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UNITIL ENERGY SYSTEMS, INC.
BEFORE THE STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket No. DE 19-152
Northern Utilities, Inc.
Fourth Amendment to Special Contract with National Gypsum Company
Compliance Filing
Technical Statement of Christopher J. Goulding and Michael Smith

On November 13, 2019, the New Hampshire Public Utilities Commission ("Commission) issued Order No. 26,308 in Docket No. DG 19-152 approving a fourth amendment of Northern Utilities, Inc.'s ("Northern" or the "Company") special contract with National Gypsum for firm gas transportation service. The amendment extended the special contract for five years to November 30, 2024, with up to three additional one-year extensions. As part of the order, the Commission required that Northern file updates of the special contract rates and associated marginal cost analyses with the Commission seven months prior to the commencement of the first of the three self-executing extensions. Accordingly, Northern is providing estimates of annualized long-run marginal cost to serve calculation.

This analysis compares projected marginal costs to projected marginal revenues. As shown in both CGMS-1 and CGMS-2, the marginal cost data and the current special contract pricing has been escalated by inflation to November 2024 dollars to account for when the first of three additional one-year extensions is to become effective. By using the as filed and unadjusted unit marginal cost from the 2020 marginal cost study developed by Ronald Amen and John Taylor of Atrium Economics, who supported Northern's proposed distribution rates in the Company's rate case proceeding in Docket No. DG 21-103, the marginal costs exceed the revenue by $63,869. *See*

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Schedule CGMS-1(CONFIDENTIAL), Page 1 and 2 respectively.

As presented in CGMS-1, the projected cost data do not provide an accurate estimate of the marginal cost to service National Gypsum. In particular, the Company identities two refinements to the cost data. When factored into the marginal costs estimates, these refinements demonstrate that the revenues exceed the marginal cost to serve by [redacted]. *See* Schedule CGMS-2(CONFIDENTIAL), Page 1 and 2.

As indicated above, the initial calculation used unadjusted marginal unit cost from the "as filed" marginal cost study in DG 21-103. It's important to note that the "as filed" version of the marginal cost study incorporated a deficiency of $7,782,950 and a weighted average cost of capital of 7.75 percent. The case was resolved as part of a comprehensive settlement resulting in a settled deficiency of $6,091,477 and a weighted average cost of capital of 7.20 percent. A revised marginal cost study was not filed as part of the settlement in the rate case.

For the first refinement, the Company made a simple change to the marginal cost study to incorporate the settled weighted average cost of capital. This change alone decreases the marginal cost by [redacted], thus narrowing the gap between costs and revenues to [redacted]. A more comprehensive recalculation of the costs to incorporate the changes in the settled revenue requirement (i.e. changes in depreciation rates) would further reduce the marginal cost. However, the Company would need to engage its consultant to revise the study to incorporate additional changes consistent with the settled revenue requirement In light of the cost associated with engaging a consultant to do this work, the Company has not done so at this time. See DG 19-152, Order No. 26,308 at 5.

Additionally, upon closer review of the marginal unit cost information used in previous analyses, the Company has made a refinement to exclude the marginal cost associated with main extensions which are fixed costs. When National Gypsum initially connected to the Northern system over three decades ago, National Gypsum paid the cost associated with its main extension. As such, it is appropriate to exclude the main extensions cost from the annual cost to serve National Gypsum, and doing so results in a further reduction in the calculated cost to serve the customer of $[redacted] With both changes, revenues exceed the marginal cost to serve by [redacted].