

REDACTED

**STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**

Docket No. DG 19-152
Northern Utilities Inc.

**Request for One-year Extension of the Approved Fourth Amendment to Special Contract
with National Gypsum Company**

Position Statement of
Ashraful Alam, Utility Analyst
Department of Energy, Division of Regulatory Support
September 10, 2024

The New Hampshire Department of Energy (“DOE” or the “Department”) submits this position statement in compliance with the Public Utilities Commission (“PUC” or the “Commission”) Procedural Order dated August 2, 2024, in Docket No. DG 19-152. The purpose of this statement is to provide the Commission with DOE’s position on the compliance filing submitted by Northern Utilities Inc. (“Northern” or the “Company”).

As explained below, after review and analysis, the DOE supports the one-year self-executing extension of the special contract with National Gypsum Company (“National Gypsum”) and recommends that the Commission take no further action.

Background

On September 13, 2019, Northern filed a petition seeking approval of a fourth amendment to its October 1999 special contract to provide firm gas transportation service to National Gypsum Company. The special contract covers firm transportation (delivery) service for National Gypsum's manufacturing facility at Portsmouth, New Hampshire, which is a significant firm load in Northern's New Hampshire division. The Commission approved the fourth amendment of the special contract with National Gypsum for firm gas transportation service on November 13, 2019 by [Order No. 26,308](#). The fourth amendment extended the special contract for five years to November 30, 2024, with up to three self-executing additional one-year extensions. As part of the order, the Commission required Northern to file an update of the special contract rate and associated marginal cost analysis with the Commission seven months prior to the commencement of the first of the three self-executing extensions.

On April 30, 2024, Northern submitted a compliance filing in this docket in accordance with Order No. 26,308 providing estimates of annualized long-run marginal cost to serve calculation. The Company compared the projected marginal costs to projected marginal revenues and provided

REDACTED

analysis on how the marginal cost data and the current special contract pricing has been escalated by inflation to November 2024 dollars to account for the first of three additional one-year extensions. See Attachment-1 (Confidential) (Technical Statement of Christopher J. Goulding and Michael Smith).

The Department reviewed the filing and issued a data request on May 21, 2024. The Company provided the response in two parts, the first on June 14, 2024, and the second on June 21, 2024. The Department and the Company also engaged in an informal technical session on June 11, 2024.

DOE Analysis

The Department believes that Northern has demonstrated how the revenues exceed the marginal cost to serve. Using the as filed and unadjusted unit marginal cost from the 2020 marginal cost study submitted in Docket No. DG 21-104, the calculations show that the marginal costs exceed the revenue by \$64,139. See Attachment-2 (Schedule CGMS-1 Confidential) and Attachment-3 (DOE 1-02 Response correcting Schedule CGMS-1). However, the Company states that the projected cost data shown in Attachment-2 (Confidential) does not depict an accurate estimate of the marginal cost to serve National Gypsum. The Company has identified two refinements to the cost data that, when factored into the estimation of marginal costs, demonstrates that revenues exceed the cost to serve.

According to the Company, the original calculation in Attachment-2 (Confidential) used unadjusted marginal unit cost from the 'as filed' marginal cost study developed in DG 21-104. 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 in DG 21-104. A revised marginal cost study was not filed as part of the settlement in the rate case (DG 21-104).

The two refinements identified by the Company are as follows:

- i. The Company made a modification to the marginal cost study to incorporate the settled weighted average cost of capital. This change decreases the marginal cost by [REDACTED], thus reducing the gap between costs and revenues to [REDACTED]. The Company asserted that a more comprehensive recalculation of the costs to incorporate the changes in the settled revenue requirement (i.e. changes in depreciation rates) would further decrease the marginal cost. The Company suggested that it would need to engage its consultant to revise the study to incorporate additional changes consistent with the settled revenue

REDACTED

requirement. Since there is cost associated with engaging a consultant to perform this work, the Company has not done so at this time. See DG 19-152, [Order No. 26,308](#) at 5.¹

- ii. The Company made a refinement to exclude the marginal cost associated with main extensions, which in the case of serving National Gypsum, are considered 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. Accordingly, the Company excluded the main extension cost from the annual cost to serve National Gypsum. This resulted in a further reduction in the calculated cost to serve the customer of [REDACTED]. When both changes are considered, revenues exceed the marginal cost to serve by [REDACTED]. These two refinements are reflected in Attachment-4 (Schedule CGMS-2 Confidential).

The following tables show the marginal cost to serve components and a comparison of those costs to the forecasted revenue estimate:

Table-1: Marginal Cost to Serve Components

Cost Components	Estimated Inflation Adjusted Values (Dec. 1, 2024)
Customer Charge	[REDACTED]
Pressure Support	[REDACTED]
Main Reinforcement	[REDACTED]
Main Extension	[REDACTED]
O&M	[REDACTED]
Total	[REDACTED]

¹ “[W]hen Northern undertakes a new cost of service (COS) study, we direct the Company to calculate the marginal cost to provide service to National Gypsum as part of that study and to use the results of that study, updated for inflation, in its analysis to be provided prior to commencement of the first one-year self-executing extension of the contract.” DG 19-152, Order No. 26,308 at 5-6.

Table-2: Marginal Cost to Serve and Forecasted Revenue Estimate

Line No.	Description	Amount	Notes
1	Current Rates (December 1, 2023):		
2	Monthly Customer Charge	[REDACTED]	
3	Usage Charge per Therm	[REDACTED]	
4			
5	November 2023 CPI	307.051	
6	Projected November 2024 CPI	317.491	Line 5 x (1 + Line 8)
7			
8	Forecasted December 1, 2024 CPI Increase (1)	3.4%	
9			
10	Forecasted Rates (December 1, 2024):		
11	Monthly Customer Charge	[REDACTED]	Line 1 x (1 + Line 8)
12	Usage Charge per Therm	[REDACTED]	Line 2 x (1 + Line 8)
13			
14	Annual Usage (Therms)	[REDACTED]	4/23 - 3/24 Usage
15			
16	Annual Customer Charge Revenue	[REDACTED]	Line 11 x 12
17	Annual Usage Charge Revenue	[REDACTED]	Line 12 x Line 14
18	Total Revenues at Forecasted December 1, 2024 Rates	[REDACTED]	Line 16 + Line 17
19			
20	Estimated Marginal Revenue Requirement (Marginal Cost to serve)	[REDACTED]	Table-1 Total
21	Revenues exceed Marginal Cost to serve by	[REDACTED]	Line 18 - Line 20

See Attachment-4 (Confidential) for the detailed calculations.

The following summarizes DOE’s analysis based on the Company filings and responses:

- The Company has modified its most recent marginal cost study to incorporate the settled weighted average cost of capital² and demonstrated that the long-run marginal cost to serve National Gypsum is less than the special contract rates. Based on current rates, revenues generated from this contract exceed the marginal cost estimate presented in the schedules. During each year of the contract extension, costs and revenues are subject to

² See May 27, 2022 settlement agreement in DG 21-104.

REDACTED

inflation escalation factors, ensuring that revenues will continue to exceed the marginal costs.

- As the inflation escalator of the special contract rate provides a level of assurance that the revenue from National Gypsum will continue to exceed the marginal cost to serve over the one-year extension of the contract, there will be no additional costs to Northern or its customers resulting from the one-year extension of the term of this contract. If circumstances change over the course of this extension such that the continuation of the terms of the agreement would not be in the public interest, Northern would have the opportunity to terminate the contract pursuant to Article 4 of the Contract. As stated by the Commission, Northern has the obligation to inform the Commission if a material change occurs in the cost to serve National Gypsum. See [Order No. 26,308](#) at 6.
- The special circumstances of the original special contract approved by the Commission remain unchanged, and the Department believes the contract continues to provide benefit to Northern and its customers. If National Gypsum chose to bypass Northern, the Company would have lost [REDACTED], which equals [REDACTED] of Northern's total 2023 billed distribution revenue. Thus, retaining National Gypsum as a Northern customer will continue to keep the average system costs to all Northern's firm customers lower than it would be if Northern were to lose this customer. See Attachment-5 (Confidential).
- The one-year extension of the Commission approved fourth amendment to the agreement is scheduled to begin on December 1, 2024, and will remain in effect until at least November 30, 2025, with two remaining successive self-executing one-year extensions. Northern will provide written notice of the actual or impending termination of this special contract, resulting from closure of National Gypsum's Portsmouth facility. See [Order No. 26,308](#) at 7.
- All other provisions of the original agreement, as amended and previously approved by the Commission, will remain the same.

DOE Recommendation

The Department recommends that the Commission take no further action regarding Northern's one-year self-executing extension of the special contract with National Gypsum and recommends that the PUC adopt the following two provisions:

REDACTED

- i. When the Company undertakes a new cost of service study (COS), the Company will calculate the marginal cost to provide service to National Gypsum as part of that study and use the results of that study, updated for inflation and provide an analysis prior to the second and third one-year self-executing extensions of the contract, as applicable.

- ii. The Company shall inform the Commission and DOE if there is a material change in the cost to serve National Gypsum over the three-year period.

In making its recommendation, the Department notes that should there be a change in circumstances over the course of these three extensions such that the continuation of the terms of the agreement would be unfavorable to the public interest, Northern would have the opportunity to terminate the contract, pursuant to Article 4 of the contract, and notify the Commission. Finally, should National Gypsum's Portsmouth facility close, Northern will provide written notice of the actual or impending termination of this special contract.