

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 12-131

NORTHERN UTILITIES, INC.

Investigation into Maine-New Hampshire Interstate Cost Allocation Matters

Order Approving Settlement Agreement

ORDER NO. 25,431

October 29, 2012

APPEARANCES: Gary Epler, Esq., and Orr & Reno, P.A., by Rachel Goldwasser, Esq., on behalf of Northern Utilities, Inc.; Rorie E.P. Hollenberg, Esq. of the Office of Consumer Advocate, on behalf of residential ratepayers; and Alexander F. Speidel, Esq., for the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

On May 16, 2012, the Commission issued an order of notice opening an investigative docket to examine the impact on New Hampshire ratepayers of certain interstate gas cost allocation errors disclosed by Northern Utilities, Inc. (Northern), a gas utility serving customers in Maine and southeastern New Hampshire. These errors had been disclosed, in limited fashion, by Northern to the Commission and Staff in the context of Northern's summer 2012 cost of gas (COG) petition, examined in Docket No. DG 12-068, as outlined in Order No. 25,354, issued on April 30, 2012. *See Northern Utilities, Inc.*, Order No. 25,354 (April 30, 2012) at 4-6 (outlining a detailed description of Northern's accounting errors). Staff recommended that an investigative docket be opened to further examine these errors and the implications for New Hampshire customers of Northern. The Commission accepted this recommendation and issued an order of notice scheduling a prehearing conference for May 30, 2012. On May 24, 2012, the Office of

the Consumer Advocate (OCA) filed a letter of participation in this docket on behalf of residential ratepayers pursuant to RSA 363:28.

On May 30, 2012, the prehearing conference was held as scheduled before Hearings Examiner Suzuanne Amidon, Esq., at which Northern, the OCA, and Staff participated. Hearings Examiner Amidon submitted a report on May 31, 2012 indicating that Northern agreed to file a report providing information regarding the cost allocation errors by June 22, 2012. *See* Hearings Examiner Report of Suzanne Amidon. On June 11, 2012, Northern requested, with the concurrence of Staff and the OCA, an extension of this filing deadline to July 20, 2012, which was granted by the Commission by a secretarial letter dated July 6, 2012. In the meantime, initial discovery regarding the cost allocation issue was propounded by Staff, and served on Northern.

On July 20, 2012, Northern filed its report, the “Report Concerning the Allocation of Gas Supply Resources Between Northern’s Maine and New Hampshire Divisions and the Calculation of the Monthly Gas Supply Allocator,” together with responses to Staff’s initial data requests. This report provided Northern’s recommendations for how to resolve the cost allocation errors between Northern’s Maine and New Hampshire Divisions, a historical overview of Northern’s treatment of such interstate gas cost allocations, and Northern’s internal accounting review process that uncovered the errors. The report also provided highly detailed accounting schedules outlining adjustments proposed by Northern to its cost allocation factors together with the reconciliation accounting resulting from its recommended corrections. *See* Hearing Exhibit 1, Northern Report filed July 20, 2012. Northern’s report indicated that a recalculation of resource and other associated costs, based on allocation factors that include Northern’s Maine Division’s

“company-managed volumes,” for the period December 2008 to October 2011 would result in a net downward adjustment to the New Hampshire Division’s COG of (\$4,130,679). *Id.* at 2.

Additional discovery was served on Northern by Staff and the OCA from July through September, 2012. On October 16, 2012, Northern filed a settlement agreement signed by Northern, OCA, and Staff. *See* Hearing Exhibit 2, Settlement Agreement filed October 16, 2012. On October 19, 2012, the Commission, by secretarial letter, scheduled a hearing regarding the settlement agreement for October 25, 2012. The Commission held a hearing on the merits as scheduled on October 25, 2012.

II. TERMS OF THE SETTLEMENT AGREEMENT

The settling parties, Northern, the OCA, and Staff, recommended that the Commission approve the settlement agreement as a just and reasonable resolution of the accounting errors examined in this investigative docket. The settlement agreement outlined a methodology for the refund of misallocated costs to New Hampshire customers of Northern, by means of Northern’s COG filings for the Winter 2012-2013 period, and for the Summer 2013 period.

Specifically, the parties to the settlement agreement propose that Northern will refund to Northern’s New Hampshire Division customers the amount of \$4,130,679 over a period of one year beginning November 1, 2012. In order to accomplish this refund, Northern has revised its 2011-2012 Winter Period Reconciliation, filed as part of Docket No. DG 11-207, and incorporated into Northern’s COG filing for the 2012-2013 Winter Period, in Docket No. DG 12-273, a downward COG adjustment of (\$4,101,779). In its revised reconciliation filing in Docket No. DG 11-207, Northern has adjusted its opening balances (May 2011) for commodity, working capital, and bad debt expense, and calculated its proposed COG rates effective November 1,

2012, as reviewed in Docket No. DG 12-273, in accordance with the settlement agreement. *See* Hearing Exhibit 2 at 2.

The parties to the settlement agreement also propose that Northern will adjust its opening balances (November 2011) to reflect a total downward adjustment of (\$28,900) for commodity, working capital, and bad debt expense for the 2012 Summer Period COG Reconciliation, which would be reflected in Northern's COG rates effective May 1, 2013. *See* Hearing Exhibit 2 at 2.

The parties to the settlement agreement also agreed to work together to develop additional filing detail to be included in Northern's Form III, Schedule 4 of the COG Reconciliation, which will demonstrate Northern's total monthly Commodity and Demand costs, as well as the amounts of these costs assigned to the Maine and New Hampshire Divisions, with the increased detail to be included beginning with Northern's next COG Reconciliation filing. The parties to the settlement agreement also agreed to collaborate to integrate other improvements into the Northern COG Reconciliation, as part of the ongoing Reconciliation review process, with a goal of providing more detail to reviewing parties.

III. COMMISSION ANALYSIS

Pursuant to RSA 541-A:31, V(a), informal disposition may be made of any contested case at any time prior to the entry of a final decision or order, by stipulation, agreed settlement, consent order or default. N.H. Code Admin. Rules Puc 203.20 (b) requires the Commission to determine, prior to approving disposition of a case by settlement, that the settlement results are just and reasonable and in the public interest.

We have reviewed the settlement agreement, in light of testimony provided by the parties at the hearing, and the supporting accounting schedules presented by Northern as part of its July

20, 2012 report. On the basis of this review, we are satisfied that this settlement fairly compensates New Hampshire customers of Northern for overcharges incurred during the adjustment period resulting from the interstate allocation errors. We do note that, based upon the testimony presented, Northern shareholders did not profit from this error, Northern has confirmed, after review, that no other such errors in interstate allocations have been made, and that New Hampshire customers have received incorporated interest as part of this reconciliation adjustment, as indicated by the supporting schedules in Northern's report. *See* Transcript of October 25, 2012 Public Hearing at 25 (Northern witness Diggins confirming Northern engaged in internal review for other interstate allocation errors, and found none). We also strongly support the settlement agreement's provision related to increased detail in future COG Reconciliation filings by Northern, to assist in ongoing monitoring of this accounting feature.

Having reviewed the record, including the settlement and the evidence presented at hearing, we find that the resolution of this matter through the terms of the settlement agreement is just and reasonable and in the public interest. We find that the terms of the settlement, leading to a refund to New Hampshire customers of Northern of more than \$4.1 million through reconciliation adjustments to Northern's COG, represent an appropriate balancing of ratepayer interests and the interests of Northern's investors, and are consistent with the public interest. We will adopt and approve the terms of the settlement agreement. We also commend the settling parties for their efforts in reaching a just and reasonable resolution of this matter, and Staff for its thorough review efforts both, before and during this investigation.

Based upon the foregoing, it is hereby

ORDERED, that the terms of the settlement agreement presented by the parties are hereby adopted and approved as discussed herein.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of October, 2012.

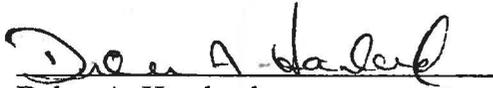


Michael D. Harrington
Commissioner



Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director