actual uncollectibles that you've had maybe for the past five years and what percentage of your revenue that is and what extent your billing department goes to, to reduce those.

CHAIRMAN HONIGBERG: Mr. Taylor, do you understand the request?

MR. TAYLOR: I understand the request, how it was asked, and we'll have the transcript as well. But, yes, so I've written it down. I think I understand what Commissioner Bailey is asking for.

CHAIRMAN HONIGBERG: All right. So we've reserve, I think it will be 4, Exhibit 4, for that response to that record request.

CMSR. BAILEY: We need to approve these rates rather quickly, don't we?

MR. TAYLOR: Yes, these are to go into effect on November 1st. So we will try to turn around a response as quickly as we can.

CMSR. BAILEY: Okay.

MR. TAYLOR: You know, as Mr. Kahl indicated, it will require talking to some folks in different departments than here in the room and collecting information from quite a number of folks. But we'll do our very best to get it to you as quickly as we can.

CMSR. BAILEY: Sure. But you are asking for us to put $438,000 of uncollectibles in rates; right?

WITNESS KAHL: I'd like to interrupt. We're asking for 206,000 here in the cost of gas.

BY CMSR. BAILEY:

Q. And where is the remainder?

A. (Kahl) The difference is not collected through the cost of gas.

Q. But it's collected, another 232,000; right?

A. (Kahl) This would probably -- I would speculate this would fall into base rates. So I don't know how the cost allocation is handled for base rates. I don't know if it's based on an estimate, if it's built in every year or not.

Q. So, show me on Schedule 4, Bates Page 90, what you mean by that. You're asking for $206,000 in the annual non-distribution rates? Is that what -- but then there's the rest of it in winter and summer?

A. (Kahl) And that's the split between the winter and the summer. So, for this winter, we're seeking to recover basically $187,200, Line 16.

Q. Oh, I see it. I'm just trying to understand where the rest of the -- I mean, in your testimony, which is what I read, it says that you're projecting the bad debt to be $438,000. And so I guess maybe another question would be whether the remainder of that bad debt gets collected or if it doesn't get collected?

A. (Kahl) I think, as I said before, I would imagine that would be collected through base rates. So there would probably be a component in the most recent base rate case proceeding that would provide for an amount of bad debt recovery, probably an estimated amount, because, of course, base rates aren't going to change unless there's another rate case.

CHAIRMAN HONIGBERG: Mr. Kahl, sounds like you are making an educated guess, but you don't actually know.

WITNESS KAHL: That is correct.

CHAIRMAN HONIGBERG: All right. So why don't you include an explanation, Mr. Taylor, in your response to the record request about how this process works. And you might include in there how the Company has incentive to reduce its uncollectibles within this process.

BY CMSR. BAILEY:
Q. Can you talk a little bit about the miscalculation and you underestimating the marketers share the PNGTS refund?
A. (Wells) Yes. So, in the 2015-16 cost of gas, I had prepared a schedule estimating the amount of the PNGTS refund that would be attributable to the retail marketers. I provide in Schedule 5B -- it may be useful to understand how that calculation was incorrect in the prior period. Generally speaking --
Q. Can you please tell me what page you're on? Is this a confidential page that we can't see the number on?
A. (Wells) It's not a confidential page.
Q. Okay.
A. (Wells) It is Page 139. And so -- I just want to make sure you're on the page.
Q. I'm not there yet. Sorry. Some of the Bates pages have holes through them, so I lost track of what page I was on. Sorry.
(Pause in proceedings)
Q. Okay. I'm there. Thanks.
A. (Wells) So in this schedule, I show my estimate

of the amount of the PNGTS refund that would be allocated to retail marketers for the 2016-17 winter period. And what I did this time was I took the New Hampshire portion of the refund, allocated that between the two Portland contracts that were subject to refund, and then took a ratio between the New Hampshire allocated MDQ, which is based on the PR allocator of 43.73 percent and the ratio between the amount of that that was assigned to -- that I project to be assigned to New Hampshire marketers. So, in this circumstance, the total contract is 1100; the New Hampshire portion of that is 481. I projected 98 of that to be allocated to marketers through capacity assignment. I took the ratio of 98 and 481 to come up with 20.37 percent. So, therefore, approximately $17,400 of that contract was allocated to capacity-assignment revenue by taking the 20.37 percent and multiplying that by the $85,000 that was that portion of that contract.

And the reason I talk about this is that, in essence, what I did for the 2015-16 is I took percentages that were intended to be to the total portfolio. So, for the remainder of this schedule, I look at the amount that is assigned to New Hampshire retail marketers and divided that by the total portfolio and applied that to each contract. And by the "total portfolio," I mean the portion of the portfolio applicable to both Maine and New Hampshire divisions. So, in essence, what I did was I applied and allocated those based on the total system and applied it to something that was just New Hampshire, by taking just the New Hampshire-Portland revenue and applying a system-wide allocator to it. I underestimated the amount of revenue in last winter's cost of gas that was applicable to the cost of gas -- or applicable to retail marketers, and so it had the effect ultimately of overstating -- or excuse me -- overestimating the amount that we would flow through to 50 percent. And so by my incorrectly taking into account for that had the downflow effect of we were taking really more than the 50 percent of Portland. When we ended up reconciling the numbers, we realized

that my initial estimate was incorrect.
Q. So are you compensating for that this year?
A. (Kahl) No. We refunded basically 59. We were supposed to refund 50. So we're just taking the remaining portions. So, Year 2 is going to be 60 percent of the remainder, and Year 3, the final year, will be 40 percent of the remaining balance.
Q. Okay. On the lost revenue rate, we looked at Schedule 10 on Bates Page 216, and it looked like you are projecting sales to increase. So if your sales increase, how do you expect to lose distribution revenue that needs to be recovered in this LRR rate?
A. (Conneely) So the LRR is for the lost distribution and how it relates to the energy efficiency programs that we're implementing. So it would just be what is lost for energy efficiencies.
Q. If your sales don't decrease, how do you calculate that?
A. (Conneely) If you look at... starting at the back of my calculation, it's Page 302 -- 324.
Q. Is that at Tab 10?

A. (Conneely) This is at Tab 16. Maybe I'm throwing you off with "distribution," that language.

Q. Okay. I'm on Page 302.

A. (Conneely) So this page represents numbers that came out of 15,137, which is the energy efficiency CORE docket. And these are, if you look at the annual therms for residential programs and the annual therms for the commercial industrial programs --

Q. $66,996 for residential?

A. (Conneely) Correct. Those represent the amount of therms that will be saved through calendar year 2017 by implementing these energy efficiency programs, things such as ENERGY STAR. I'm not sure of all the programs, but they're appliance-based, they're boiler-based, things of that nature.

Q. So this is what you expect those programs to save in energy. And if you didn't have these programs in place, you would have 66,000 more therms of residential use.

A. (Conneely) Correct.

Q. And why is the surcharge, if you will, more expensive for the residential customers? Is it just because there's fewer to spread the costs over?

A. (Conneely) Yes.

Q. Okay.

CMSR. BAILEY: That's all I have. Thank you.

CHAIRMAN HONIGBERG: Has anyone talked about Exhibit 3 and what is exhibit -- why do I have Exhibit 3 in front of me? What is it?

MR. TAYLOR: Exhibit 3 is updated tariff pages that we submitted last week that --

CHAIRMAN HONIGBERG: Should one of the witnesses perhaps say that this needs -- there's a reason why this needs to be replaced or something like that on the record so there would be a basis for striking the I.D. on Exhibit 3? Who would sponsor Exhibit 3? Or Staff could stipulate that it's appropriate that Exhibit 3 replace whatever relevant pages it replaces and then we could be done with it.

WITNESS KAHL: I can attempt to

answer.

CHAIRMAN HONIGBERG: Mr. Kahl, you want to go for it?

WITNESS KAHL: Yes. There's, I believe, eight pages that we are submitting here. The first one is revised Page 55. We simply found a term in there that was incorrect, and I think we took out the term "winter" and replaced it with "annual." That's the only change to that.

The 15th revised Page 96, this is the rates summary. And what this does is it accounts for the fact that you have an LDAC that's going to change on January 1. So we've already submitted 14th revised Page 96, which is effective November 1, but we need to also submit 15th to incorporate that. So if we kind of skip over, you'll see there is a 15th revised Page 97 and a sixth revised Page 98, again, same issue.

CHAIRMAN HONIGBERG: So, Exhibit 3 is replacement pages for parts of the section of the filing behind the tab that says "Tariff Pages."

WITNESS KAHL: Correct.

CHAIRMAN HONIGBERG: All right. Is Staff satisfied that these are appropriate replacements?

MR. CLIFFORD: Yes, Staff's reviewed them and we believe these are correct.

CHAIRMAN HONIGBERG: All right. We don't need further explanation. I just wanted to have some explanation for what it was.

The other thing I want to talk about is trivial, and I apologize for doing this. But "LDAC" means two different things, and you even use it two different ways in this filing. I can highlight it in Mr. Conneely's testimony. But we see this whenever we write orders in things that apply to both you and the other natural gas LDC. To them, they use -- I believe this is true -- they use "LDAC," and the "C" in "LDAC" always means "charge." For you, sometimes it means "clause" and sometimes it means "charge." And if you look at Page 2 of Mr. Conneely's testimony, on Line 15, you even define "LDAC" as "local delivery adjustment clause." And you can see the usage of that on the next page somewhere. I've lost it now. But the other way it gets used, you use -- it's clear in context that the "C" means "charge." Look at Page 3, Line 5, the words associated with LDAC on Line 5, and you'll see it doesn't make any sense.

So I would like -- I'm going to ask you to cooperate with me and the Commissioners, humor us, if you will, to work with Staff to rationalize your tariff and your language so that "LDAC" means one thing. And I think linguistically you'll find it'll be easier to have it mean "charge." And even your tariff can be your "local delivery adjustment charge clause." Or you don't even need the word "clause" in the title. Am I making -- the question, I guess, then, first, is am I making sense? I see a nodding head, and I appreciate that Mr. Kahl. And the second is, can you and your counsel work with Staff to rationalize your filing linguistically so that the next time we have to write an order that involves both you and Liberty, we're not wrestling with footnotes and explanations of why LDAC means two different things?

MR. TAYLOR: We can certainly work to reconcile that.

CHAIRMAN HONIGBERG: All right. Thank you. I appreciate that. Again, I probably took way more time than I needed to with that.

I have no further questions. Mr. Taylor, do you have any further questions for your witnesses?

MR. TAYLOR: I have no further questions.

CHAIRMAN HONIGBERG: All right. There's no other witnesses; correct?

[No verbal response]

CHAIRMAN HONIGBERG: All right. You gentlemen can probably stay where you are.

I assume there's no objection to striking the I.D. on Exhibits 1 to 3, and we'll hold open the record for submission of Exhibit 4; correct? I see nodding heads. That's good.

Is there anything we need to do before you sum up? All right. Mr. Clifford, why don't you go first.

MR. CLIFFORD: Thank you, Commissioner. Staff recommends approval of Northern's proposed winter cost of gas rates and the adjustment mechanism for the summer, obviously subject to the explanation for the bad debt expense adjustment thereto that we talked about today. We believe that the local area delivery adjustment charge is comprised of a number of items, many of which have been established in other proceedings. We do support the inclusion of a lost revenue rate component, obviously subject to a more thorough explanation through the discovery request. We also support the supply and balancing charges, the gas allowance factors, capacity allocator adjustment percentages included in the Maine and New Hampshire interstate aspects of the filing. We do recommend Commission approval of that. And also, we just want to report that the Audit Staff has reviewed the 2015 and 2016 peak period cost of gas reconciliation and the environmental remediation costs associated with that, and we have no exceptions. So, in sum, we support the rates as proposed.

CHAIRMAN HONIGBERG: Thank you, Mr. Clifford.

Mr. Taylor.

MR. TAYLOR: Just before I sum up, I did want to just make sure something was clarified. Mr. Clifford had mentioned in his summation that the Staff supported a lost revenue recovery charge subject to further clarification through discovery. And my understanding of the discovery request that is out there is related solely to the bad debt, not to the lost recovery. And I just wanted to make sure that we're all on the same page with respect to what's out there in terms of record requests.

CHAIRMAN HONIGBERG: I understood the same thing you did, Mr. Taylor.

MR. CLIFFORD: Right. Yes, and I just want to clarify that is exactly what I meant.

MR. TAYLOR: Beyond that, I have nothing further to add that our witnesses haven't already discussed today. We very much appreciate the opportunity to come here and present our filing to you. We do think it's a fairly straightforward filing, even though it's a little bit different in substance or form than it's been in the last -- than it's been previously. But we think it merits your approval. Thank you.

CHAIRMAN HONIGBERG: All right. Thank you all. We'll take this under advisement and wait to get Exhibit 4. But we'll issue an order as quickly as we can.

(Whereupon the hearing concluded at 11:27 a.m.)

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