THE STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

DG 17-XXX

NORTHERN UTILITIES, INC.

DIRECT TESTIMONY OF

ROBERT S. FURINO

PETITION TO MODIFY PART VII, DELIVERY SERVICE TERMS AND CONDITIONS, OF NORTHERN UTILITIES, INC. TARIFF

JUNE 20, 2017

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1 **I. INTRODUCTION**

2 **Q. Mr. Furino, would you please state your name and business address?**

3 A. My name is Robert S. Furino. My business address is 6 Liberty Lane West,
4 Hampton, New Hampshire 03842.

5 **Q. What is your position and what are your responsibilities?**

6 A. I am Director, Energy Contracts for Unitil Service Corp., which is a subsidiary of
7 Unitil Corporation ("Unitil") that provides managerial, financial, regulatory and
8 engineering services to Unitil's principal utility subsidiaries, including Northern
9 Utilities, Inc. ("Northern" or the "Company"). In this capacity, I am responsible
10 for Unitil's energy procurement and contracting strategies to ensure a reliable and
11 cost-effective natural gas and electric energy supply for Unitil's regulated
12 distribution utilities, including Northern. I also oversee management of the retail
13 choice programs of Unitil's regulated distribution utilities.

14 **Q. Please describe your business and educational background.**

15 A. I have been employed by Unitil Service Corp. for 23 years. I joined Unitil in
16 March 1994 as an Associate DSM Analyst in the Regulatory Services Department
17 and have worked in the Regulatory, Product Development, Finance and Energy
18 Contracts departments, while assuming positions of increasing responsibility. I
19 have been in my current position since 2008. I received my Bachelor of Arts
20 degree in Economics from the University of Maine in 1991, and completed
21 coursework toward a Master of Arts degree also at the University of Maine.

1 **Q. Have you previously testified before the Commission, or other regulatory**
2 **agencies?**
3 A. Yes. I have testified before the New Hampshire Public Utilities Commission
4 ("Commission") regarding natural gas resource planning and electric default
5 service procurement. I have also testified on natural gas planning and retail choice
6 matters before the Maine Public Utilities Commission and Massachusetts
7 Department of Public Utilities.
8 **Q. What is the purpose of your testimony and how is it organized?**
9 A. The purpose of my testimony is to present proposed changes to the capacity
10 assignment and related provisions of the Company's Delivery Service Terms and
11 Conditions, Part VII of its tariff ("Tariff"). The Tariff defines the obligations of
12 customers, retail suppliers, and the Company with respect to customers who
13 purchase their gas supply from a retail supplier. As described further in the
14 Background section, the Maine Public Utilities Commission ("Maine
15 Commission") recently approved various changes to the capacity assignment and
16 related provisions of the Company's Delivery Service Terms and Conditions in
17 Maine ("Maine Division Tariff"). The Company believes that several of the
18 changes adopted in the Maine Division would benefit its New Hampshire
19 customers and, accordingly, is proposing to modify the Tariff. The proposed
20 changes would improve equity among customers, improve the utilization of the
21 Company's capacity portfolio, improve the Company's planning load calculations,
22 give retail suppliers more responsibility and flexibility to manage their own

1 supplies, and clarify the terms under which Delivery Service customers may
2 access Sales Service.

3 Following the Background section, the proposed changes are presented in four
4 categories, each with reference to the relevant Tariff language and discussion of
5 anticipated benefits. Appendix A provides a complete redline showing proposed
6 changes to the Tariff and Appendix B provides a clean copy of the proposed
7 Tariff. Appendix C is a table that provides a concise explanation of each proposed
8 change, including references to the proposed Tariff changes in Appendix A and a
9 description of current and proposed provisions.

10 **II. BACKGROUND**

11 **Q. What is the purpose of the Tariff?**

12 A. The Delivery Service Terms and Conditions, Part VII of the Company's Tariff, set
13 forth the terms under which customers may purchase their gas supply from retail
14 suppliers. Under the Tariff, the sale of gas supply by a retail supplier to a
15 customer which must be delivered to the Company at designated receipt points is
16 referred to as Supplier Service and the distribution of such gas by the Company
17 from the designated receipt points to the customer is referred to as Delivery
18 Service.[1] Sales Service is the sale of gas supply by the Company to a customer.
19

[1] Since Supplier Service and Delivery Service go hand in hand, the terms may be used interchangeably to refer to customers not receiving their supply from the Company. For simplicity I use the term Delivery Service unless context clearly references provision of supply by a retail supplier. Capitalized terms are defined in the Tariff.

1 **Q. What aspects of the Tariff does the petition address?**
2 A. The petition seeks to modify capacity assignment provisions relating to: (a) how
3 much capacity the Company assigns to each Delivery Service customer; (b) which
4 customers are exempt from assignment; (c) which resources are subject to
5 assignment and what form the assignment takes; and, finally, (d) Delivery Service
6 customer eligibility to receive Sales Service and associated stay period and
7 migration fee requirements. In addition, the proposed Tariff includes some
8 housekeeping updates.
9 **Q. What is "capacity assignment"?**
10 A. Generally speaking, capacity assignment is the process of allocating capacity held
11 by the Company to third-party Suppliers servicing the Company's customers. The
12 Company assigns capacity either by releasing it directly to Suppliers, who then
13 enter into replacement contracts directly with pipeline or storage operators, or in
14 the form of Company-Managed supply. Both of these processes are described
15 more fully below.
16 **Q. Please describe the capacity assignment changes recently adopted in the**
17 **Maine Division.**
18 A. Northern pursued changes to the capacity assignment provisions of the Maine
19 Division Tariff to address issues regarding customer equity and impacts on
20 resource planning and make the Maine terms and conditions more consistent with
21 those in effect in New Hampshire.[2] The Maine Commission approved changes in

[2] *See generally* Docket No. 2014-00132, Proposed Changes to Northern's Retail Choice Program.

1 separate Phase 1 and Phase 2 decisions.[3] Prior to the changes, the Maine Division
2 Tariff differed from the New Hampshire Division Tariff in several important
3 respects. Notably, in the Maine Division, Northern assigned capacity to retail
4 suppliers in an amount equal to 50 percent of a Delivery Service customer's peak
5 day demand, rather than 100 percent as in New Hampshire.[4] In addition, the
6 Company did not release assigned capacity to suppliers in Maine; rather all
7 assignment was provided in the form of Company-Managed Supplies. The
8 Company assigned only select storage and peaking service resources,[5] and demand
9 charges for these resources were priced in part on the basis of other resources in
10 the portfolio. Commodity prices for indexed peaking supplies were also fixed
11 before the indices settled, such that the actual commodity costs paid and prices
12 charged to suppliers serving Delivery Service customers differed. The difference
13 between actual costs and prices charged to suppliers serving Delivery Service
14 customers was included in the Company's Cost of Gas, which is paid by Sales
15 Service customers.

16 As of November 1, 2015, the Company began assigning all portfolio resources in
17 Maine, not just select storage and peaking resources.[6] The changes also introduced
18 capacity release as a form of assignment, and demand and commodity pricing for

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[3] Docket No. 2014-00132, Order Approving Stipulation (October 26, 2015) (Phase 1); Order (July 7, 2016) (Phase 2).

[4] The term "peak day demand" refers to expected gas usage on the coldest day under the Company's design planning standards. The equivalent terminology in the Tariff is "Gas Usage on the Peak Day".

[5] Specifically, Northern's Washington underground storage path was assigned and Northern's Tennessee Gas Pipeline underground storage path was not, while Northern's off-system peaking supplies were assigned and Northern's on-system LNG was not. No pipeline resources were assigned.

[6] Docket 2014-00132, Order Approving Stipulation at 2 (October 26, 2015) (Phase 1).

1 resources that remain as Company-Managed Supplies are set at actual cost.
2 Effective November 1, 2019, the Company will assign capacity on the basis of 100
3 percent of Delivery Service customer peak day demand. These changes align the
4 primary capacity assignment provisions in the Maine Division with those in the
5 New Hampshire Division.

6 **Q. What other capacity assignment related changes were adopted for the Maine**
7 **Division?**

8 A. In addition to the changes outlined above, the Maine Division introduced annual
9 reviews of the amount of capacity assigned to each customer and a mechanism
10 whereby Sales Service and Delivery Service customers share equally in their
11 allocation of the resource portfolio. Another change was to clarify customer
12 eligibility for exemption from capacity assignment, including a requirement that
13 all capacity exempt customers maintain daily metering. Changes were also made
14 to discontinue the provision of off-system peaking supply as a Company-Managed
15 resource and to clarify the Capacity definitions with respect to Granite State Gas
16 Transmission, Inc. (“Granite”) capacity. Lastly, the Company’s obligation to
17 provide Sales Service to Delivery Service customers, stay period provisions and
18 associated re-entry fees were modified.

19 **III. PROPOSED TARIFF CHANGES**

20 **Q. What areas of the Tariff does the Company propose to change?**

21 A. Proposed Tariff changes are primarily associated with Capacity Assignment
22 provisions in Section 11 and Sales Service provisions in Section 13. I have

1 organized the proposed changes into four categories. The first, Total Capacity
2 Quantity, defines how much capacity is assigned on behalf of each customer. The
3 second, Capacity Exempt Status, clarifies which customers are not subject to
4 assignment of capacity. The third, Method of Capacity Assignment, clarifies
5 capacity definitions, the form of assignment, and availability of Peaking Supply.
6 The last category, Acceptance to Sales Service, clarifies the terms under which
7 Delivery Service customers may access Sales Service.
8
9 **A. TOTAL CAPACITY QUANTITY**

10 *ANNUAL TCQ REVIEW*

11 **Q. Please explain what Total Capacity Quantity ("TCQ") is and how it is**
12 **determined.**
13 A. Total Capacity Quantity or TCQ is defined in Section 2 and Section 11.3.1 of the
14 Tariff as "the total amount of Capacity assignable to a Supplier on behalf of a
15 Customer." Under the currently applicable Tariff, a customer's TCQ is equal to the
16 customer's estimated peak day gas usage. When a customer chooses Delivery
17 Service, the customer's TCQ determines how much capacity the Company assigns
18 to the customer's supplier.

19 Sections 11.3.1 through 11.3.5 of the Tariff explain the applicability of TCQ and
20 the methodology used to calculate Delivery Service customer TCQ. Generally,
21 customers who received Sales Service at any time since March 14, 2000 are
22 subject to capacity assignment. Peak day demand is estimated by correlating the

1 customer's historical consumption to weather data and then applying peak day
2 design weather conditions. The Company does not propose to change the method
3 of calculating estimated peak day demand other than to provide for reviewing
4 daily metered customer usage if necessary, as discussed later.

5 **Q. When are customers' TCQs established?**

6 A. The Company establishes TCQs at the time Delivery Service is initiated. Section
7 11.3.2 provides that TCQ be estimated each October for existing Sales Service
8 customers. If an existing Sales Service customer initiates Delivery Service, the
9 TCQ would become effective.

10 **Q. Is the TCQ for capacity assigned Delivery Service customers ever updated to**
11 **reflect changes in their gas consumption?**

12 A. No, once a TCQ becomes effective it remains fixed so long as the customer
13 continues to receive Delivery Service, regardless of changes in the Customer's
14 consumption since the TCQ was established. As Section 11.3.6 of the Tariff
15 indicates, the TCQ only changes if the customer returns to Sales Service and then
16 again elects Delivery Service, at which point the Company would establish a new
17 TCQ.

18 **Q. Please describe the Company's proposal to review TCQ annually for capacity**
19 **assigned Delivery Service customers.**

20 A. The Company proposes that Section 11.3.6 be revised to require the review of
21 TCQs for all capacity assigned Delivery Service customers on an annual basis and
22 to update those TCQs that fall outside of a bandwidth. The Company would
23 estimate each customer's peak day demand, and then apply the proposed Capacity

1 Ratio as described below in calculating the new TCQ. If a Customer's newly
2 calculated TCQ is no more than 5 percent higher or lower than the established
3 TCQ, then the existing TCQ would be retained. If a Customer's newly calculated
4 TCQ differs by more than 5 percent from the established TCQ, the TCQ would be
5 updated.

6 **Q. When would the proposed annual TCQ review be conducted each year?**

7 A. TCQ reviews would be completed and communicated to suppliers by August 1
8 each year. All TCQ updates resulting from the annual TCQ review would become
9 effective each November 1. The proposed prior notice is intended to provide
10 customers and suppliers reasonable time update contracts before the start of the
11 winter period.

12 **Q. Has the Company projected the initial impact of updating capacity assigned**
13 **Delivery Service customer TCQs?**

14 A. Yes, the Company performed an initial assessment which indicates that updating
15 TCQs to reflect recent consumption of capacity assigned Delivery Service
16 customers would increase TCQs on average by approximately 14 percent.

17 **Q. What Tariff changes relating to the annual TCQ review does the Company**
18 **propose?**

19 A. The Company proposes to introduce "Annual TCQ Review" as a newly defined
20 term in Section 2 and to revise Section 11.3.6 to explain the annual TCQ review
21 process. In addition, the Company proposes additional language in Section 11.3.2
22 to clarify that the Company shall review the actual usage of daily metered
23 customers in establishing peak day demand if the customer's usage is not

1 accurately modeled by the weather correlation formula. A redlined version of the
2 proposed language is provided in Appendix A.

3 **Q. Does the Company propose other changes related to the language in this**
4 **portion of the Tariff?**

5 A. Yes. Section 11.3.4 currently provides customers who were exempt from
6 assignment when capacity assignment began in 2000 with an option to elect
7 voluntary assignment on either a short-term or permanent basis for all or a portion
8 of their peak day demand. Section 11.3.5 provides this same option to new
9 customers who become exempt from capacity assignment. Since all such elections
10 had to be made prior to the first assignment date, these provisions are outdated and
11 proposed for deletion.

12 **Q. What are the anticipated benefits of the proposed annual TCQ review?**

13 A. The Company believes that the annual TCQ review has the following benefits:

14 - Annual TCQ reviews promote equity among Delivery Service customers
15 by ensuring that individual capacity assigned customers have access to and
16 support appropriate amounts of capacity relative to their peak day demand.
17 - Requiring TCQs to reflect current usage levels will improve the
18 Company's planning load calculations, thereby better informing resource
19 management and supply decisions.
20 - Ensuring that TCQs reflect current usage levels will minimize cost impacts
21 caused by reverse migration since sufficient capacity would follow
22 Delivery Service customers returning to Sales Service.

- Limiting TCQ updates to changes greater than 5 percent better assures that changes occur only when there is a significant change in consumption, which provides stability for suppliers and customers.
- Giving advanced notice to suppliers on August 1 of TCQ changes that will become effective on November 1 provides an opportunity for suppliers and customers to update their agreements as appropriate.

CAPACITY RATIO

Q. Is there currently any adjustment to TCQ if the total capacity held by the Company and allocated to the New Hampshire Division is greater than or less than the total estimated system requirements on peak day?

A. No. As explained above, pursuant to Section 11.3.2 of the Tariff, TCQs are determined as the customer's estimated peak day demand established at the time Delivery Service is initiated.

Q. How does this impact capacity allocation within the New Hampshire Division?

A. Currently, the amount of capacity assigned to Delivery Service customers is equal to their peak day demand. Whenever the total volume of capacity allocated to the New Hampshire Division is not equal to the total peak day demand of New Hampshire Sales Service and capacity assigned Delivery Service customers (collectively the "New Hampshire Planning Load"), any difference is allocated to Sales Service.

1 **Q. Could you please provide an example?**

2 A. Certainly. If the New Hampshire Sales Service peak day demand is equal to
3 45,000 Dth and the New Hampshire capacity assigned Delivery Service peak day
4 demand is equal to 10,000 Dth, then the New Hampshire Planning Load is equal to
5 55,000 Dth. Under the current Tariff, 10,000 Dth will be assigned to suppliers,
6 regardless of how much capacity is held by the Company and allocated to the New
7 Hampshire Division.

8 If Northern has more capacity than needed to meet its peak day Planning Load and
9 the New Hampshire Division is allocated 60,000 Dth of capacity, then 10,000 Dth
10 would be allocated to Delivery Service customers and 50,000 Dth would be
11 allocated to Sales Service customers. In this case, the full amount of excess
12 capacity (60,000 Dth of capacity less 55,000 Dth of Planning Load equals 5,000
13 Dth of excess capacity) would be retained by the Company and Sales Service
14 customers would incur the cost for all of the excess capacity, while Delivery
15 Service customers would be assigned precisely their requirement.

16 As another example, if Northern has less capacity than needed to meet its peak day
17 Planning Load and the New Hampshire Division is allocated 50,000 Dth of
18 capacity, then 10,000 Dth would again be allocated to Delivery Service customers
19 leaving 40,000 Dth to be allocated to Sales Service customers. In this case, the
20 full amount of the capacity deficiency (50,000 Dth of capacity less 55,000 Dth of
21 Planning Load equals 5,000 Dth of capacity deficiency) would be allocated to
22 Sales Service. The Company would need to purchase additional supplies to make

1 up for such a deficiency, while Delivery Service customers would be assigned
2 precisely their requirement.
3 **Q. Why doesn't the Company match its capacity to its peak day Planning Load?**
4 A. The Company is unable to match its contracted capacity to peak day planning
5 needs due to the lead time and uncertainty involved. Contracting for capacity
6 requires a long lead time, typically two to three years or longer, and making
7 commitments to purchase capacity does not ensure that the capacity will actually
8 be placed into service. Because commitments must be made years in advance,
9 capacity purchases must be based on longer-term forecasts and projected future
10 needs may not materialize. In addition, pipelines typically require 15 year
11 commitments to new capacity and 5 year commitments to renew existing capacity.
12 Capacity purchases therefore typically involve fixed volume commitments for a
13 significant term, while peak day Planning Load is much more dynamic, changing
14 as number of customers and their usage patterns change over time.
15 **Q. Please describe the changes the Company proposes to its TCQ calculation to**
16 **address this concern.**
17 A. Northern proposes to modify the TCQ calculation in Section 11.3.2 by multiplying
18 each customer's estimated peak day demand by a Capacity Ratio. The Capacity
19 Ratio would be a newly defined term in Section 2. The Capacity Ratio would be
20 calculated annually by dividing the total amount of capacity allocated to the New
21 Hampshire Division by the New Hampshire peak day Planning Load. Applying
22 the Capacity Ratio to Delivery Service customer TCQs would result in Sales

1 Service and Delivery Service customers sharing equally in the length or shortness
2 of Northern's capacity portfolio.

3 **Q. Please provide an example showing how the Capacity Ratio will work.**

4 A. Returning to the example where New Hampshire Sales Service peak day demand
5 is equal to 45,000 Dth and New Hampshire capacity assigned Delivery Service
6 peak day demand is equal to 10,000 Dth, I will introduce the Capacity Ratio under
7 both the excess capacity and capacity deficiency scenarios presented earlier.

8 If Northern has more capacity than needed to meet its peak day Planning Load and
9 the New Hampshire Division is allocated 60,000 Dth of capacity, then the
10 Capacity Ratio would equal 1.09 (60,000 Dth of capacity divided by 55,000 Dth of
11 Planning Load). Delivery Service customers would be allocated approximately
12 10,900 Dth (10,000 Dth times 1.09) of capacity and 49,100 Dth (60,000 Dth minus
13 10,900 Dth) would be retained by the Company for Sales Service customers. In
14 this case, New Hampshire Division is allocated 9 percent more capacity than is
15 needed to meet its Planning Load and the cost and use of this excess capacity is
16 allocated equitably between Delivery Service and Sales Service customers.

17 If Northern has less capacity than needed to meet its peak day Planning Load and
18 New Hampshire Division is allocated 50,000 Dth of capacity, then the Capacity
19 Ratio would be equal to 0.9 (50,000 Dth of capacity divided 55,000 Dth of
20 Planning Load). Approximately 9,000 Dth (10,000 Dth times 0.9) of capacity
21 would be allocated to Delivery Service customers and 41,000 Dth (50,000 Dth
22 minus 9,000 Dth) would be retained by the Company for Sales Service customers.

1 In this case, the New Hampshire Division is allocated 10 percent less capacity than
2 is needed to meet its Planning Load and the resulting capacity deficiency is
3 allocated equitably between Delivery Service and Sales Service customers.

4 **Q. Would changes in the Capacity Ratio impact the proposed annual TCQ**
5 **review?**

6 A. Yes. The annual TCQ review calculations would factor in both changes in
7 estimated peak day demand for each customer and changes in the Capacity Ratio.
8 For example, a customer whose estimated peak day demand was unchanged from
9 the prior year could still receive an updated TCQ if there is a significant change to
10 the Capacity Ratio due to a change in the capacity portfolio of the Company.

11 **Q. Please describe the anticipated benefits of the Capacity Ratio proposal.**

12 A. The Company believes that the Capacity Ratio proposal has the following benefits.

13 - The Capacity Ratio promotes equity between Sales Service and Delivery
14 Service customers since they would share equally in the allocation of the
15 Company's capacity portfolio.
16 - The Capacity Ratio also removes possible structural incentives that could
17 favor either Sales Service or Delivery Service depending upon the length of
18 the portfolio and the value of capacity in the market.

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1 **B. CAPACITY EXEMPT STATUS**

2 *CAPACITY EXEMPT CUSTOMERS, EXISTING AND NEW*

3 **Q. What are the current requirements for Delivery Service customers to**
4 **establish capacity exempt status?**

5 A. Pursuant to Section 11.3.3, customers who elected Delivery Service prior to March
6 14, 2000, and who have remained on Delivery Service are "capacity exempt,"
7 meaning they are assigned a TCQ of zero and their supplier is not assigned
8 capacity from the Company. Pursuant to Section 11.3.5, customers at new service
9 locations may also qualify for capacity exempt status so long as they initiate
10 Delivery Service within 60 days of initial gas flow for large customers and within
11 120 days for small customers.[7] An exception to this is reserved for locations
12 where a prior customer was assigned a TCQ during the prior 24 months, in which
13 case the new customer is assigned the prior customer's TCQ.

14 **Q. Do capacity exempt customers have any special metering requirements?**

15 A. Currently, there are no special metering requirements for capacity exempt
16 customers. Capacity exempt customers may be in either daily metered or non-
17 daily metered aggregation pools. Delivery Service customers under rate schedules
18 G-42 and G-52 are required to take daily metered service and therefore must install
19 and maintain telemetering equipment. However, this requirement is independent of
20 whether the customer is capacity exempt.

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[7] Section 11.3.5 of the Tariff provides that customers at new meter locations, who elect a supplier as its initial service, shall have a TCQ equal to zero. Northern's practice has been to establish a TCQ equal to zero if customers at new meter locations switch to a supplier within 60 days of gas flow for G-42 and G-52 customers and within 120 days for G-40, G-50, G-41 and G-51 customers.

1 **Q. Does the Company propose any updates to eligibility for capacity exempt**
2 **status for *existing* customers?**
3 A. Yes. The Company proposes that all existing capacity exempt customers be
4 entitled to remain capacity exempt. The Company also proposes to require all
5 capacity exempt customers to install and maintain telemetering equipment. As
6 shown in Appendix A, the Company proposes to update Section 9.1.3 to require
7 that all capacity exempt customers take daily metered service. Section 11.3.3
8 would be updated to address existing customer eligibility for capacity exempt
9 status by replacing the customer's status as of March 14, 2000 with their status as
10 of November 1, 2017, the requested effective date of the proposed Tariff changes,
11 and by requiring capacity exempt customers to install and maintain telemetering
12 equipment. The Company proposes to give existing capacity exempt customers
13 who do not already have telemetering until May 1, 2018 to install telemeters.
14 **Q. Does the Company propose updates to eligibility for capacity exempt status**
15 **for *new* customers?**
16 A. New customers would continue to be eligible for capacity exempt status. The
17 Company proposes to replace Section 11.3.4, which is proposed for deletion, with
18 revised language from Section 11.3.5, which clarifies that a customer at a new
19 service location shall become capacity exempt so long as the customer initiates
20 Delivery Service within 60 days of initial gas flow and installs telemetering.
21
22

1 **Q. Does the Company propose any other changes related to this portion of the**
2 **Tariff?**
3 A. Yes, Section 11.3.5 is revised to clarify that capacity exempt customers will lose
4 their exempt status if they commence Sales Service. Also, new definitions for
5 "Capacity Assigned Customer" and "Capacity Exempt Customer" are added to
6 Section 2.
7 **Q. What are the anticipated benefits of the proposed changes to capacity exempt**
8 **status?**
9 A. The Company believes that the proposed changes to capacity exempt status have
10 the following benefits:

11 • Requiring capacity exempt customers to maintain telemetering will enable
12 the Company to determine its Planning Load in a more accurate and timely
13 manner, thereby better informing resource planning activities.

14 • Requiring capacity exempt customers to maintain telemetering imposes a
15 modest threshold that may encourage capacity exempt customers to more
16 fully assess their decision to forego access to capacity from the Company.
17

18 **C. METHOD OF CAPACITY ASSIGNMENT**

19 **Q. What aspects of capacity assignment does this section of the petition address?**
20 A. This section of the petition proposes updates that clarify which capacity resources
21 are assignable and how they are to be assigned.

1 *CAPACITY DEFINITIONS*

2 **Q. Why are capacity definitions important and what is the Company trying to**
3 **accomplish by updating the definitions?**

4 A. The Company, the Commission, and customers and suppliers who transact or who
5 might transact under the Tariff should have a clear understanding of the resources
6 that are subject to assignment. The proposed changes clarify the treatment of
7 Granite capacity and what constitutes Peaking Capacity. The proposed changes
8 will improve the utilization of Granite capacity and facilitate the discontinuation of
9 off-system peaking supply as a Company-Managed resource.

10 **Q. Why does the Company propose to modify the capacity definitions with**
11 **respect to Granite capacity?**

12 A. Granite State Gas Transmission is an interstate pipeline and a corporate affiliate of
13 Northern. Northern's use of Granite capacity is unique since Granite
14 transportation service is required to access nearly all of Northern's distribution
15 system. There are three major categories of capacity under the Tariff, which are
16 Pipeline Capacity, Storage Withdrawal Capacity, and Peaking Capacity. Although
17 Northern maintains a single contract with Granite, portions of that contract are
18 dedicated to each of the capacity categories. The updated definitions clarify how
19 Granite capacity is assigned to each capacity category.

20 **Q. How does the Company propose to modify the capacity definitions with**
21 **respect to Granite capacity?**

22 A. The Company proposes to modify the definitions of Pipeline Capacity and Storage
23 Withdrawal Capacity to clarify that Granite capacity may be assigned as either

1 Pipeline Capacity or Storage Withdrawal Capacity when associated with Pipeline
2 Capacity or Storage Withdrawal Capacity resources upstream of Granite.
3 Currently, Peaking Capacity is defined as any capacity in addition to pipeline and
4 storage used to meet daily requirements during the peak season. In practice, this
5 means that Granite capacity would only be defined as Peaking Capacity if it were
6 associated with an upstream peaking supply. Under the proposed definition, any
7 Granite capacity not designated as either Pipeline Capacity or Storage Withdrawal
8 Capacity would be designated as Peaking Capacity. Section 2 of Appendix A
9 shows the proposed definitions in redline.

10 **Q. How does the Company propose to further modify the definition of Peaking**
11 **Capacity?**

12 A. Other than Granite capacity designated as Peaking Capacity, the Company
13 proposes that Peaking Capacity include only on-system resources, such as
14 Liquefied Natural (LNG) Gas plants located within the Company's service
15 territory. This has the effect of excluding off-system peaking supply contracts,
16 which will be discussed later. "On-System Peaking Capacity" is proposed as a
17 newly defined term in Section 2.

18 **Q. What are the anticipated benefits of the changes proposed to the Pipeline**
19 **Capacity, Storage Withdrawal Capacity and Peaking Capacity definitions?**

20 A. The proposed capacity definition updates would have the following benefits:
21 - The proposed changes clarify the treatment of Granite capacity.
22 - Decoupling Granite capacity from off-system peaking supply contracts will
23 lead to more efficient utilization of Granite capacity by suppliers. This is

1 because annual Granite demand costs are charged to suppliers while the
2 capacity is held by Northern in order to provide off-system peaking supply
3 that is typically available only 15 to 30 days per year.

4 - The proposed changes to the Peaking Capacity definition facilitate
5 discontinuing the provision of off-system peaking supply as a Company-
6 Managed resource.

7 - The capacity definitions align with those in the Maine Division Tariff
8 meaning Northern would have the same annual capacity assignment plan in
9 each Division. This would simplify the administration of capacity
10 assignment for both suppliers and the Company.

11 *FORM OF ASSIGNMENT*

12 **Q. Please explain the capacity release and Company management methods of**
13 **assigning capacity?**

14 A. All capacity is assigned to suppliers via capacity release or Company management.
15 When the Company assigns capacity via capacity release, suppliers enter into
16 replacement shipper contracts directly with the pipeline or storage operators for
17 pro-rated portions of assigned contracts under identical pricing and usage terms as
18 the Company's contracts. As replacement shippers, suppliers may utilize the
19 capacity as they choose and are responsible to pay the pipeline or storage operators
20 directly for all charges incurred by holding and using the capacity. The Company
21 receives a credit from the pipeline or storage operators for demand charges
22 associated with the released capacity.

1 When the Company assigns capacity via Company management, the Company
2 retains title to the capacity and provides suppliers with access to supply as a
3 delivered service. The Company allows each supplier to nominate volumes of gas
4 from Company-Managed resources and the Company utilizes the capacity to
5 deliver these volumes to the Company's city-gates. The Company charges the
6 suppliers demand and usage charges as if the suppliers were the capacity holders.

7 **Q. How does the Company determine which capacity resources are assigned via**
8 **capacity release and which are assigned via Company management?**

9 A. Section 11.9.1 of the Tariff clarifies which supplies are to be provided via
10 Company management. The Tariff currently provides that Canadian contracts,
11 contracts designated as Federal Energy Regulatory Commission (FERC) Section
12 7(c) contracts and contracts that are not assignable shall be provided as Company-
13 Managed Supplies. The Tariff also provides, in Section 14, that the Peaking
14 Capacity shall always be Company-Managed. Pursuant to Section 11.5.1, all other
15 capacity is released.

16 **Q. What changes does the Company propose regarding which capacity resources**
17 **are to be assigned via Company management?**

18 A. The Company proposes to revise Section 11.9.1 of the Tariff in two respects.
19 First, the Company proposes to remove the restriction regarding release of
20 Canadian and FERC 7(c) capacity. The Company has worked with Canadian
21 pipeline and storage providers and has established that these resources are
22 releasable. The Company has no capacity designated as FERC 7(c). Second, the
23 Company proposes to assign capacity that does not physically deliver to the

1 Company's system via Company management. This change clarifies the treatment
2 of certain capacity contracts that deliver into Bay State Gas Company d/b/a
3 Columbia Gas of Massachusetts (CMA) city-gates.

4 **Q. What changes does the Company propose regarding capacity resources to be**
5 **assigned via capacity release?**

6 A. The Company proposes to revise Section 11.5.1 to expand capacity release to
7 include Peaking Capacity that is not designated as Peaking Service. As described
8 further below in the section related to Peaking Supply, the Company proposes to
9 modify Peaking Service to include only On-System Peaking Capacity, such as
10 LNG facilities. This modification, in conjunction with the changes to the
11 definitions of Peaking Capacity (discussed above) and Peaking Supply (discussed
12 below), provides for capacity release treatment of Granite capacity designated as
13 Peaking Capacity. The revision also provides for the capacity release of contracts
14 that are not governed by a tariff.

15 **Q. Please explain the anticipated benefits of the proposed changes that determine**
16 **whether capacity is assigned via capacity release or Company management?**

17 A. The proposed changes have the following benefit:

18 - The proposed changes will reduce assignment via Company management
19 and increase assignment via capacity release. Capacity release is a more
20 efficient form of capacity assignment, as suppliers have greater control
21 over the utilization and optimization of capacity than when it is assigned
22 via Company management. After the current Washington 10 underground
23 storage contract is replaced effective April 1, 2018, the Company

1 anticipates that only capacity paths that have CMA delivery points and on-
2 system LNG will continue to be Company-Managed Supplies.

3 *PEAKING SUPPLY*

4 **Q. What is an off-system peaking contract?**

5 A. An off-system peaking contract is a delivered supply contract for the winter period
6 that supplements the supplies available from the Company's long-term capacity
7 portfolio. Such contracts typically provide optional daily supply deliverable to
8 either the Company's city-gates or the interconnection with Granite that are
9 required to meet the Company's design day, cold snap and extreme cold weather
10 demands. Such contracts may also be in the form of daily baseload supplies
11 deliverable during the peak season.

12 **Q. Does the Company currently assign off-system peaking contracts?**

13 A. Yes. The Company assigns off-system peaking contracts to suppliers in the form
14 of Peaking Service via Company management. A pro-rated share of off-system
15 peaking contract demand costs are recovered through the Peaking Service Demand
16 Rate and suppliers are charged for commodity under off-system peaking contract
17 prices when they nominate these supplies with the Company.

18 **Q. How does the Company propose to change the treatment of off-system**
19 **peaking contracts?**

20 A. The Company proposes to discontinue assignment of off-system peaking contracts,
21 which it has done in the Maine Division as of November 1, 2016. Rather than
22 assign such supplies as a Company managed Peaking Service, which bundles off-

1 system peaking contracts and Granite capacity, the Company proposes to release
2 Granite capacity designated as Peaking Capacity and allow suppliers to acquire the
3 supplies they require to serve their customers. This proposed change is
4 accomplished through the changes to the Peaking Capacity definition,
5 modifications to Section 11.5.1 on capacity eligible for capacity release, which are
6 discussed above, and proposed changes to the Peaking Service definition that limit
7 Peaking Service to On-System Peaking Capacity and associated supply.
8 **Q. What are the anticipated benefits of the proposal to discontinue assignment of**
9 **off-system peaking contracts?**
10 A. Discontinuing the practice of assigning off-system peaking contracts would have
11 the following benefits.
12 - As described in the Capacity Definitions discussion, Granite capacity will
13 be more efficiently utilized if released to suppliers rather than retained by
14 Northern to provide off-system peaking supply.
15 - Northern would only purchase the off-system peaking supplies needed to
16 meet its Sales Service obligations and would not purchase additional
17 volumes solely for the purpose of reselling them to suppliers, which would
18 be more efficient.
19 - Suppliers will have the flexibility to enter into their own peaking supply
20 arrangements, which will allow them to manage their supplies directly and
21 more closely match the demand requirements of their customers.
22
23

1 **D. ACCEPTANCE TO SALES SERVICE**

2 *OBLIGATION TO PROVIDE SALES SERVICE*

3 **Q. What is the Company's current obligation to provide Sales Service to**
4 **Delivery Service Customers?**

5 A. Under Sections 13.2 through 13.5 of the current Tariff, the Company is obligated
6 to provide Sales Service to a Delivery Service customer no longer receiving
7 Supplier Service up to the customer's TCQ. Section 13.6 clarifies that the
8 Company is under no obligation to provide Sales Service in excess of a Delivery
9 Service customer's TCQ, a provision which applies to both Capacity Assigned
10 Customers and Capacity Exempt Customers. However, Section 13.6 provides that
11 the Company may serve this additional customer demand to the extent that
12 adequate capacity and supply are available.

13 **Q. How does the Company propose to modify its obligation to provide Sales**
14 **Service to Delivery Service customers?**

15 A. The Company proposes to simplify and clarify the current provisions by modifying
16 Section 13.2 to clarify that Delivery Service customers shall be eligible for Sales
17 Service so long as acceptance by the Company of such customers would not
18 jeopardize system reliability. The Company further proposes to delete Sections
19 13.3 through 13.6, which currently limit the Company's obligation to provide
20 Sales Service to a Delivery Service customer's TCQ.

21

22

1 **Q. What are the anticipated benefits of the proposed change?**

2 A. The proposed change clarifying the Company's obligation to provide Sales Service
3 to Delivery Service customers has the following benefits.

4 - Removing the restriction whereby the Company may only serve customers
5 up to their TCQ removes an impractical obligation under the current Tariff.
6 If the Company provides service to a customer, the Company cannot limit
7 the amount of gas drawn by the customer on a given day to an
8 administratively determined amount.
9 - Removing the TCQ limit on the provision of Sales Service would be
10 appropriate under the proposed Capacity Ratio, since customers would be
11 assigned TCQs lower than their peak day demands when the capacity in the
12 Company's portfolio is less than the aggregate peak day demand of Sales
13 Service and capacity assigned Delivery Service customers.
14 - Delivery Service customers have required access to the Company's Sales
15 Service for numerous reasons, many outside of their direct control. These
16 circumstances include extreme price volatility or other market disruptions,
17 decisions by retail suppliers to leave the Company's service territory, retail
18 supplier bankruptcy or customer bankruptcy. Removing the TCQ
19 restriction will provide better certainty regarding continuity of service to
20 customers considering Delivery Service.

21

22

1 *STAY PERIOD*

2 **Q. If a Delivery Service customer returns to Sales Service under the current**
3 **Tariff, how long is the Customer required to remain on Sales Service?**

4 A. Section 13.7 requires that Delivery Service customers who switch to Sales Service
5 are currently required to remain on Sales Service for a minimum of one year.
6 After one year, the customer may again elect to enroll with a retail supplier.

7 **Q. How does the Company propose to change this provision?**

8 A. The Company proposes that Delivery Service customers who switch to Sales
9 Service be required to remain on Sales Service through the current or upcoming
10 Winter Period, which ends on April 30, after which they would be eligible to
11 resume Delivery Service. This approach simplifies administration of the stay
12 requirement since all customers would be eligible to resume Delivery Service on
13 the same date each year, May 1. This change would be implemented in the Tariff
14 by replacing the current Section 13.7. New Sections 13.3 and 13.4 are proposed,
15 which would require that Capacity Assigned Customers and Capacity Exempt
16 Customers, respectively, who switch to Sales Service remain on Sales Service
17 through the following April 30. The new Sections 13.3 and 13.4 also introduce
18 new charges to be assessed to these customers during the stay period, as discussed
19 further below.

20 **Q. What are the anticipated benefits of this change to the stay period?**

21 A.

22 • The proposed stay period is aligned with Winter Period when the Company
23 is securing relatively expensive winter baseload and peaking supplies to

meet higher seasonal demands. Maintaining a stay requirement through the Winter Period protects incumbent Sales Service customers from impacts of frequent switching of Delivery Service customers.

- The stay period would no longer require Customers to remain during the Summer Period when the Company is generally relying on relatively less expensive supplies accessed through its capacity portfolio.
- The Stay Period will be administratively more efficient for both the Company and retail suppliers, as the dates that affected Customers will be eligible to re-initiate Delivery Service will be the same for all Customers.

MIGRATION FEES

Q. Please explain the Re-Entry Fee under the current Tariff.

A. Currently, Section 13.7 of the Tariff stipulates that Delivery Service customers pay a Re-Entry Fee equal to 25 percent of the Company's average annual demand cost times the difference between the customer's peak day demand and TCQ. Appendix D to the Tariff provides more detail on this fee, including the currently applicable rate. In practice, the current Re-Entry Fee is applied only to Capacity Exempt Customers, as it is assumed that the peak day demand of Capacity Assigned Customers is equal to their TCQ.

Q. Does the current Re-Entry Fee reflect the actual or projected incremental costs to serve re-entering customers?

A. There is no direct connection between the current Re-Entry Fee and incremental costs to serve. Thus, the fees charged to Capacity Exempt Customers who switch

1 to Sales Service may or may not cover the incremental costs to provide supply.
2 Any short falls would result in higher rates for incumbent Sales Service customers.
3 **Q. How does the Company propose to change the fees charged to customers**
4 **switching from Delivery Service to Sales Service?**
5 A. The Company proposes to eliminate the current Re-Entry Fee and replace it with a
6 new Re-entry Surcharge, applicable to Capacity Assigned Customers, and a new
7 Conversion Surcharge, applicable to Capacity Exempt Customers. The surcharges
8 are volumetric fees that are incremental to the Cost of Gas and would be charged
9 on a per therm basis. As discussed previously, Section 13.7 is proposed to be
10 deleted. The new proposed Section 13.3 introduces the Re-entry Surcharge, and
11 the new proposed Section 13.4 introduces the Conversion Surcharge. The amount
12 of the Re-entry Surcharge and the Conversion Surcharge would be set during Cost
13 of Gas proceedings.
14 **Q. Please describe the proposed Re-entry Surcharge.**
15 A. Capacity Assigned Customers who return to Sales Service would pay the Re-entry
16 Surcharge during the stay period. The Re-entry Surcharge would equal zero
17 except for reversals of any prior period credits or refunds reflected in the
18 Company's Cost of Gas. The Re-entry Surcharge cannot be negative and therefore
19 would not provide credits for prior period under-collections. A single Re-entry
20 Surcharge would be established for high load factor and low load factor customers.
21 **Q. Please describe the proposed Conversion Surcharge.**
22 A. Capacity Exempt Customers who switch to Sales Service would pay a Conversion
23 Surcharge during the stay period. During the Winter Period, the Conversion

1 Surcharge would be set to capture the incremental cost of providing supply that is
2 not backed with capacity. Different Conversion Surcharges would be established
3 for high load factor customers and low load factor customers, respectively, during
4 the Winter Period. Although high load factor customers have high annual load
5 factors, when they come to Sales Service without capacity they impose supply
6 costs similar to those of a low factor customer. For this reason, the Winter Period
7 Conversion Surcharge for high load factor customers would be set no lower than
8 the difference between the low load factor and high load factor Cost of Gas rates.
9 During the Summer Period, the Conversion Surcharge would equal the Re-entry
10 Surcharge. Like the Re-entry Surcharge, Conversion Surcharges would also be set
11 to remove any prior period credits.

12 **Q. What are the anticipated benefits of these proposed changes?**

13 A. The proposed changes to the fees charged to Delivery Service customers who
14 switch to Sales Service have the following benefits:

15 - The Re-entry Surcharge assures that prior period credits to the Cost of Gas,
16 such as supplier refunds or over-collections, do not affect customers'
17 decisions whether to purchase supply from a retail supplier or the
18 Company, and minimizes the incidence of Delivery Service customers who
19 move to Sales Service receiving credits associated with overpayments
20 made by other customers.
21 - The Conversion Surcharge assures that if Capacity Exempt Customers
22 elect to purchase supply from the Company, the Company charges the

1 incremental cost of supply so that Capacity Exempt Customer migration to
2 Sales Service does not harm incumbent Sales Service customers.

3 • Cost of Gas surcharges paid by Delivery Service customers who switch to
4 Sales Service would be based on the cost to serve.

5 **IV. CONCLUSION**

6 **Q. Can you please summarize benefits of the Company's proposal?**

7 A. In addition to the benefits cited above in relation to each specific aspect of the
8 Company's proposal, the proposal will improve equity among customers, improve
9 the utilization of the Company's capacity portfolio, improve the Company's ability
10 to calculate its planning load obligations, appropriately clarify the supply
11 management responsibilities of suppliers and the Company, and clarify the terms
12 under which Delivery Service customers may access Sales Service.

13 **Q. What approvals does the Company seek?**

14 A. Company seeks the Commission's approval of the proposed changes to the
15 Delivery Service Terms and Conditions, Part VII of the Company's tariff, as
16 provided in redline in Appendix A. The Company seeks an effective date of
17 November 1, 2017, and respectfully requests approval of the proposed changes by
18 September 14, 2017, in order to facilitate implementation on November 1, 2017.[8]

19

[8] Part IV of the Company's tariff, the Cost of Gas Clause, Section 4, requires that the Company submit its annual Cost of Gas filing at least 45 days before November 1. Section 11.2.1 of the Tariff requires the Company to communicate to suppliers the capacity to be assigned at the start of the upcoming gas year, which begins November 1. These materials will be due on September 15, 2017.

1 **Q. Does this conclude your testimony?**

2 A. Yes, it does.